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Kingston Smith
Chartered Accountants

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Annette Kimmit
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Our ref: MJS/PRH/Tech/rlw

Y our ref:

Dear Madam

EXPOSURE DRAFT ED3 BUSINESS COMBINATIONS

We are submitting herewith our comments on the above and in particular our responses to certain of your questions set out in the invitation to comment.

Q.1 We agree with the proposal to exclude from the scope of the IFRS business combinations in which separate entities etc. are brought together to form a joint venture and similarly to exclude business combinations involving entities under common control.

We arc concerned, however, that it is necessary to ensure that within these exclusions fall those instances of group reconstructions including the formation of a holding company whereby the overall substance of the transaction is that, substantially, neither control nor value has passed from the proprietors.

Q.2 Whilst we agree that the "pooling of interests method" should be substantially eliminated we are of the opinion that there will still be instances whereby entities under common control but not necessarily in a group situation, are being brought together for commercial reasons without any effective control or value passing from the original proprietors. In these situations we believe that the "pooling of interests method" or "merger accounting method" should be permitted, any other approach would require the identification of an acquirer and an acquiree and this of itself may give rise to an artificial result.

Q.3 We agree with the proposal envisaged for Reverse Acquisitions whereby the legal subsidiary should be regarded as the acquirer.

Q.4 We understand the proposal that where a new entity is formed to effect a business combination, one of the combing entities that existed before the combination should be adjudged the acquirer. In our view this should only apply where prior to the combination the various entities were under different ownership and control. Furthermore it should only apply where the formation of a new entity can be regarded simply as a device to effect the combination.

Devonshire House, 60 Goswell Road, London EC1M 7AD
Telephone 020 7566 4000 Fax 020 7566 4010 email ks@kingstonsmith.co.uk www.kingstonsmith.co.uk

A member of KS International

Also at: Hayes, Redhill, Romford, St Albans, West End (London)

We do have some doubts, however, about the general concept of adjustment to fair values of the acquiree only in all circumstances, particularly where there is no substantial disparity in the size of the entities forming the combination and we make reference to this in our response to Q.7 below.

Q.5 We agree that an acquirer must recognise as part of the cost of the business combination any provision for terminating or reducing the activities of the acquiree (a restructuring provision) but only if an existing liability for restructuring clearly exists on the part of the acquiree at the acquisition date, recognised in accordance with existing IAS 37 and which would presumably be provided for if a balance sheet had been drawn up at that date. We believe, however, that care must be taken to ensure that this does not open the gates to a "big bath provision" regime.

Q.6 We see no problem with the acquirer being required to recognise contingent liabilities of an acquiree provided their fair value can be measured reliably. Apart from the difficulty in measuring such liabilities reliably, the presumption must be that such liabilities have not previously been recognised by the acquiree. It seems inconsistent to us, therefore, for the business combination to require the recognition of contingent liabilities of the acquiree, if capable of measurement, without a similar requirement being adopted as an accounting standard generally.

Q.7 We agree that the identifiable net assets of the acquiree should be recognised at their fair values at acquisition date. However, we believe it to be inconsistent that on the creation of a business combination the net assets of one part of that combination, which may be not materially smaller than the other part, are required to be re-valued at fair values without a similar requirement on the part of the assets of the acquirer. We believe consistency should be paramount.

Q.8 Goodwill. Whilst we agree that goodwill acquired in a business combination should be recognised as an asset we disagree that **it** should be excluded from amortisation but subject to an impairment review. We believe that the impairment review is subjective and judgmental and is likely to produce varying approaches to its implementation. We believe that an amortisation requirement with a maximum, but rebuttable assumption that the maximum life is, say, 20 years, is far preferable and understandable.

We also believe that the impairment review will cause an unnecessary burden and additional cost for smaller businesses.

We hope that the enclosed comments are of use to you and look forward to receiving any responses that you may have.

Yours faithfully

MICHAEL J. SNYDER
Senior Partner