CommentLetters@iasb.org.uk

CL 07

Ms Annette Kimmitt
IASB
30 Cannon St.
London EC4M 6XH UK

Dear Ms. Kimmitt:

This is in reference to your ED 3 on Business Combinations. Valuation Research is one of the largest independent appraisal and valuation firms in the U.S., and we have affiliated firms around the world, including the United Kingdom. A substantial majority of our professional work is involved in Mergers and Acquisitions and we have had extensive experience in applying SFAS 141, as well as dealing with goodwill and intangible assets as set forth in SFAS 142.

QUESTION 1

The scope exclusions appear appropriate. At some point you should take up the appropriate accounting for Joint Ventures. This is not the appropriate place to do so, however.

The definitions appear to be helpful.

QUESTION 2

Based on experience in the United States, there is no reason to retain pooling of interest accounting. Despite claims to the contrary there is always one acquirer.

QUESTION 3

We agree with the proposal on reverse acquisitions, but have had little experience in this area.

QUESTION 4

As discussed above regarding pooling, there is in our experience *always* an identifiable buyer.

QUESTION 5

We disagree with the proposal. A lot of considerations go into the determination of a purchase price, including an evaluation by the buyer as to the costs involved in integrating the new business into its existing businesses. These costs are real, they must be incurred, they can be measured and should be allowed in the initial allocation. Whether the expenses are a true 'liability' is irrelevant. The ***economics*** of the overall transaction are of interest to investors and creditors and you will be overstating subsequent expenses, underreporting future income, if you do not recognize the true economic reality. It costs money to integrate a new business and that expense is part of the acquisition.

QUESTION 6

This question of contingent liabilities is conceptually simple. Yes, future liabilities should be recognized. The 'devil is in the details' of measuring, reliably, the *amount* of the contingent liabilities. We are personally more comfortable, in practice, with recognizing only liabilities that are 'more likely than not' to be incurred. If your proposal is adopted, buyers will have a tremendous incentive to over-estimate the contingent liabilities, and then when they do not occur take a big credit to income. Again, this is not the true economic situation at the date of the transaction.

QUESTION 7

In our experience the only way to value assets is to take 100% of the acquiree's assets. It is impractical to value 60% of assets at Fair Value and keep the remaining 40% at original cost. The bookkeeping alone is not worthwhile. Your approach will be criticized as overstating the amount of the minority interest, but it is the only practical approach.

QUESTION 8

If we understand your proposal you are essentially adopting current U.S. GAAP. The only problem areas we experience come in setting up and measuring the Fair Value of "reporting units" as called for in SFAS 142. The measurement of goodwill as a residual is easy to accomplish, and the substitution of impairment testing for amortization of goodwill works in practice.

QUESTION 9

We do not like the idea of 'instant income' which your proposal will mandate. On the other hand in our practice we have not yet seen a situation where a true 'bargain purchase' took place. So, in reality, this is virtually a non-issue.

QUESTION 10

Our experience is that it often takes eight to ten months to complete an allocation, particularly for a complex multi-national transaction. Twelve months, however, should be sufficient. We have been involved in several multi-billion dollar acquisitions and have always met the current U.S. existing 12-month requirement.

With respect to the correction of an error, we agree. Obviously the expectations of the buyer do not always work out, thus affecting the subsequent actual values as compared to the contemporaneous prospective valuations. But you must have a definitive answer or things will be kept open forever. Your approach is correct.

Respectfully submitted,

VALUATION RESEARCH CORPORATION

By: Alfred M. King, Vice Chairman