LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

15 July 2004

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS – COMBINATIONS BY CONTRACT ALONE OR INVOLVING MUTUAL ENTITIES

The Malaysian Accounting Standards Board (MASB) is pleased to provide its comments on IASB Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations, as set out in the accompanying pages.

We hope that you will find the comments useful in your deliberation of the above Exposure Draft.

We thank you for the opportunity to give our comments.

Yours sincerely,

Dato' Zainal Abidin Putih
Chairman

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 acquiree are both mutual entities:

 - the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities; and
 - the fair value, at the date of exchange, of any assets given, liabilities incurred or assumed, or equity instruments issued by the acquirer in exchange for control of the acquiree.

 Therefore, goodwill would be recognised in the accounting for such transactions only to the extent of any consideration given by the acquirer in exchange of 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, 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?

MASB disagrees with the modified purchase method of accounting proposed in the Exposure Draft. Requiring the replacement of the pooling of interests method with another modified purchase method is not an improvement. The MASB, instead, believes that the issue raised by one IASB Board member, as indicated in the Alternative View of the Exposure Draft, should be given due consideration.

MASB suggests that if the IASB decides to proceed with the interim solution as proposed, it would be helpful if the Standard provides

numerical examples illustrating the measurement of cost for business combinations for both combinations by contract alone or involving mutual entities.

Alternatively, the IASB may consider issuing a separate Standard to deal with business combinations by contract alone or involving mutual entities or other similar type of arrangements.

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 ownership interest.

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

See our response to Question 1 above.