Annette Kimmit 12 July 2004
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
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Dear Sirs,

Exposure Draft, Amendments to IFRS 3 Business Combinations, Combinations by Contract Alone or Involving Mutual Entities

FAR, the institute for the accountancy profession in Sweden, is responding to your invitation to comment on the Exposure Draft, Amendments to IFRS 3 Business Combinations, *Combinations by Contract Alone or Involving Mutual Entities.*

General comment
In our view, the priority given to this amendment to IFRS 3 can be discussed. For example, the issue "business combinations involving entities or businesses under common control" should in our view have been given higher priority than the issues covered by this amendment. Combinations by contract alone or involving mutual entities are far less and we do not see why they could not have waited for inclusion in phase 2 of the Business Combination project.

Question 1

The Exposure Draft proposes:

a) *to remove from IFRS 3 the scope exclusions for business combinations involving two or more mutual entities and business combinations in which separate entities are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.*
b) *to require the acquirer to measure the cost of a business combination as:*

i) *the aggregate of the following amounts when the combination is one in which the acquirer and the acquiree are both mutual entities:*
- the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities; and
- the net fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments given by the acquirer in exchange for control of acquiree.

Therefore, goodwill will be recognized in the accounting for such transactions only to the extent of any consideration given by the acquirer in exchange for control of the acquiree.

ii) *the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities when the combination is one in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest. Therefore, no goodwill would arise in the accounting for such transactions.*

Is this an appropriate interim solution to the accounting for such transactions until the Board develops guidance on applying the purchase method to such transactions as part of a subsequent phase of its Business Combinations project? If, not, what other approach would you recommend as an interim solution to the accounting for such transactions, and why?

FAR's comments

We support the proposed interim solution for the types of transactions described above until the Board develops guidance on applying the purchase method to these transactions as part of a subsequent phase of its Business Combinations project.

However, to better understand the transaction type "in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest" it would be helpful if the amendment to IFRS 3 could include an illustrative example. For example, the illustrative example could clearly show the owners of the reporting entity, the reporting entity and the acquirees. Presumably an illustrative example would also provide support for not recognizing goodwill in a like transaction by enhancing the understanding of how such a transaction is structured and carried out.

In addition, the requirement in the new paragraph 31B that costs directly attributable to the combination (for example various fees to advisors) shall be recognized as an expense in the profit or loss in the period in which they are incurred appears to be inconsistent with the requirement in IFRS 3 paragraph 24(b). We think that the reasons for this should be explained in the Basis for Conclusions.

Question 2

The Exposure Draft proposes that no amendments be made to the transitional and effective date requirements in IFRS 3. This would have the effects set out in paragraph 6 (a) – (c) above on the accounting for business combinations in which the acquirer and acquiree are both mutual entities or in which separate entities or businesses are brought together to form a reporting entity by contract alone without the obtaining of an ownership interest.

Is this appropriate? If not, what transitional and effective date arrangements would you recommend for such business combinations, and why?

FAR's comments

We support the proposed transitional provisions meaning that no amendments to the transitional and effective date arrangements of IFRS 3 are required.

Yours faithfully,

Jan Buisman
Chairman, Accounting Practices Committee

Dan Brännström
Secretary General