

**International Accounting Standards Board
Comments to Business Combination Phase I**

Please, mark this letter as confidential and don't publish it. Thank you.

Vienna, 2 April 2003

Dear ladies and gentlemen,

After reading the summary of the Exposure Draft Business Combinations Phase I in IASB Insight January 2003, I feel obligated to send you a feed-back. This Exposure Draft will be an important step to convince users that they should not trust the financial statements. The Exposure Draft gives the same nasty feeling as IAS 39 - make it as complicated, that at least the users do not understand anymore what the content of IAS 39 is (comparable information is desired, but as a user I would like to understand what I can compare) and make the Standard as complicated that the companies and auditors can do what they want, as no one understand the Standard making it vulnerable for inappropriate financial statements.

Main argument for this strong position is the proposed change in the treatment of goodwill.

I would like to bring to your attention a few arguments why yearly depreciation of goodwill is preferred over an impairment test of goodwill:

1) How should you explain someone why companies are willing to pay goodwill? I guess, they pay goodwill because they expect that there will be extra profits in future years. Second question: If they paid already for these extra profits, do they make any profit? I would say no, IASB says yes. Apparently we have different views of what the position 'profit' in the financial statements should show.

2) IASB will answer on the question above further: 'the goodwill will maintain its value and therefore depreciation would be inappropriate'. As a user I would formulate it as following: 'the company paid cash for the goodwill of (the assets of) an other company and this goodwill will be replaced in future years by internally generated goodwill. As internally generated goodwill should not be activated, the value of goodwill acquired from an other company should be depreciated.' Why did the IASB not consider this fact? For me, the Exposure Draft would have been acceptable if IAS 38 would have been modified so that internally generated goodwill should be activated as well. You cannot change one part of the story.....

3) Reality. Can someone explain to me why I should have any trust in the impairment tests made by companies? Reading the newspapers I would conclude

that these tests do not make any sense. At least I cannot understand why the goodwill value is 1 Billion EURO lower as in previous year. I guess that company policy, changes in management and stock prices are more important for these impairment tests than facts. The Exposure Draft is moving towards new regulation from which we already know that these are extremely vulnerable for misleading financial statement.

4) History. As a Dutch civilian I was warmly welcoming IAS as finally the costs of acquisitions had to be shown in the Profit & Loss Statement (Dutch law permitted eliminating goodwill in equity). IASB seemed to be based on common business economics sense. Unfortunately you are losing this common sense in the desire to converge and to develop undesired details. I cannot recognize any progress in these new developments. Now I would like to get back to Dutch GAAP - I understood the rules, I agreed with at least most of the rules and had confidence in the auditor and companies, as they were not pressed in detailed regulations, but had free space to apply common business economics sense.

As you will expect, I cannot understand the new regulations about badwill. Is a lucky buy more realistic than that a company expects losses and expenses in future years? I guess we don't need to discuss about reality - as a user I would like to have a realistic financial statement and not the vulnerable technical perfect one as desired by IASB.

I kindly ask you to consider these arguments and hopefully you will pay also some attention to what the public is thinking (finally everything depends on the public - it is not a technical problem, the public should be convinced about the new regulations!).

If there are any questions, do not hesitate to contact me.

Best regards,

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