acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

Mouvement des Entreprises de France
MEDEF

AFEP
Association Française des Entreprises Privées

Mr Alan Teixeira
Senior Project Manager
IASB
30 Cannon Street
London EC4M 6XH
United Kingdom

RE : Business Combinations phase 2 – Amendments to IFRS 3, IAS 27, IAS 37 and IAS 19

Paris, Friday, October 27, 2005,

Dear Mr Teixeira,

ACTEO & MEDEF welcome the opportunity to comment on the IASB exposure draft on various amendments to existing standards arising from the Business Combinations phase 2 project.

This letter displays ACTEO & MEDEF's overview position while answers to detailed questions raised in the invitation to comment are provided as an appendix.

In our view, the exposure-drafts raise serious concerns of either content or timing of the main proposals.

1. IFRS 3 and IAS 37 have at no time been analyzed as calling for urgent improvements: IFRS 3, issued as part of the stable platform, was already the result of convergence efforts with US Gaap and IAS 37 had not been identified as in need for improvement in the early days of the IASB. Business Combinations phase 2 was introduced as the second step of this project, designed to agree with the FASB on how to best implement the purchase method. We are very concerned that as a result of this project, the IASB intends to introduce fundamental changes:
   a. where no change is identified as needed in order to ensure that robust financial information is provided to users
   b. when over 7000 entities of economic significance in Europe are undergoing conversion to IFRS and need the greatest stability as possible in financial reporting standards applicable to their operations
   c. when the urgency for preparers, auditors and users is to reach a common understanding of the implications and consequences of a new set of financial reporting standards, before being able to apprehend further changes.

2. In the context of the existing IFRS literature, implementing the full goodwill method would not achieve the objective set by the Board and would in some instances provide a basis for serious distortions in the accounts presented

3. The exposure drafts propose conceptual changes (switch from cost to fair value, implementation of an unrestricted reporting entity perspective, withdrawal of the probability recognition criterion, weakening of the reliability recognition criterion) which in our view should not be proposed at this stage since:

   a. Everyone of these issues is planned to be addressed as part of the conceptual framework and no step in IFRS setting ought to be pre-empting the conclusions of the conceptual debate yet to take place,

   b. The bases for conclusions do not include any analysis of why the change or evolution in the conceptual framework is desirable, which would show that the conceptual issue is being dealt with in parallel with the change in standard.

4. None of these fundamental changes is being required for convergence purposes. Furthermore, the change in the accounting for contingencies further separates FAS and IAS requirements.

5. The switch from cost to fair value as measurement attribute for a business combination is not considered appropriate because:

   a. The acquirer does not necessarily determine its pricing solely on the basis of the acquiree's fair value, but rather on the value that the business combination is likely to bring to its operations

   b. Acquisition costs are taken into account at the time the price offer is prepared,

   c. Limitations put to the fair value principle included in the exposed proposals (either as a choice of the Board or as a consequence of the existing IFRS literature) prevent the change to bring the expected improvements. Therefore the change amounts to potentially increased costs and subjectivity with no benefit attached,

   d. The change introduces inconsistency in the treatment of acquisitions of businesses and groups of assets, while the definition of a business is changed and the distinction between a group of assets and a business reduced to a very narrow line subject to interpretations.

6. Implementing an unrestricted economic entity approach deprives the parent shareholders from valuable information and brings forward changes in financial reporting which should be first considered as part of the joint project on presentation of financial statements.

7. The withdrawal of the probability recognition criterion in IAS 37 raises several issues:

   a. It creates a severe breach with the framework (the tentative demonstration that the change fits the existing framework is not the least convincing),

   b. It introduces in the accounting for non-financial liabilities a tremendous change without any analysis of benefits and costs derived

   c. It introduces a very high degree of subjectivity in the valuation of non-financial liabilities, and therefore dramatically decreases the reliability and transparency of the information provided,

   d. It leads to implementing as measurement basis the legal lay off amount, although this basis has been assessed as being impractical by both Boards in the development of their active project on Revenue Recognition.

8. While developing the appropriate conceptual thinking on everyone of these issues, the IASB should limit themselves to:

   a. Finalising accounting requirements for increases and decreases of interests after control is gained or when control is lost in conformity with the logic of the alternative views presented in ED27.AV1-AV3,

   b. Limiting IAS 37 and IAS 19 changes to the changes required by convergence,

   c. Agreeing with the FASB the changes to be made to IFRS 3 and FAS 141 to bring the two standards into convergence on the basis of the existing and shared conceptual model.

We remain at your disposal should you need further clarification or background information.

Yours sincerely,

ACTEO
Patrice MARTEAU
Le Président

MEDEF
Agnès LEPINAY
La Directrice des Affaires Economiques, Financières et Fiscales

AFEP
Alexandre Tessier
Le Directeur Général