

Ms Annette Kimmit  
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JK/SJ/07.2004/35

RE : IFRS 3: Combinations by Contract Alone or Involving Mutual Entities

Paris, Monday, July 26, 2004

Dear Ms Kimmit,

ACTEO & MEDEF welcome the opportunity to comment the IASB exposure draft on IFRS 3: Combinations by Contract Alone or Involving Mutual Entities.

In our view, the proposals made should be abandoned and the scope of IFRS 3 be defined in accordance with the proposals contained in ED3.

At the time ED3 was issued, the rationale for differing the application of the new standard to combinations by contract alone or involving mutual entities was the need to closely analyse if and how the purchase method could be applied in those cases.

Such an analysis has not been conducted; however the Board has decided to proceed with some kind of "quick way" to get rid of the old IAS 22 and the pooling of interests method. We agree with the alternative view that no real improvement subject to make the change worthwhile is to be awaited. In the meanwhile, the latest developments in the Business Combinations phase 2 already show that the proposed method for accounting for such combinations might not last very long.

At the time IFRS 3 was issued, IASB deleted IAS 22 without waiting for the outcome of the present exposure-draft, hence creating a vacuum for business combinations by contract alone or involving mutual entities. We disagree that such a deletion occurred, and hence pre-empted the outcome of the present discussion.

Moreover, the accounting treatment proposed is not consistent with IFRS 3 requirements (definition of goodwill, capitalisation of acquisition costs).

All being considered, we believe the best solution would be that IAS 22 be reinstated in order to provide the necessary guidance for business combinations by contract alone or involving mutual entities. Business Combinations phase 2 would include the analysis of whether specific requirements need to be defined, and what they should be. Such a solution would avoid unnecessary disruptions in the accounting methods applied to successive similar transactions.

If the Board decides nonetheless to go ahead with the inclusion of business combinations by contract alone and involving mutual entities into IFRS 3's scope, we believe that:

- IFRS 3 purchase method should be applied whenever practicable,
- If not, the method proposed in the ED should be applied, provided that acquisition costs are included in the deemed cost of the acquisition, consistently with other IFRS 3's provisions.

Finally, we wish to stress that we object to the backdating of accounting requirements, although we understand, in this particular case, the search for consistency which has guided the Board. We recommend the Board not to pursue such a practice.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

**ACTEO**

***Philippe CROUZET***

Le Président

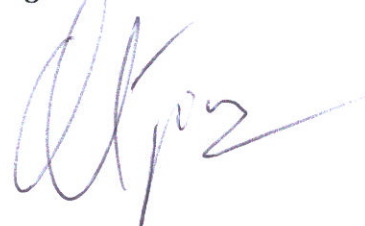
P/O ***Jean KELLER***



Le Délégué Permanent

**MEDEF**

***Agnès LEPINAY***



La Directrice des Affaires Economiques, Financières et Fiscales