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29 July 2004

Ms. Annette Kimmit
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Ms. Annette Kimmit:

The International Accounting Standards Review Committee (IASRC) of the Korea Accounting Standards Board (KASB) is pleased to send its comments on the ED of Proposed Amendments to IFRS 3 Business Combinations, *Combinations by Contract Alone or Involving Mutual Entities*.

The enclosed comments are those of the IASRC and do not represent an official position of the KASB. The official position of the KASB is determined only after extensive due process and deliberation, to which this letter has not been subjected.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may forward your inquiries either to Mr. Jae-ho Kim (jhkim@kasb.or.kr) or Mr. Kyoung-chun Yu (yukc@kasb.or.kr), both of whom are full-time research staff of the KASB.

Best regards,

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Dr. Suk Sig Lim
Chairman, International Accounting Standards Review Committee
Vice Chairman, Korea Accounting Standards Board

Encl: IASRC comments on the ED of Proposed Amendments to IFRS 3 Business Combinations, *Combinations by Contract Alone or Involving Mutual Entities*

IASRC Comments on the ED of Proposed Amendments to IFRS 3 Business Combinations, Combinations by Contract Alone or Involving Mutual Entities

■ 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.
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> (b) to require the acquirer to measure the cost of a business combination as:
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> (i) the aggregate of the following amounts when the combination is one in which the acquirer and acquiree are both mutual entities:
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> - 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 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?

In principle, we agree with the proposal of the ED. However, the treatment of the costs incurred in the course of effecting such combinations is not consistent with the phase I project. We believe that it is necessary to reconsider this issue further.

It is usually difficult to identify the acquirer in 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 obtaining ownership interests. In addition, such business combinations normally do not involve the payment of any reliably measurable consideration.

As described in paragraphs BC54 and BC55, no exception should be permitted in applying the purchase method even if an acquirer is difficult to identify, since the purchase method might provide superior information to that provided by the pooling of interest method.

Business combinations involving two or more mutual entities would form another mutual entity. Normally, the “fresh start method” might be applied to those business combinations. The proposed requirements are expected to cause a result similar to that of the fresh start method because those business combinations are measured at the aggregate amount of the fair value of consideration given by the acquirer and the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. In addition, if separate entities are brought together to form a reporting entity by contract alone without obtaining ownership interests, no goodwill shall be recognized as a result of the contract.

■ 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?

We believe that it is appropriate. It would not cause any significant problems, since the time period between the effective date of amended IFRS 3 and 31 March 2004 is relatively short.