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Comment Letter Regarding Proposed Amendments to IFRS 3 "Business Combinations", IAS 27 "Consolidated and Separate Financial Statements", IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and IAS 19 "Employee Benefits"

The Confederation of Danish Industries (DI) welcomes the opportunity to comment on the proposed amendments to the above standards. DI is a private organisation funded, owned and managed entirely by currently 6,100 companies within the manufacturing and service industries of Denmark. DI is a member of UNICE and DI supports the comment letter issued by UNICE. The comments below should be seen together with the UNICE comment letter.

First of all, DI would like to recognise the great effort put into the drafts, especially the efforts of aligning the accounting standards with US GAAP. DI is a firm supporter of the convergence project, particularly the alignment of recognition, measurement and classification. The proposed drafts are a step in this direction, and that is an effort which should not be underestimated.

Having said this, we are concerned with the speed by which new standards are being issued. As the Danish companies put a significant effort in complying with the international standards, they are having problems just to keep up with the already implemented changes. Therefore, the Danish companies would very much prefer that standards are only adopted in bundles and in predetermined windows. This would reduce the costs of ongoing changes. A slowdown would also be in the interest of users (analysts etc.), as a common, stable platform is of greater value than a platform subject to continuous changes. We find it very important that the accounting regulations show continuity and that companies are able to foresee the types of information needed in the future and thus to incorporate this in their internal financial reporting systems at the implementation stage.

As a result, we believe that the convergence should be made in a few significant steps rather than numerous, small steps. An example is the IFRS 2. Its aim was convergence, but the result was unfortunately different. Making convergence in significant steps involves identification of the differences, establishing of a common framework and finally incorporation of

the appropriate changes in the accounting standards. A slowdown will leave time to address these issues.

This proposal involves both changes in the framework as well as changes in accounting standards. We are of the opinion that there are some of the changes which go beyond the short term convergence as they touch fundamental issues. These fundamental changes are:

- Full Fair Value
- Recognition of contingent assets and liabilities
- Implementation of the full goodwill approach, derived from the entity view.

We believe that these issues should be addressed before moving forward. The reason for this is that we foresee changes again when the framework project is finished. Taking decisions at this stage might rule out better alternatives at a later stage and make it harder to address different classes of assets or liabilities as a whole. As mentioned above, we find it very important that the fundamental issues are solved before issuing new standards in order to have consistency and continuity in the accounting standards. If the fundamental issues are not addressed, companies (and accounting standards) will find themselves in a state of random walk instead of having a clear and commonly accepted goal. Already Phase II diverges from Phase I.

Also we find that two other ongoing projects within the accounting standards community, namely the Canadian project regarding Fair Value Measurement and the Australian regarding Intangible Assets should be able to report before issuing this standard as they might have direct bearing on the proposed changes.

The Definition of Business Combinations

We support the alternative view as laid out in AV 14. The change of definition is unnecessary as it narrows the possibilities. In effect, true mergers cannot be carried out given the new standard. Even though this type of transaction is rare, it is often significant transactions. We would like to see guidance that addresses this issue.

Further, we are disappointed that joint ventures are not part of the new standard. Joint ventures are common transactions and proper guidance should be available.

Recognition of Contingent Assets and Liabilities

The changes to this area are in our opinion very severe. It changes the fundamentals without, in our opinion, creating more transparent disclosures. Even though we accept the principles in the warranty example, other assets or liabilities, such as law suits, are not presented fairly given these rules. If the standards were to be approved without changes, one could imagine a company acquiring nothing else than no cure no pay law-suits. Every time they become part of a lawsuit, they immediately recognise an asset because if they win they will without conditions receive payment. This is in our opinion not fair accounting. The example is of course extreme, but tend to illustrate one of our reservations, namely that the changes do not fairly present situations with an outcome that is either

very steep or not existent. These are better of accounted for within the existing framework.

Referring to BC 9 in the proposed amendments to IAS 37, the argument for recognising a lawsuit as an asset will also lead to the recognition of a workforce as an asset, as the acquirer is required to pay for this and it is therefore considered to be a part of goodwill. We therefore have other assets included in goodwill that are not recognised.

Further, the comment in BC 10 causes anxiety, as the results from the revenue recognition project have effect and are used as an argument even before they have been subject to a proper due process.

Another implication of the removal of the probability criteria is an increased recognition of intangible assets, many which are not recognised under the present standard. Even though this by itself is not necessarily a problem, this will undoubtedly lead to more accounting to be made a more subjectivity in the valuation as no active market can be identified. Further, it is often very difficult to set the life-span of the asset and thus the applicable period of depreciation.

We suggest awaiting for the conclusions on this point from the Canadian Fair Value project and the Australian Intangible Assets project as both projects seem to have a direct bearing on this issue.

Full Fair Value and Implementation of Full Goodwill Approach

The full fair value approach creates problems as the accounting standard change perceived shortcomings of other standards. This is especially true when it comes to assets, as the specific standards operate with historical cost as the acquisition price. With this standard it is suggested that an acquisition should be measured at full fair value. However, the treatment afterwards is not at fair value, but depends on the specific accounting standard. It therefore creates problems, when transactions at fair value at a later stage are not recognised through P/L.

This in turn leads to the question whether it is reliable to implement the full goodwill approach? It is stated in BC 134 that direct measurement is not feasible, but with the full goodwill approach that is exactly the case. This is especially true when the consideration cannot be used as a basis for the valuation. It might not be possible to find one true fair value.

Further, we object to the step acquisition method as laid out in the proposal. As the minority (or not controlling) shareholders might have different objectives we do not see this as a pure transaction between owners. Therefore, we find that step acquisition should result in a revaluation of goodwill. With the current proposal, goodwill is only valued when control shifts, not upon transactions between shareholders. But these transactions occur on an ongoing basis at fair value, but is accounted for at historical cost (fair value at time of acquisition).

The implication of this is that you receive a very different treatment if you sell one share in a company that you control compared with a share in a company which you do not control, even though it is technically the same transaction, namely the sale of a share that do not by itself change the control. This could be solved by a revaluation of the entity fair value, if a method is found.

It is also proposed in BC 122 that tax assets recognised in the acquirer's books as a result of the business combination should not be part of the consideration. We object to this. If management has knowledge of these tax assets at the time when the deal is made, it will most certainly affect the acquirer's valuation of the target company

New Disclosure Requirement

Finally, we are concerned about the increasing disclosure requirements. We find that the total load of information in the financial statements is about to reach its maximum. We therefore suggests that the introduction of new disclosure requirements should be followed by a reduction in other disclosure requirements. In this way, we not alone ensure an ongoing process of updating the disclosure requirements in the standards but also force the users to valuate and prioritise the disclosure requirements needed for their purpose.

Simplifications

These proposals change some of the accounting principles for especially assets which are laid out in other standards. We would prefer to make the appropriate changes in the specific standards so initial recognition of the individual asset and liability classes is set in the respective standard and is identical no matter the circumstance under which the asset are acquired. This would be an opportunity to align the principles within and outside a business combination and thereby reduce the complexity. However, this approach calls for issues to be discussed prior to issuing new standards.

With the proposed changes you initially recognise at fair value, but as no revaluation takes place it ends up (after a period of time) being accounted for as historical cost.

Please do not hesitate to contact us if you have comments or questions.

Yours sincerely

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