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Annette Kimmit
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Date: 31 July 2004

Dear Ms Kimmitt

Amendments to IFRS 3 Business Combinations: Combinations by Contract Alone or Involving Mutual Entities

The Chartered Institute of Management Accountants (CIMA) is pleased to have the opportunity to comment on this consultation. CIMA is a global professional body representing accountants in business. CIMA represents over 62,000 members and 81,000 students in 154 countries. CIMA is committed to high quality, global, principle-based, neutral financial reporting standards and supports the widespread adoption of International Financial Reporting Standards.

We repeat our opinion that recently–issued standards should not be amended so soon after their issue unless absolutely essential and we do not think this amendment is essential. We would prefer the IASB to concentrate on finishing the second part of the Business Combinations project.

We do not believe that there have been more than a handful of business combinations 'by contract alone' and are not aware of any in the pipeline. As retrospective application is not required, the existing combinations will not be affected by the amendment.

We regret that the amendment does not discuss the reasons for the existence of the exemption that it proposes to remove. As a consequence, it is not easy to weigh up the economic cost of this essentially anti-abuse amendment. In our view the exemption was introduced to allow certain mergers to happen which would not otherwise have taken place, most of which seem to have been beneficial. We would have liked to see this proposition explored.

If there were still benefits from allowing mergers in these cases, then perhaps it would be better to explore other methods of preventing abuse. This could be done by requiring the use of fresh start accounting, or by announcing the intention to require retrospective application of relevant parts of the next Business Combinations standard

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We attach answers to your specific questions and would be pleased to discuss with you any aspect of this letter that you may wish to raise with us. A hard copy of this email will be put in the post to you today.

Yours sincerely

Nick Topazio

Nick Topazio

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Responses to specific questions raised in the invitation to comment

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 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 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?

For reasons given in our covering letter, we do not believe that this is an appropriate solution. We would like the Board to announce, for business combinations from now on, possible retrospective application of relevant parts of Business Combinations Phase II. If this is not deemed satisfactory then the exemption should be retained, but mergers accounted for under this exemption should be required to use fresh-start accounting.

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 disagree as a matter of principle with the retrospective application without warning of new accounting standards or amendments. Otherwise, entities could be faced with a situation where decisions are made based on current accounting requirements that subsequently become questionable due to a retrospective change in accounting rules.

If the Board decide to go ahead we see no reason to introduce retrospective application in this case.