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08 April 2003

Our ref: 79/BLC/Business  
Combinations BLC10156

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Dear Madam

### **IASB Proposals on Business Combinations, impairment and Intangible Assets**

We thank you for the opportunity to respond to the above consultation draft. We strongly concur with your decision not to proceed with a FRED until the full IASB proposals have emerged. In the light of this we are not commenting on the IASB questions in detail. Our main concerns are set out below.

#### **Abolition of merger accounting**

We believe merger accounting should be retained for certain business combinations, in particular for group reconstructions. We see little benefit in requiring a fair value exercise to be undertaken simply because, for example, a new parent company has been inserted at the top of a group with no change in investors. Whilst the Phase I proposals would not apply to such a transaction, as the entities are under common control, it is unclear what approach might be required in Phase II. In such a situation merger accounting would seem more relevant than a fresh start approach requiring all net assets to be measured at current value. It may be that merger accounting can be effectively retained in this particular instance by considering the combination as a reverse acquisition with the new parent's net assets being fair valued.

#### **Proposed impairment testing**

We consider the proposed impairment approach to goodwill to be overly complex. Additionally, it is unclear why a pro rata basis is to be used to allocate any impairment to assets other than goodwill in a cash-generating unit (IAS 36:103). IAS 36:86 will require the identifiable assets and liabilities to be fair valued allowing a more meaningful allocation of the impairment.

Yours faithfully

BDO Stoy Hayward

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