Appendix

Timing and Project Development

As commented upon in paragraph 1 in the section ‘Major Issues’ in our letter, we believe that the fundamental issues on which the proposed changes of the Standards are based should have been studied and exposed to the public prior to the proposal of any major amendments to the existing Standards.

In particular, we believe that the amendments to the Standards should have been preceded by the completion of the following projects, or completion of major portions thereof.

(i) The Board’s projects (a) Measurement objectives and (b) Fair value measurement guidance. This would have established a firm basis for the Board’s position on the issue as to whether the use of fair values should be increased and, if so, for the elaboration of the guidelines for the fair value measurement.

(ii) The fresh start method. Such a study would have created a basis for the judgement as to whether certain types of business combinations (true mergers, business combinations involving only mutual entities and business combinations achieved by contract alone) should be accounted for according to the fresh start method. The Board would have, thereby, avoided the risk that the proposed solution, ie. the acquisition method for all business combinations, would have to be changed within a fairly short period of time.

(iii) The accounting for other acquisitions, mainly of inventories and property, plant and equipment. Such a study would have created a basis for the decision as to whether or not the same, or similar, principles should be applied for business combinations and for other acquisitions. We note that the proposed amendment to IFRS 3 indicates that acquisition-related costs are not part of the cost of the acquiree. On the contrary, under some IFRSs, acquisition-related costs are included in the carrying amount of the asset acquired. It seems unclear (see ED-IFRS 3 BC88) as to whether the Board’s intention is that the proposed amendment to IFRS 3 should be subsequently followed by similar amendments to other Standards.

The Board has, however, chosen to carry out the development of the accounting for business combinations in a different manner, namely to first make amendments to individual Standards and then, thereafter, to study the above issues. We believe that this method of working has serious disadvantages:

• The basis for the decisions in connection with the revision of individual Standards is not as firm as it could have been, nor is the basis for the elaboration of the guidance in the revised standards.

• There is an evident risk that the proposed amendments, if introduced, will have to be changed when the above-mentioned studies have been completed. We regard this as a problem, both for preparers and for users. We, therefore, prefer that the Board, as the international standard setter whose standards influence a great number of entities operating in different jurisdictions and under different conditions, have a long-range perspective. Consequently, except in extraordinary cases, the Board should not make amendments to its standards on a frequent basis. As a result of this, we believe that the Board should avoid adopting amendments that are going to be reconsidered in the near future.
The method of working chosen by the Board evidently leads to an earlier introduction of amendments to the individual Standards than would be the case in the procedure we recommend. This delay in introduction might, it is true, be seen as a drawback and negative factor from a convergence point of view. However, we believe that the timing aspect should not be over-emphasized, especially against the background of the fact that the Board or the FASB have not clearly demonstrated that the present Standards are of low quality leading to significant negative effects on the financial statements.

Yours faithfully,

The Swedish Financial Accounting Standards Council

Dennis Svensson
Managing Director