-----Original Message-----
From: Tom Ravlic [mailto:ravlic@bigfoot.com]
Sent: 04 April 2003 14:12
To: Stevenson Kevin; Tweedie David
Cc: Kimmitt Annette
Subject: business combinations submission
Importance: High

Dear David,

Please accept my apologies for this late submission on your comprehensive exposure drafts on business combinations. I have been otherwise engaged and have been unable to devote my usual time to drafting a more comprehensive response to what is a critical accounting development for the globe and, indeed, Australia.

My initial response to the philosophy the board is following on business combinations is the general direction of using purchase accounting is appropriate. I am, however, appalled by the fact the board is insisting on the identification of an acquirer rather than the use of the concept of accounting for the entity that has been established. I prefer the Australian approach in this regard because it avoids the intellectually dishonest selection of one party as an acquirer when in all cases the activity does create a new or improved entity. In any case it is not the same entity that existed prior to an acquisition of one kind or another taking place. I find the US-style approach inadequate and one that must be reviewed by the board as a matter of urgency. The imperative must be to improve the quality of financial reporting and one element of this must be to eliminate financial reporting arbitrage. Requiring the fingering of one party involved in a transaction as an acquirer might be a simple solution, but it is - quite frankly - far from satisfactory. It is a major failing in the proposals and one needing urgent amendment before this patient can be assessed as being fit to be released on the streets.

This manifests itself in the types of financial reporting we see in the case of the business combinations known as dual listed companies such as BHP Billiton and Brambles GKN. It is inappropriate for these entities to account for the arrangements as if they were poolings of interests. The IASB should deal with this type of issue expeditiously and take careful note of the advice embedded in one of the dissenting or alternative views of an unidentified board member. I fully concur with the notion that these very large entities should be subject to fresh start accounting and the entity that is created must be accounted for. Picking an acquirer in these circumstances could lead to a misleading accounting outcome because only one of the sides of the transaction would need to be fair valued. In a fresh start model both sides of the transaction need to be fair valued and brought together within the books of the new 'super entity' that emerges.
It is unfortunate the IASB has been unable to come to terms with that in one of the first core exposure drafts and I sincerely hope this circumstance is rectified over the next weeks and months.

One of the arguments against radically altering the document put up for exposure to incorporate the accounting treatment I suggest should occur is that tinkering with the exposure draft's shortcomings in accounting for the economic entity created from the transaction may cause the IASB to fail to meet its obligations to help Europe across the line for 2005 adoption. It is a concern that was raised with me in conversation with accountants here in Australia. On the one hand the American approach is probably the easy way out in the short-term, but it might introduce poor reporting practices that will be difficult to unwind going forward. This occurred in the case of financial instruments and I am somewhat concerned the IASB is repeating history with accounting for business combinations in a manner that does not reflect the true economics of what has gone on. That is a standard setting cop-out and it should be an embarrassment to the standard setter for even suggesting that method of accounting for business combinations fits within the concept of lifting the bar on the quality of financial reporting. In no way is this approach to accounting for the entity that is borne out of a business combination adequate.

Another issue of concern to me is the issue of the determination of the cash generating unit as raised in the impairment literature. This is an issue that has caused some consternation because some companies have indicated in conversation they find it somewhat challenging to determine what the cash generating unit is and how far down into the organisational structure. It may be a matter that is difficult to provide further guidance on from a standard setter's perspective, but I do think this needs further consideration because it would appear to me the concept of a CGU will be difficult to operationalise in a sensible fashion.

There is some concern among companies in Australia over the adoption in this country of IAS 38 as a standard to regulate accounting for intangible assets. Some senior accountants argue that importing the IAS 38 literature into this country has unreasonable consequences for companies that have revalued intangible assets, for example, would need to write those revaluations down if they do not come from instances observed in a secondary market. It is causing some angst within a narrow group of professionals within the accounting environment here. Their arguments may have some merit in a general discourse but if the adoption directive is to be met the intellectual debate is drowned out by the orthodoxy of adoption.

This is one of the great threats in the Australian environment to the development of accounting thought in this country. While I might disagree with aspects of what some of the critics of IAS 38 have to say I do defend both their right to say it and their timing for expressing these views.

While a single global set of standards is a great idea it should not be used by politicians as a way of muting the debate, whcih is a process that discourages genuine thought processes.

I would like to ask you to encourage the major firms to permit their domestic affiliates to respond to exposure drafts by engaging in their own processes. That, I think, is critical for the nurturing of the debate and growth of the accounting profession's capacity to think and

debate openly over the next few years and beyond. My experience is that some firms discourage domestic submissions on issues in order to have global consistency. I believe this is unhealthy and not in the public interest. A greater openness from these organisations is necessary in order to foster greater debate on these matters. I am of the view they are only concerned about the growth of the firms rather than participating in the broader policy debates in general and on particular accounting standards.

It is a sad comment on my own country's profession but this lapse into the orthodoxy of adoption has generated an environment where it is difficult to identify any independent thinking going on. I would suggest there are too few individuals encouraged to take stands on technical issues publicly. It may be because there is a narrower definition of public interest operating within the accounting practices themselves. Your constituents should be opening up their procedures so the technical debate can be had in its full glory rather than be smothered by partners and others in major firms just wanting to implement their global policies in every country they possibly can.

Kind Regards

Tom Ravlic

Tom Ravlic SIA (aff)
Phone: 61 3 9551 1878
Mobile: 0407 408 000
ICQ: 177638067