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Dear Annette

IASB EXPOSURE DRAFT - PROPOSALS ON AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 3 BUSINESS COMBINATIONS: COMBINATIONS BY CONTRACT ALONE OR INVOLVING MUTUAL ENTITIES

The Institute's Accounting Standards Committee has considered the above Exposure Draft and I am pleased to set out its comments below.

Response to Detailed Questions

Our responses to the specific questions in the Exposure Draft are set out below:

(i) 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:

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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:*

- *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?

We cannot see the logic of paragraphs BC8 and BC9. We believe that these proposals are trying to force there to be an acquirer but have not identified how to do this. We are therefore concerned that the proposals have not been properly thought through. We suggest that full consultation is required with those entities actually affected by the proposals. We believe that the case for these proposals has not been made and that this would therefore be an unsatisfactory interim solution. We suggest that much more work is required before a suitable solution can be found.

(ii) *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?

Please see our answer to question (i) above.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely

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Secretary to the Accounting Standards Committee

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