CL 34

City of Buenos Aires, April 7th, 2003

Ms. Annette Kimmitt
Senior Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

ED 3 Business Combinations

Dear Ms. Kimmit:

Please find below our comments on the above document. We concur with the need to improve the current standard on business combinations, taking into account that the existence of alternative methods in the IAS 22 affects the comparability of financial statements, as a number of countries have adopted significant changes in this regard, mainly prohibiting the pooling of interest method and goodwill amortization.

We concur with the changes incorporated to the IAS 22, except for the treatment of the excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities (Question 9). To that effect, we think that the current treatment established in paragraphs 59 through 63, IAS 22, should be maintained for the following reasons:

1) The cost of acquisition may be affected by the acquirer's expectations of poor trading results, or of future losses and expenses that: (i) cannot be recognized as identifiable liabilities under IAS 22 at the date of acquisition, and (ii) not necessarily mean an impairment of identifiable assets.

2) It is not consistent that the ED3 will establish that the acquirer cannot recognize a restructuring provision that was not a liability of the acquiree at the acquisition date, which will imply recognizing a loss in the future, but that it has to recognize a gain upon the acquisition (excess over the cost of a business combination of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities) for a lower amount agreed with the seller due to the need to make the restructuring.

3) Since one of the components of such excess may arise from the measurement of the identifiable net assets at their fair value, mainly in the case of non-monetary assets, there may be difficulties in measuring such value objectively. Not always is there a single criterion to determine the fair value of these assets. Therefore, there may be different valuation figures or ranges, which give rise to the possibility of managing the gain to be recognized upon the acquisition.

Should you need further clarifications, please do not hesitate to contact us.

Best regards,

Dr. Oscar G. Maciel
Secretary

Dr. Luis J. Garzarón
President

COMMENTS ON AMENDMENTS TO IAS 36: IMPARIMENT OF ASSETS

The following are our answers to the questions included in the invitation to comment on IAS 36 improvements:

Question 1: Frequency of impairment tests

Are the proposals relating to the frequency of impairment testing intangible assets with indefinite useful lives and acquired goodwill appropriate (see proposed paragraphs 8 and 8A and paragraphs C6, C7 and C41 of the Basis for Conclusions)? If not, how often should such assets be tested for impairment, and why?

- We agree with the proposal in paragraph 8 and paragraph 8A.

Question 2: Intangible assets with indefinite useful lives

The Exposure Draft proposes that the recoverable amount of an intangible asset with an indefinite useful life should be measured, and impairment losses (and reversals of impairment losses) for such assets accounted for, in accordance with the requirements in IAS 36 for assets other than goodwill (see paragraphs C10-C11 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount be measured, and impairment losses (and reversals of impairment losses) be accounted for?

- Seems logical to us the use of the same criteria to impair or reverse previous impairments used for the rest of the identifiable assets.

Question 3: Measuring value in use

The Exposure Draft proposes additional guidance on measuring the value in use of an asset. Is this additional guidance appropriate? In particular:

(a) should an asset's value in use reflect the elements listed in proposed paragraph 25A? If not, which elements should be excluded or should any additional elements be included? Also, should an entity be permitted to reflect those elements either as adjustments to the future cash flows or adjustments to the discount rate (see proposed paragraph 26A and paragraphs C66 and C67 of the Basis for conclusions)? If not, which approach should be required?

- We agree with the proposal in paragraph 25A. We also agree with the alternative methods suggested in paragraph 26A in light of the assumption that using correctly both methods the Entity has to arrive to the same figures, and therefore the choice will be made depending on which information is more easily to be accessed.

(b) should the assumptions on which cash flow projections are based take into account both past actual cash flows and management's past ability to forecast cash flows accurately (see proposed paragraph 27(a)(ii) and paragraphs C66 and C67 of the Basis for Conclusions)? If not, why not?

- We think that past actual cash flows and management past ability to forecast cash flows have to be considered except when the economic conditions and circumstances have significantly changed turning the past information into useless (i.e. when the forecasting techniques and management sources for information have changed in a very important proportion)

(c) is the additional guidance in proposed Appendix B to [draft] IAS 36 on using present value techniques in measuring an asset's value in use appropriate? If not, why not? Is it sufficient? If not, what should be added?

- We agree with the guidance provided in Appendix B.

Question 4: Allocating goodwill to cash-generating units

The Exposure Draft proposes that for the purpose of impairment testing, acquired goodwill should be allocated to one or more cash-generating units.

(a) Should the allocation of goodwill to one or more cash-generating units result in the goodwill being tested for impairment at a level that is consistent with the lowest level at which management monitors the return on the investment in that goodwill, provided such monitoring is conducted at or below the segment level based on an entity's primary reporting format (see proposed paragraphs 73-77 and paragraphs C18-C20 of the Basis for Conclusions)? If not, at what level should the goodwill be tested for impairment, and why?

- We agree with the proposals in paragraph 73 to 77.

(b) If an entity disposes of an operation within a cash-generating unit to which goodwill has been allocated, should the goodwill associated with that operation be included in the carrying amount of the operation when determining the gain or loss on disposal (see proposed paragraph 81 and paragraphs C21-C23 of the Basis for Conclusions)? If not, why not? If so, should the amount of the goodwill be measured on the basis of the relative values of the operation disposed of and the portion of the unit retained or on some other basis?

- We agree with the inclusion of goodwill in the carrying amount of the operation in determining the gain or loss on disposal. We also agree with the relative fair values criteria used.

(c) If an entity reorganises its reporting structure in a manner that changes the composition of one or more cash-generating units to which goodwill has been allocated, should the goodwill be reallocated to the units affected using a relative value approach (see proposed paragraph 82 and paragraphs C24 and C25 of the Basis for Conclusions)? If not, what approach should be used?

- We agree with the reallocation of goodwill using the relative fair values criteria.

Question 5: Determining whether goodwill is impaired

The Exposure Draft proposes:

(a) that the recoverable amount of a cash-generating unit to which goodwill has been allocated should be measured as the higher of the unit's value in use and net selling price (see proposed paragraphs 5 (definition of recoverable amount) and 85 and paragraph C17 of the Basis for Conclusions).

Is this appropriate? If not, how should the recoverable amount of the unit be measured?

- We agree with the proposal

(b) the use of a screening mechanism for identifying potential goodwill impairments, whereby goodwill allocated to a cash-generating unit would be identified as potentially impaired only when the carrying amount of the unit exceeds its recoverable amount (see proposed paragraph 85 and paragraphs C42-C51 of the Basis for Conclusions).

Is this an appropriate method for identifying potential goodwill impairments? If not, what other method should be used?

- In our opinion, the use for practical reasons (to satisfy de cost-benefit relationship) of the proposed screening mechanism is reasonable. We also think that in practice the probability of devalued goodwill not being recognised because of the limitations of the mechanism is very low.

(c) that if an entity identifies goodwill allocated to a cash-generating unit as potentially impaired, the amount of any impairment loss for that goodwill should be

measured as the excess of the goodwill's carrying amount over its implied value measured in accordance with proposed paragraph 86 (see proposed paragraphs 85 and 86 and paragraphs C28-C40 of the Basis for Conclusions).
Is this an appropriate method for measuring impairment losses for goodwill? If not, what method should be used, and why?

- We agree with the proposed method.

Question 6: Reversals of impairment losses for goodwill
The Exposure Draft proposes that reversals of impairment losses recognised for goodwill should be prohibited (see proposed paragraph 123 and paragraphs C62-C65 of the Basis for Conclusions).
Is this appropriate? If not, what are the circumstances in which reversals of impairment losses for goodwill should be recognised?

- We disagree with not accepting the reversal of previous impairments to goodwill even under certain very special circumstances. We think that enhancing the previous conditions contained in paragraph 109 (old text of the standard) to be more strict in the acceptation of the reversal when can obtain the right answer to this issue. Our opinion is based on the fact that we don't accept the reasoning included in paragraph 124 that the reversal of a previous impairment means an increase in an internally generated goodwill.

***Question 7: Estimates used to measure recoverable amounts of cash generating* units containing goodwill or intangible assets with indefinite useful lives**
The Exposure Draft proposes requiring a variety of information to be disclosed for each segment, based on an entity's primary reporting format, that includes within its carrying amount goodwill or intangible assets with indefinite useful lives (see proposed paragraph 134 and paragraphs C69-C82 of the Basis for Conclusions).

(a) Should an entity be required to disclose each of the items in proposed

paragraph 134? If not, which items should be removed from the disclosure requirements, and why?

- It seems excessive to us the disclosure required in paragraph 134 (e) (iv), specially when the key assumptions are many and the interaction with the others assumptions is complex.

(b) Should the information to be disclosed under proposed paragraph 134 be disclosed separately for a cash-generating unit within a segment when one or more of the criteria in proposed paragraph 137 are satisfied? If not, why not?

- We think that the required intra-segment disclosure by paragraph 137 a) is excessive, but we agree with the proposals in paragraph 137 b) and c)

COMMENTS ON AMENDMENTS TO IAS 38: INTANGIBLEASSETS

The following are our answers to the questions included in the invitation to comment in respect of IAS 38 improvements:

Question 1: Identifiability

The Exposure Draft proposes that an asset should be treated as meeting the identifiability criterion in the definition of an intangible asset when it is separable or arises from contractual or other legal rights (see proposed paragraphs 10 and 11 and paragraphs B6-B10 of the Basis for Conclusions).

Are the separability and contractual/other legal rights criteria appropriate for determining whether an asset meets the identifiability criterion in the definition of an intangible asset? If not, what criteria are appropriate, and why?

- In our opinion, the criteria described in paragraph 11(b) is the proper one to identify the intangible asset arising from legal or contractual rights, but in many cases, because of the mentioned rights are acquired jointly with certain obligations the recognition criteria will not be able to be met. As an example, when the legal or contractual rights relate to a public service concession, in most of the cases will be almost impossible to separately measure the intangible asset separately from the goodwill and the obligations related to the concession.

Question 2: Criteria for recognising intangible assets acquired in a business combination separately from goodwill

This Exposure Draft proposes clarifying that for an intangible asset acquired in a business combination, the probability recognition criterion will always be satisfied and, with the exception of an assembled workforce, sufficient information should always exist to measure its fair value reliably (see proposed paragraphs 29-32 and paragraphs B11-B15 of the Basis for Conclusions). Therefore, as proposed in ED 3, an Exposure Draft of a proposed International Financial Reporting Standard Business Combinations, an acquirer should recognise, at the acquisition date and separately from goodwill, all of the acquiree's intangible assets, excluding an *assembled workforce, that meet the definition of an intangible asset (see proposed paragraphs 36, 43 and 44 of ED 3).*

Do you agree that, with the exception of an assembled workforce, sufficient information can reasonably be expected to exist to measure reliably the fair value of an intangible asset acquired in a business combination? If not, why not? The Board would appreciate respondents outlining the specific circumstances in which the fair value of an intangible asset acquired in a business combination could not be measured reliably.

- Repeating the concepts given in our answer to question 1, we don't agree with the mentioned idea that sufficient information should always exist to measure reliably the fair value of an intangible asset in a business combination. For certain cases (public service concessions for example), especially in cases of monopoly services conceded no market exists, and even other recent business combination for similar services exists, probably it won't be useful as information to be applied for analogy because in both cases the intangible asset cannot be separately measured.

Question 3: Indefinite useful life

The Exposure Draft proposes to remove from IAS 38 the rebuttable presumption that an intangible asset's useful life cannot exceed twenty years, and to require its useful life to be regarded as indefinite when, based on an analysis of all of the relevant factors, there is no foreseeable limit on the period of time over which the asset is expected to generate net cash inflows for the entity (see proposed paragraphs 85-88 and paragraphs B29-B32 of the Basis for Conclusions).

Is this appropriate? If not, under what circumstances, if any, should an intangible asset be regarded as having an indefinite useful life?

- We agree with defining as indefinite useful life assets when no foreseeable limit on the period of time is identified over which the intangible asset is expected to generate net cash inflows.

Question 4:Useful life of intangible asset arising from contractual or other legal rights

The Exposure Draft proposes that if an intangible asset arises from contractual or other legal rights that are conveyed for a limited term that can be renewed, the useful life shall include the renewal period(s) only if there is evidence to support renewal by the entity without significant cost (see proposed paragraphs 91 and 92 and paragraphs B33-B35 of the Basis for Conclusions).

Is this an appropriate basis for determining the useful life of an intangible asset arising from contractual or other legal rights that are conveyed for a limited term that can be renewed? If not, under what circumstances should the useful life include the renewal period(s)?

- We don't agree with the required condition about considering the renewal period in the calculation of amortisation always when ***"there is evidence to support renewal without significant cost"***. We consider that when the renewal period depends on the decision of a third party and not merely on the fulfillment of certain conditions for the Entity, it gives rise to a "contingent asset" because is affected not only for the "cost" of the renewal but the probability of obtaining it. Therefore for considering the renewal period for amortisation the renewal of the contract or the legal right have to be virtually certain. We suggest adding the following text:***... significant cost, and the extension or the renewal is not subject to the approval of third parties".***

Question 5: Non-amortisation of intangible assets with indefinite useful lives

The Exposure Draft proposes that an intangible asset with an indefinite useful life should not be amortised (see proposed paragraphs 103 and 104 and paragraphs B36-B38 of the Basis for Conclusions).

Is this appropriate? If not, how should such assets be accounted for after their initial recognition?

- We agree with not amortising intangible assets with an indefinite useful life if the impairment test is made at the end of each annual reporting period or when indicators of impairment appears.

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