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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

28 October 2005

IFRS 3 Business Combinations (exposure draft) – comment letter

Dear Sirs,

<u>Amendments to IFRS 3 Business Combinations - comments</u>

We are writing in our capacity as expert users of financial statements of listed and other companies. We have included our job titles and employers at the end of this letter by way of identification, but it should be clear that we are writing in our personal capacities and not on behalf of our employers.

We have a number of concerns with the proposals contained in these exposure drafts but our main concern is that these exposure drafts represent a radical departure from previous practice which has not been properly exposed for debate.

Whilst we can see merits in the arguments presented in support of these proposals, it is unclear whether they represent a sufficiently obvious improvement in financial accounting to be incorporated without a much more detailed debate, and this exposure draft is not the right forum for such a debate.

The entity concept whereby financial information is presented with the shareholders of the parent company as the primary focus is one that users accept and are comfortable with. Whilst there are undoubted merits in the alternative ‘economic entity’ approach (and many of us look at companies from an ‘enterprise’ perspective on occasions) they are not overwhelming, and we cannot see sufficient flaws or problems with the current parent company approach to warrant this change or if these flaws do exist they have not been sufficiently explained or demonstrated in the draft standard.

We acknowledge the IASB’s argument that minority interests do not meet the definition of liabilities. However, to argue for a change to an economic entity approach, based simply on this definitional point, is to give a theoretical point precedence over commercial reality and user needs.

We also acknowledge that the principal asset identified in an acquisition that is not accounted for as a 100% combination is goodwill and that this is clearly inconsistent, but we do not regard this as a significant problem and so question the need for the changes proposed in this exposure draft.

We are not convinced that the information that would result from such a change would be any more 'useful' than the information as it is currently presented.

In summary, whilst we are aware that there is a coherent theory that supports the economic entity model of consolidation, we do not believe that a case has been made to change current practice (which is equally well supported by theory). The present model may need to be amended in certain detailed respects, but we do not believe that it has been demonstrated that there are grounds for a fundamental shift of concept. From a users' perspective, the current reporting model is not broken enough to justify this fix.

We are limiting our comment to this significant conceptual aspect of the Board's proposed changes. While we have reservations with other aspects of the exposure drafts we are not commenting on them here.

Yours faithfully

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