



The Hundred Group
of Finance Directors

Financial Reporting Committee

Ms Annette Kimmit
Senior Project Manager
International Accounting Standards Board
30 Cannon Street,
London
EC4M 6XH

13 July 2004

Dear Ms Kimmit,

**Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations
Combinations by Contract Alone or Involving Mutual Entities**

I am pleased to submit the response of the Technical Committee of the UK's 100 Group of Finance Directors to your consultation on amendments to IFRS 3 Business Combinations – Combinations by Contract Alone or Involving Mutual Entities. We are restricting our comments to combinations formed by contract alone, as we do not have any constituent members who represent mutual entities.

Combinations between entities formed by contract alone are highly complex and create particular difficulties for the companies involved. The reasons for combining in this unusual manner, often across borders, are varied but one reason is generally the need to ensure that the combination is a true merger, rather than a take-over, and is perceived as such by both the shareholders and employees of the businesses. The 100 Group includes representatives of businesses with dual listed parent company structures and their view is that the combinations with which they are involved would not have happened if one entity were perceived to be acquiring the other.

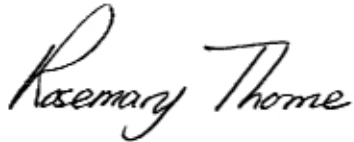
In our view, it is undesirable that this potentially temporary change in accounting standards should be made based on an incorrect presumption that an acquirer can be identified in all business combinations. In particular, the use of purchase accounting where no purchase has taken place is inappropriate and leads to a most unsatisfactory outcome. First, there is the difficulty of deciding which entity acquired the other when the whole basis of the combination may be that neither party would take over the other and when there would be no transaction by which to identify the 'purchaser'. Secondly, this somewhat arbitrary judgement would lead to the two merging entities being accounted for on fundamentally different bases: one (the deemed acquired entity) would report assets and liabilities at fair value, while the other (the deemed acquirer) would continue reporting its assets and liabilities at historic cost. These differing accounting treatments will not provide any useful information for the shareholders of the two entities and would in fact be potentially misleading.

Over time, well established principles have become accepted for accounting for business combinations by contract alone. Indeed, the IASB's proposals would not change the accounting for these previous combinations. We do not believe that the arguments for making the proposed, and potentially temporary, change to the accounting for combinations

by contract alone are well founded. We believe there are significantly stronger arguments in favour of fresh start accounting for combinations by contract alone, where the assets and liabilities of both entities would be reported at fair value.

In our view, the IASB's proposals should be withdrawn and reconsidered once the work on fresh start accounting is complete.

Yours sincerely

A handwritten signature in cursive script that reads "Rosemary Thorne". The signature is written in black ink and is positioned above the printed name and title.

Rosemary Thorne

Chairman

Financial Reporting Committee of the 100 Group of Finance Directors