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Dear Sir

COMMENTS ON ED AMENDMENTS TO IFRS 3 AND ED AMENDMENTS TO IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Standard Bank Group would like to thank the International Accounting Standards Board (IASB) for the opportunity to comment on the exposure drafts. The bank does support the process and promotion to obtain international convergence of accounting standards between the IASB and FASB. We are however concerned with the fairly significant changes proposed by the exposure drafts mentioned above. Below follows our concerns:

1. THE ECONOMIC ENTITY CONCEPT

The economic entity concept commenced with the amendments to *IAS 1 Presentation of financial statements* effective 1 January 2005. The standard requires the non-controlling interest, previously minority interest, to be included in equity of the consolidated financial statements and it's movement be disclosed in the statement of changes, furthermore the standard no longer allows the deduction of minority interest in net profit for the year.

The exposure drafts further expand on the concept by requiring the fair valuing of 100% of an acquiree and recognising the total goodwill, including that attributable to the non-controlling interest, at the time control is obtained. Thereafter any transactions between acquirer and non-controlling interests, which do not result in a change in control, are treated as transfers within equity.

We are concerned with the entity concept as follows:

- We don't see the benefit of grossing up the accounts from the point of view of the main users, namely the ordinary shareholders. The holders of the non-controlling interest will not use the group financials to evaluate their investment. The ordinary shareholders can no longer quickly analyse their interest by viewing the balance sheet and income statement, they will be required to remove the effects of the non-controlling interest.
- We do not believe goodwill is similar to any other asset of the business and as such it is not reasonable to assume it can be valued like any other asset.

 Due to the number of adjustments impacting on the non-controlling interest, it will no longer be possible to easily prove the non-controlling interest.

2. REQUIREMENT TO FAIR VALUE THE ENTITY AS A WHOLE (ED IFRS 3 - QUESTION 3)

Determining the fair value of an entity as a whole may be very difficult and costly and we question whether the cost of trying to determine fair value (which is borne by the ordinary shareholders) is actually of real benefit to any user. We believe the parent shareholders in analysing the performance will reverse the effects of this gross up.

We feel there will be significant difficulties in determining the fair value of entity as a whole because the price paid by the acquirer could depend on the acquirer's business and the synergies it expects to obtain and these can be viewed significantly differently. For example a company buying a competitor or supplier may view the fair value very differently to a company merely buying the same business to diversify its current operations. Furthermore the price paid my depend on the level of control obtained, in South Africa 75% gives a lot more control than 51%. This may not be reflected correctly in the initial fair value calculation or if the entity pays a significant premium to increase from 51% to 75%.

We however feel that if fair valuing is required, the acquiree should have the option to once off fair value its assets and liabilities so as to avoid the complication and requirement to maintain two (or more) sets of records; one for the legal entity acquiree and one used for consolidation purposes. The fair value adjustment would include allowing the recognition of any intangible assets identified by the acquirer.

3. CONTINGENT CONSIDERATION (ED IFRS 3 - QUESTION 6)

Contingent consideration is normally based on the acquiree possibly achieving a higher level of profit than what is initially determined. The measurement of the contingent consideration could be extremely difficult. We do not agree with the proposed treatment and believe that goodwill should be adjusted, as is currently the case, for any contingent consideration.

We do not believe the resultant charge or release into the income statement as a result of accounting for in terms of IAS 39 is correct. It is highly unlikely that the event giving certainty to the contingency will offset the resultant charge arising from the change in the fair value of the contingency. In our experience businesses are often purchased on a price-earnings basis, therefore a change in the contingency requirement could have a multiplier affect on the purchase amount. This we believe will result in a misstatement of the operating results.

4. INABILITY TO CAPITALISE THE DIRECT COSTS OF ACQUISITION (ED IFRS 3 - QUESTION 7)

Currently the direct costs of acquisition are effectively included in the carrying amount of goodwill. Although this would no longer be possible as a result of the entity concept and the fair valuing of the entire entity, we are concerned that this is significantly different when compared with the acquisition of other assets, namely inventories, property and equipment or financial instruments. The expensing may lead to inaccurate reporting of performance due to significant acquisition expenses, expected to be recovered over the life of the investment, being expensed in one financial year.

5. INTANGIBLE ASSETS (ED IFRS 3)

We feel the standard should further clarify the requirement regarding intangible asset recognition contained in paragraph 40-41. It is not clear whether the recognition criteria of IAS 38 should be followed, if so we feel IFRS 3 paragraph 40 should rather state it must meet the definition and **recognition** requirements of an intangible asset in IAS 38. If this is not the requirement the risk exists that intangibles assets could be recognised at the time of the business combination that cannot be reliably measured and may lead to subsequent impairment issues.

6. Subsequent purchases and disposals after control obtained (ED IAS 27 Question 1)

As we do not agree with the economic entity concept, we do not agree with the provisions of IAS 27 (30A). We feel that it is important that each significant transaction be reflected in the income statement and results of an entity. Therefore we disagree with the concept of not reflecting the realised profit or loss from a change in holding in the income statement. We do not believe disclosure in the statement of changes will achieve a similar presentation.

Furthermore due to the fact that one entity could dispose of it's holding in its entirety and another over time, a comparison of the different entities performance could result in significantly different views on the entities. As noted in the basis of conclusions the earnings per share figures will not include the effects of these partial sales. We do not agree with the allowance in BC 21 to provide another EPS figure, as we feel too many types of EPS figures create confusion.

7. FAIR VALUE OF SUBSEQUENT NON-CONTROLLING INTEREST (ED IAS 28 QUESTION 2)

The principle is acceptable if the non-controlling interest falls below an associate holding level because the remaining equity holding would be measured in terms of IAS 39 and would most probably be fair valued. We agree to then rather treat the "first revaluation" as part of the disposal proceeds, but would recommend that the disclosure differentiate between profit on the partial disposal and profit on the revaluation of the remaining investment.

However we do not agree in effectively fair valuing the associate holding on day one because IAS 28 does not require fair value accounting. There is no guidance given as to how the difference between the resultant effective carrying value and fair value must be accounted for, if the amount is deemed to be goodwill it seems contradictory to the principles of IFRS 3 whereby goodwill is established once and in total when control is obtained. The entry effectively results in the recognising of an internally generated intangible.

Yours faithfully

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Director: Group Financial Accounting