Mr
Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

United Kingdom

Dear Mr. Teixeira,

we welcome the opportunity to comment on IASB’s Exposure Drafts of proposed amendments to IFRS 3, IAS 27, IAS 37 and IAS 19. We would like to point out some remarks regarding specific issues raised in these EDs.

Timing of the issuance of the EDs
The Business Combinations project is a multi-phased long-term project where some decisions have been reached when issuing IFRS 3 in 2004 (phase I), some decisions are now published for discussion (phase II), and some decisions are announced to be taken in future (e.g. fresh-start accounting, joint ventures, accounting for business combinations under common control).

We regret that all of these phases have not been conducted together because of the existing interrelations between these EDs and the future projects such as the above mentioned ones and e.g. the projects on fair value measurement and performance reporting.

Process followed by the Board
The changes proposed in the EDs represent major changes for companies compared to their current accounting environment. Therefore, instead of publishing Exposure Drafts directly we would have expected the publication of a discussion paper first (to present the major conceptual changes introduced by the EDs), as is laid down in IASCF’s statutes.

Convergence between IASB and FASB
We fully support the objective of convergence. However, we believe that further analysis should have been performed in order to avoid remaining differences and
achieve full convergence. Only full convergence would have brought significant benefits to preparers.

**Measurement of an acquired business at fair value rather than cost**

We agree with the dissenting Board Members that the total fair value of an acquired business is a subjective measure which will be difficult to derive from the consideration transferred as the acquirer does not necessarily determine its pricing solely on the basis of the acquiree’s fair value but also on the expected synergies.

Major practical difficulties have to be pointed out for measuring the full fair value of the acquiree when control is gained with less than 100% interest. Such a situation often occurs in our business.

**Withdrawal of the probability recognition criterion of IAS 37**

We disagree with this proposal mainly for two reasons: inconsistency with the Framework and introduction of high subjectivity in the measurement of liabilities which would introduce a lack of reliability and transparency to financial statements.

The Appendix to this letter provides you with the joint comments of Deutsche Telekom, France Telecom and Telefónica.

We would be pleased to discuss our comments with you at your convenience. If you have any questions, please feel free to contact on behalf of:

- Deutsche Telekom: Michael Brücks (Michael.Bruecks@telekom.de).
- France Telecom: Nicolas de Paillerets (nicolas.depaillerets@francetelecom.com).
- Telefónica: Marta Soto (marta.sotobodi@telefonica.es).

Yours sincerely,

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APPENDIX

Joint Comment Letter on EDs of Proposed Amendments to IFRS 3, IAS 27, IAS 37 and IAS 19

by Deutsche Telekom, France Telecom and Telefónica

General Remarks

The Business Combinations project is a multi-phased long-term project where some decisions have been reached when issuing IFRS 3 in 2004 (phase I), some decisions are now published for discussion (phase II), and some decisions are announced to be taken in future (e.g. fresh-start accounting, joint ventures etc.). However, neither any Board project can be found on these questions nor is further discussion available, although this discussion and the arguments might be helpful for commenting today’s Exposure Drafts. It is hard to accept for us to comment on today’s proposals of accounting for business combinations without knowing the whole package of accounting for business combinations and related aspects.

Instead, there are aspects included in the Proposed Amendments to IAS 37 which are labelled “Business Combinations Phase II” but which are not related to aspects of business combinations. This approach of changing IAS 37, in our view, does not respect IASB’s constituents. We also would have had expected joint results from a project that is labelled a “Joint Project” of IASB and FASB. Full convergence would have brought significant benefits to preparers. However, we find a detailed list of “Differences between the Exposure Drafts published by the IASB and the FASB” as a result of the joint project.

Concerning the due process, instead of publishing Exposure Drafts directly we would have expected the publication of a discussion paper first, as is laid down in IASCFC’s statutes. We then would have had the opportunity to comment at an earlier stage of the Board’s intentions.

We note, as the Board does, that some of the proposals of the Exposure Drafts published, especially the proposals concerning the recognition and measurement criteria, are not in line with the existing Framework. However, we are more concerned about this fact than the Board is. In our view, a principles-based set of accounting standards should at first, if necessary, discuss changes to the Framework instead of undermining Framework’s principles by proposing different rules in the Standards themselves. We explicitly share EFRAG’s view on that point.
The Board’s proposals, especially within ED-IFRS 3 and ED-IAS 37, represent a remarkable shift towards a fair-value principle in accounting. However, we are not yet convinced that this leads to high-quality financial reporting. A fundamental, global debate on measurement has not yet taken place. Besides, huge practical concerns exist with respect to fair value, stemming from the necessarily high degree of judgement in using this technique in the absence of market information. We share EFRAG’s sceptical view on the full-goodwill method. Theoretically, this method of accounting for goodwill may be sound. However, we have serious doubts and miss convincing arguments by the Board with respect to this method concerning aspects of any progress in decision usefulness, relevance, reliability, costs and benefits, especially when compared to the well-understood requirements of current IFRS 3. Instead, we prefer the parent-company concept of accounting for business combinations, as it is grounded on a clear transaction-oriented basis and sets up the group accounts from the perspective of the owners of the parent company, which in our view is the only relevant perspective.

We therefore regard the current rules of IFRS 3 as being generally accepted and do not recognise any need for changing these well-understood rules against a non-elaborated and impractical concept, nor can we perceive any benefits from the proposed changes.
ED OF PROPOSED AMENDMENTS TO IFRS 3 "Business Combinations"

**Question 1—Objective, definition and scope**

The proposed objective of the Exposure Draft is:

...that all business combinations be accounted for by applying the acquisition method. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses (the acquiree). In accordance with the acquisition method, the acquirer measures and recognises the acquiree, as a whole, and the assets acquired and liabilities assumed at their fair values as of the acquisition date.

The objective provides the basic elements of the acquisition method of accounting for a business combination (formerly called the purchase method) by describing:

(a) what is to be measured and recognised. An acquiring entity would measure and recognise the acquired business at its fair value, regardless of the percentage of the equity interests of the acquiree it holds at the acquisition date. That objective also provides the foundation for determining whether specific assets acquired or liabilities assumed are part of an acquiree and would be accounted for as part of the business combination.

(b) when to measure and recognise the acquiree. Recognition and measurement of a business combination would be as of the acquisition date, which is the date the acquirer obtains control of the acquiree.

(c) the measurement attribute as fair value, rather than as cost accumulation and allocation. The acquiree and the assets acquired and liabilities assumed would be measured at fair value as of the acquisition date, with limited exceptions. Consequently, the consideration transferred in exchange for the acquiree, including contingent consideration, would also be measured at fair value as of the acquisition date. The objective and definition of a business combination would apply to all business combinations in the scope of the proposed IFRS, including business combinations:

   a. involving only mutual entities
   b. achieved by contract alone
   c. achieved in stages (commonly called step acquisitions)
   d. in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date.

(See paragraphs 52-58 and paragraphs BC42-BC46 of the Basis for Conclusions.)
Question 1—Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

Response of Deutsche Telekom, France Telecom and Telefónica:

In our opinion, there are true mergers in practice, particularly in the area of combinations involving two or more mutual entities or combinations achieved by contract alone. We think that, in those cases, the application of the acquisition method, involving the identification of the acquirer in all cases, will not reflect economic reality as in true mergers there is no acquirer. Instead, we think that an alternative method for accounting for those combinations should be elaborated as soon as possible in a project of the Board.

As already mentioned in our general remarks and further detailed in the following, we are not convinced that the measurement of the fair value of the acquiree as a whole at the acquisition date and that the recognition of full goodwill leads to more useful information.

We also regret that the proposed ED maintains the scope exclusions regarding joint ventures and combinations between entities under common control. Both are very common operations, which were supposed to be covered by Phase II of the project on Business Combinations.

The lack of guidance is very disappointing for preparers that have to account for such operations. The result is that different criteria may be applied by different entities so that the financial information under IFRSs reported by entities will neither be consistent nor comparable.

We therefore urge the Board to develop the accounting treatment for both the creation of a joint venture and business combinations that involve entities under common control.

Question 2—Definition of a business

The Exposure Draft proposes to define a business as follows: A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing either:

(1) a return to investors, or

(2) dividends, lower costs, or other economic benefits directly and proportionately to owners, members, or participants. [paragraph 3(d)]

Paragraphs A2-A7 of Appendix A provide additional guidance for applying this definition. The proposed IFRS would amend the definition of a business in IFRS 3. (See paragraphs BC34- BC41.)
Question 2—Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

Response of Deutsche Telekom, France Telecom and Telefónica:

We agree with the Board's proposal of broadening the definition. In our understanding, it seems to be important that the set of activities must not necessarily already be conducted and managed but only is capable of being conducted and managed for the above mentioned purposes. Additionally, it is our understanding that the group of assets (the "business") transferred in the exchange must be capable of being operated on a standalone basis.

Also, we think that the elements described under caption (2) of the definition are conceptually included in caption (1), i.e. "dividends, lower costs, or other economic benefits directly and proportionately to owners, members, or participants" all are specifications of "a return to investors". Therefore, we think that caption (2) is not necessary and can be included in the additional guidance provided.

Questions 3-7—Measuring the fair value of the acquiree

The Exposure Draft proposes that in a business combination that is an exchange of equal values, the acquirer should measure and recognise 100 per cent of the fair value of the acquiree as of the acquisition date. This applies even in business combinations in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at that date. In those business combinations, the acquirer would measure and recognise the non-controlling interest as the sum of the non-controlling interest's proportional interest in the acquisition-date values of the identifiable assets acquired and liabilities assumed plus the goodwill attributable to the non-controlling interest. (See paragraphs 19, 58 and BC52-BC54.)

Question 3—In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognise 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

Response of Deutsche Telekom, France Telecom and Telefónica:

We reject the proposed approach. In our view, the revised standard should continue to be based on the parent-company, cost-based approach of current
IFRS 3, as it is stated in paragraphs ED-IFRS 3.AV2-AV7, which reflect the dissenting opinions of several members of the Board.

We understand that recognizing full goodwill is conceptually in line with the requirements of current IFRS 3 for recognizing all of the acquiree's assets and liabilities acquired and assumed. We also understand that recognizing full goodwill at fair value is conceptually in line with the requirements of current IFRS 3 for measuring assets acquired and liabilities assumed at fair value at the acquisition date. However, not all principles of accounting can be applied to goodwill in the same way as to other assets. For example, goodwill is without doubt an intangible asset by nature but as stated in current IAS 38.11 is not identifiable by definition, as required for other intangible assets. Also, goodwill can only be measured as a residual, while other assets are not measured that way. Consistency for the sake of consistency in the accounting treatment of all classes of assets is not a desirable objective, as accounting treatments that produce very useful information when applied to 'normal' assets do not necessarily generate as much benefit when applied to goodwill. Thus, the question of implementing an approach of accounting for goodwill different from the approach in current IFRS 3 is a question of costs and benefits of the proposed change. Following the draft comment letter by EFRAG, we are not convinced that the Board has identified benefits arising from the proposals that outweigh the cost involved.

We also would like to stress once more our general concerns about introducing a kind of fair-value principle to accounting without having done a fundamental and global debate on measurement.

The Exposure Draft proposes that a business combination is usually an arm's length transaction in which knowledgeable, unrelated willing parties are presumed to exchange equal values. In such transactions, the fair value of the consideration transferred by the acquirer on the acquisition date is the best evidence of the fair value of the acquirer's interest in the acquiree, in the absence of evidence to the contrary. Accordingly, in most business combinations, the fair value of the consideration transferred by the acquirer would be used as the basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. However, in some business combinations, either no consideration is transferred on the acquisition date or the evidence indicates that the consideration transferred is not the best basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. In those business combinations, the acquirer would measure the acquisition-date fair value of its interest in the acquiree and the acquisition-date fair value of the acquiree using other valuation techniques. (See paragraphs 19, 20 and A8-A26, Appendix E and paragraphs BC52-BC89.)

Question 4—Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?
Response of Deutsche Telekom, France Telecom and Telefónica:

In our view, the proposals do not provide sufficient guidance on how to gross up the consideration transferred or the fair value of the interest acquired to the fair value of the acquiree as a whole. We also believe that, in practice, the fair value of an acquiree cannot be derived from quoted market prices easily in all circumstances; instead in many cases the calculation is dependent on a huge number of entity inputs. This is necessarily judgemental and will have a direct impact on the reliability of the calculation.

Following EFRAG and its comment on Example 3 in ED-IFRS 3.A15, we would have thought that what the other bidders were prepared to pay for the interest in the acquiree is relevant in determining the fair value of the acquiree as a whole, due to its nature of being information in the marketplace. However, the example suggests that this information is of no relevance in determining the fair value of the acquiree as a whole. This shows that the fair value calculation of a business as a whole is not as straightforward as it may seem.

The Exposure Draft proposes a presumption that the best evidence of the fair value of the acquirer’s interest in the acquiree would be the fair values of all items of consideration transferred by the acquirer in exchange for that interest measured as of the acquisition date, including:

(a) contingent consideration;

(b) equity interests issued by the acquirer; and

(c) any non-controlling equity investment in the acquiree that the acquirer owned immediately before the acquisition date. (See paragraphs 20-25 and BC55-BC58.)

Question 5—Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer’s interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

Response of Deutsche Telekom, France Telecom and Telefónica:

In general we agree with the Board’s proposal. However, we believe that there may be a number of exceptions to the general principle, for example, situations where the acquirer pays a premium for certain reasons.

It is our understanding that the Board intends to implement the rebuttable presumption that the consideration transferred in general is representative for the fair value of the acquiree. Unfortunately, the standard does not give clear guidance here. On the one hand, ED-IFRS 3.BC57 explicitly emphasizes the use of the consideration transferred in order to avoid incremental costs of external appraisals and in order to limit internal discussions as well as discussions with auditors about the question which valuation technique provides a better
measurement of the fair value of the acquiree. We explicitly agree with these arguments. In our view, they only make sense when there is no duty of the preparer (or only in extremely rare circumstances) to rebut the presumption that the consideration transferred is representative for the fair value of the acquiree. On the other hand, ED-IFRS 3.BC58 states that in case of an acquisition of a controlling interest of less than 100 per cent it is "often appropriate" to measure the fair value of the acquiree indirectly using the consideration transferred. Additionally, ED-IFRS 3.BC59 states that there might be evidence that "indicates that consideration transferred is not the best basis" for the measurement of the fair value of the acquiree and that the presumption referred to above "is not intended to override" the objective to measure the fair value of the acquiree as a whole at the acquisition date. In our view, these statements contradict the underlying objective of implementing the rebuttable presumption mentioned above, as these statements lead to huge internal and external discussions about the best way to measure the fair value of the acquiree as well as to the need for external appraisals. Appendix A of the proposed standard also does not give clear guidance here. On the one hand (ED-IFRS 3.A9) the consideration transferred "is presumed to be the best basis" for measuring the fair value of the acquiree, but – on the other hand – only "in the absence of evidence to the contrary". We therefore strongly recommend clarifying the role of the consideration transferred in measuring the fair value of the acquiree as a whole at the acquisition date.

Additionally, the “fair value of the acquiree (as a whole)” is the target fair value to be measured. It is our understanding that the “fair value of the acquiree (as a whole)” has to be measured based on the “acquisition-date fair value of the acquirer’s interest in the acquiree” which has to be measured based on the “consideration transferred”. This means that three terms have to be distinguished: (a) fair value of the acquiree (as a whole), (b) acquisition-date fair value of the acquirer’s interest in the acquiree, and (c) consideration transferred. However, these terms are not applied consistently within Appendix A (ED-IFRS 3.A8-A26).

We also think that the fair value of the consideration transferred in the exchange does not include the fair value of any non-controlling interest held immediately before the exchange (element (c) of the list). This interest is not being transferred in the transaction.

The Exposure Draft proposes that after initial recognition, contingent consideration classified as:

(a) equity would not be remeasured.

(b) liabilities would be remeasured with changes in fair value recognised in profit or loss unless those liabilities are in the scope of IAS 39 Financial Instruments: Recognition and Measurement or [draft] IAS 37 Non-financial Liabilities. Those liabilities would be accounted for after the acquisition date in accordance with those IFRSs.

(See paragraphs 26 and BC64-BC89.)
Question 6—Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

Response of Deutsche Telekom, France Telecom and Telefónica:

Within the Board's fair value-based concept, the proposed accounting for contingent consideration after the acquisition date would be appropriate. However, as already pointed out, we reject the proposed approach and prefer the cost method of current IFRS 3.

The Exposure Draft proposes that the costs that the acquirer incurs in connection with a business combination (also called acquisition-related costs) should be excluded from the measurement of the consideration transferred for the acquiree because those costs are not part of the fair value of the acquiree and are not assets. Such costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; the cost of issuing debt and equity instruments; and general administrative costs, including the costs of maintaining an internal acquisitions department. The acquirer would account for those costs separately from the business combination accounting. (See paragraphs 27 and BC84-BC89.)

Question 7—Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

Response of Deutsche Telekom, France Telecom and Telefónica:

We do not agree with the Board's proposal.

We believe that the proposed treatment of acquisition costs is not consistent with the treatment of direct acquisition-related cost in other existing standards where the direct cost forms part of the carrying amount of the asset acquired. As already argued, consistency per se is not a desirable objective, but here our rejection of the Board's proposal is based on our rejection of the fair value-based model intended by the Board. As we prefer the cost-based model of accounting for business combinations as is laid down in current IFRS 3, costs attributable to the business combination should be included in the consideration transferred.

Additionally, the distinction between the cost-based model and the fair value-based model as favoured by the Board is too thin here to exclude the payments considered for legal, tax and similar advisory services and transferred to accountants, lawyers etc. from the consideration transferred to the former owners of the acquiree. The acquirer is somehow indifferent whether the former owners or the firms rendering accounting or other services are the payees of what he considered to transfer in exchange for the interest acquired. Although the fair value of the interest acquired itself is not based on historical payments for that interest in a technical sense, the acquirer considers these
payments in evaluating the expected net future economic benefits stemming from the acquisition.

Finally, we share EFRAG's criticism of the Board's wording that "those costs...are not assets." Costs per se never represent assets, however, costs may be an appropriate way of measuring the expected future economic benefits of an acquired resource referred to as an asset.

Questions 8 and 9—Measuring and recognising the assets acquired and the liabilities assumed

The Exposure Draft proposes that an acquirer measure and recognise as of the acquisition date the fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. (See paragraphs 28-41 and BC111-BC116.) That requirement would result in the following significant changes to accounting for business combinations:

(a) Receivables (including loans) acquired in a business combination would be measured at fair value. Therefore, the acquirer would not recognise a separate valuation allowance for uncollectible amounts as of the acquisition date.

(b) An identifiable asset or liability (contingency) would be measured and recognised at fair value at the acquisition date even if the amount of the future economic benefits embodied in the asset or required to settle the liability are contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. After initial recognition, such an asset would be accounted for in accordance with IAS 38 Intangible Assets or IAS 39 Financial Instruments: Recognition and Measurement, as appropriate, and such a liability would be accounted for in accordance with [draft] IAS 37 or other IFRSs as appropriate.

Question 8—Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

Response of Deutsche Telekom, France Telecom and Telefónica:

In general, we agree with the proposed changes. However, we believe additional explanations on subsequent measurement of (contingent) intangible assets under IAS 38 would be helpful.

We note that ED-IFRS 3.28-31 does not mention the 'reliability of measurement recognition criterion' anymore. In ED-IFRS 3.BC98 this is explained by the Board by referencing to the Framework. As the Framework cannot supersede a standard and to prevent uncertainty we recommend the Board to either reinstate the 'reliability of measurement recognition criterion' in the revised IFRS 3 or include a direct reference to the Framework paragraph.
The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognised in accordance with other IFRSs rather than at fair value. (See paragraphs 42-51 and BC117-BC150.)

**Question 9**—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

**Response of Deutsche Telekom, France Telecom and Telefónica:**

Maintaining our general concerns with the fair-value concept introduced by the Board, we agree with the exceptions.

**Questions 10-12**—Additional guidance for applying the acquisition method to particular types of business combinations

The Exposure Draft proposes that, for the purposes of applying the acquisition method, the fair value of the consideration transferred by the acquirer would include the fair value of the acquirer's non-controlling equity investment in the acquiree at acquisition date that the acquirer owned immediately before the acquisition date. Accordingly, in a business combination achieved in stages (step acquisition) the acquirer would remeasure its noncontrolling equity investment in the acquiree at fair value as of the acquisition date and recognise any gain or loss in profit or loss. If, before the business combination, the acquirer recognised changes in the value of its non-controlling equity investment directly in equity (for example, the investment was designated as available for sale), the amount that was recognised directly in equity would be reclassified and included in the calculation of any gain or loss as of the acquisition date. (See paragraphs 55, 56 and BC151-BC153.)

**Question 10**—Is it appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

**Response of Deutsche Telekom, France Telecom and Telefónica:**

We do not share the Board's opinion to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments. We agree with the principle that the fair value of the previously held interest should be measured as part of the fair value of the acquiree as of the date when control is obtained. However, recognizing differences between carrying value and fair
value (if any) of the previously held interest in profit or loss is counterintuitive as the acquisition of an interest cannot lead to any effect in the income statement stemming from the fair value of the item acquired. The acquisition of additional interest in a subsidiary transforms the interest previously held, but should not, in our view, be treated as if the previously held interest had been disinvested and reacquired immediately. It is our understanding of the fair-value principle that the fair value of the acquiree as on the date of acquisition should not cause any P/L-effects. However, we are aware of the fact that the impact has to be disclosed (ED-IFRS 3.72(j)). The only alternative to the treatment proposed by the IASB is recognizing the differences between carrying value and fair value of the previously held interest directly in equity.

The Exposure Draft proposes that in a business combination in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest (referred to as a bargain purchase) any excess of the fair value of the acquirer’s interest in the acquiree over the fair value of the consideration transferred for that interest would reduce goodwill until the goodwill related to that business combination is reduced to zero, and any remaining excess would be recognised in profit or loss on the acquisition date. (See paragraphs 59-61 and paragraphs BC164-BC177.) However, the proposed IFRS would not permit the acquirer to recognise a loss at the acquisition date if the acquirer is able to determine that a portion of the consideration transferred represents an overpayment for the acquiree. The boards acknowledge that an acquirer might overpay to acquire a business, but they concluded that it is not possible to measure such an overpayment reliably at the acquisition date. (See paragraph BC178.)

Question 11—Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

Response of Deutsche Telekom, France Telecom and Telefónica:

As we are against recognising full goodwill, IASB’s proposed approach is not relevant for the concept favoured by us.

Nevertheless, assumed that there is a full goodwill concept, we understand that there is an inconsistency in the limitation to the gain recognition attributable to the non-controlling interest. We believe that under a full goodwill approach, the accounting treatment of the minority interest should be exactly the same as that of the majority interest. This means that the gain of the minority interest should also be recognised. Therefore, we have concerns regarding Example 6 in ED-IFRS 3.A67. In this example, an 80 per cent interest is acquired by AC and only AC’s share of goodwill (CU20) is reduced to zero. In our view it would be more consistent with the full goodwill method to reduce full goodwill (CU25) to zero. Otherwise, the non-controlling interest’s share of goodwill (CU5) is recognized in the financial statements although the business combination did not give rise to any goodwill. We think that the gain should be
CU10 instead of CU8, and the minority interest should be CU38 instead of CU40.

**Question 12—Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?**

*Response of Deutsche Telekom, France Telecom and Telefónica:*

We agree with the Board that such an overpayment can not be measured reliably as we have concerns with respect to the reliable measurement of the fair value of the acquiree as a whole.

We believe that there are situations where an overpayment exists. However, it can be difficult to measure that overpayment reliably. That is because we take the view – as expressed earlier – that it is often difficult to measure the fair value of the acquiree reliably.

**Question 13—Measurement period**

The Exposure Draft proposes that an acquirer should recognise adjustments made during the measurement period to the provisional values of the assets acquired and liabilities assumed as if the accounting for the business combination had been completed at the acquisition date. Thus, comparative information for prior periods presented in financial statements would be adjusted, including any change in depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting. (See paragraphs 62-68 and BC161-BC163.)

**Question 13—Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?**

*Response of Deutsche Telekom, France Telecom and Telefónica:*

We agree with the Board's proposal.
Question 14—Assessing what is part of the exchange for the acquiree

The Exposure Draft proposes that an acquirer assess whether any portion of the transaction price (payments or other arrangements) and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree. Only the consideration transferred by the acquirer and the assets acquired or liabilities assumed or incurred that are part of the exchange for the acquiree would be included in the business combination accounting. (See paragraphs 69, 70, A87-A109 and BC154-BC160.)

Question 14—Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

Response of Deutsche Telekom, France Telecom and Telefónica:

We believe that the concept is only theoretically sound. In practice, preparers will still have to use a considerable degree of judgement in order to fulfil the requirements. In our view, such a detailed and lengthy guidance does not make sure that the underlying concept is complied with.

We would prefer a clear principle which better achieves the objective, rather than detailed guidance.

Question 15—Disclosures

The Exposure Draft proposes broad disclosure objectives that are intended to ensure that users of financial statements are provided with adequate information to enable them to evaluate the nature and financial effects of business combinations. Those objectives are supplemented by specific minimum disclosure requirements. In most instances, the objectives would be met by the minimum disclosure requirements that follow each of the broad objectives.

However, in some circumstances, an acquirer might be required to disclose additional information necessary to meet the disclosure objectives. (See paragraphs 71-81 and BC200-BC203.)

Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?
Response of Deutsche Telekom, France Telecom and Telefónica:

We generally agree with the disclosure objectives. However, the minimum requirements are too extensive and do not meet the cost benefit-criterion.

Questions 16-18—The IASB’s and the FASB’s convergence decisions

The Exposure Draft is the result of the boards’ projects to improve the accounting for business combinations. The first phase of those projects led to the issue of IFRS 3 and FASB Statement No. 141. In 2002, the FASB and the IASB agreed to reconsider jointly their guidance for applying the purchase method of accounting, which the Exposure Draft calls the acquisition method, for business combinations. An objective of the joint effort is to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and cross-border financial reporting. Although the boards reached the same conclusions on the fundamental issues addressed in the Exposure Draft, they reached different conclusions on a few limited matters. Therefore, the IASB’s version and the FASB’s version of the Exposure Draft provide different guidance on those limited matters. A comparison, by paragraph, of the different guidance provided by each board accompanies the draft IFRS. Most of the differences arise because each board decided to provide business combinations guidance that is consistent with its other standards. Even though those differences are candidates for future convergence projects, the boards do not plan to eliminate those differences before final standards on business combinations are issued.

The joint Exposure Draft proposes to resolve a difference between IFRS 3 and SFAS 141 relating to the criteria for recognising an intangible asset separately from goodwill. Both boards concluded that an intangible asset must be identifiable (arising from contractual-legal rights or separable) to be recognised separately from goodwill. In its deliberations that led to SFAS 141, the FASB concluded that, when acquired in a business combination, all intangible assets (except for an assembled workforce) that are identifiable can be measured with sufficient reliability to warrant recognition separately from goodwill. In addition to the identifiability criterion, IFRS 3 and IAS 38 required that an intangible asset acquired in a business combination be reliably measurable to be recognised separately from goodwill. Paragraphs 35-41 of IAS 38 provide guidance for determining whether an intangible asset acquired in a business combination is reliably measurable. IAS 38 presumes that the fair value of an intangible asset with a finite useful life can be measured reliably. Therefore, a difference between IFRS 3 and SFAS 141 would arise only if the intangible asset has an indefinite life.

The IASB decided to converge with the FASB in the Exposure Draft by:

(a) eliminating the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill; and
(b) precluding the recognition of an assembled workforce acquired in a business combination as an intangible asset separately from goodwill. (See paragraphs 40 and BC100-BC102.)

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

(a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and

(b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?

Response of Deutsche Telekom, France Telecom and Telefónica:

We do not share the Board’s opinion that an identifiable intangible asset can always be measured with sufficient reliability. It might be possible that the fair value of an identifiable intangible asset can always be measured. However, we have serious doubts that fair value-accounting always leads to sufficiently reliable figures.

For the joint Exposure Draft, the boards considered the provisions of IAS 12 Income Taxes and FASB Statement No. 109 Accounting for Income Taxes, relating to an acquirer’s deferred tax benefits that become recognisable because of a business combination. IAS 12 requires the acquirer to recognise separately from the business combination accounting any changes in its deferred tax assets that become recognisable because of the business combination. Such changes are recognised in post-combination profit or loss, or equity. On the other hand, SFAS 109 requires any recognition of an acquirer’s deferred tax benefits (through the reduction of the acquirer’s valuation allowance) that results from a business combination to be accounted for as part of the business combination, generally as a reduction of goodwill. The FASB decided to amend SFAS 109 to require the recognition of any changes in the acquirer’s deferred tax benefits (through a change in the acquirer’s previously recognised valuation allowance) as a transaction separately from the business combination. As amended, SFAS 109 would require such changes in deferred tax benefits to be recognised either in income from continuing operations in the period of the combination or directly to contributed capital, depending on the circumstances. Both boards decided to require disclosure of the amount of such acquisition-date changes in the acquirer’s deferred tax benefits in the notes to the financial statements. (See paragraphs D4 and BC119-BC129.)
Question 17—Do you agree that any changes in an acquirer’s deferred tax benefits that become recognisable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

Response of Deutsche Telekom, France Telecom and Telefónica:

We agree with the Board’s proposal.

The boards reconsidered disclosure requirements in IFRS 3 and SFAS 141 for the purposes of convergence. For some of the disclosures, the boards decided to converge. However, divergence continues to exist for some disclosures as described in the accompanying note Differences between the Exposure Drafts published by the IASB and the FASB. The boards concluded that some of this divergence stems from differences that are broader than the Business Combinations project.

Question 18—Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?

Response of Deutsche Telekom, France Telecom and Telefónica:

In our opinion, the result of joint projects should be full convergence. Otherwise, preparers like Deutsche Telekom, France Telecom or Telefónica who are obliged to prepare financial statements according to IFRS and additionally – due to listing requirements in the United States – according to U.S. GAAP do not have any benefit stemming from joint projects.

The existence of remaining differences means that there needs to be a subsequent ‘full convergence’ project and, potentially, further changes to IFRS. We would prefer convergence of standards in all respects rather than a step by step approach, because the latter creates uncertainties and makes it difficult, if not impossible, for users to compare financial information among companies and in a time series.

Therefore, we think that any remaining differences as listed in the section “Differences between the Exposure Drafts published by the IASB and the FASB” should be eliminated.

Question 19—Style of the Exposure Draft

The Exposure Draft was prepared in a style similar to the style used by the IASB in its standards in which paragraphs in bold type state the main principles. All paragraphs have equal authority.
Question 19—Do you find the bold type-plain type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

Response of Deutsche Telekom, France Telecom and Telefónica:

We agree with the bold type – plain type distinction as it is helpful.