30 July 2004

Ms Annette Kimmitt
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International Accounting Standards Board
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Dear Annette

**'Business Combinations'**

The Group of 100 (G100) is pleased to comment on the proposals in the IASB ED of Proposed Amendments to IFRS 3 Business Combinations – Combinations by Contract alone or Involving Mutual Entities'.

IASB questions are:

***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 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 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 accounting for such transactions, and why?*

**No. The G100 believes that the application of the purchase accounting method for these arrangements should be considered as part of Phase 2 of the Business Combinations project. The application f the proposals would require entities that have entered stapled security structures to prepare consolidated statements. In Australia this would result in a major change in practice at short notice and would not have provided the entities affected adequate opportunity to debate issues which are not included in the scope of the standard issued on 31 March 2004. Under existing Australian requirements combined/aggregated financial statements are prepared as none of the entities involved satisfies the definition of a parent which is based on control. In addition, IAS 27 only requires consolidated financial statements to be prepared where a control relationship exists.**

**The G100 recommends that the IASB retain the existing arrangements and deal with these structures as part of its ongoing project. As the proposals presently stand we believe that additional guidance is needed on identifying the acquirer where consideration does not pass and whether a fair value exercise is required at transition for existing arrangements, whether this would be for the acquiree entity or both entities or whether existing arrangements would be considered to reflect the uniting of interests/posting method and qualify for the exemptions in IFRS1.**

***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?*

**The issue should be considered as part of the ongoing project. See comments above.**

Yours sincerely

**John V Stanhope**
National President