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April 2, 2003

Exposure Draft: ED 3 Business Combinations and
Proposed Amendments to IAS 36 "impairment of Assets"

Dear Ms. Kimmitt

DaimlerChrysler welcomes the ongoing international convergence efforts and appreciates the opportunity to provide you with our comments on the exposure draft ED 3 Business Combinations and on the Proposed Amendments to IAS 36 "Impairment of Assets" and IAS 38 "Intangible Assets Further convergence remains an essential target, especially for a US-listed company like DaimlerChrysler.

Remarks on ED 3:

- Provisions for terminating or reducing the activities of the aquiree:
  The proposed rule on the recognition of restructuring liabilities differs from current US GAAP. However, the IASB indicated that the FASB has tentatively agreed to amend its standards to converge with IASB's proposed treatment.
  If both the FASA and the IASB will agree on such an accounting treatment, we would not object.

- Contingent liabilities:
  Contingent liabilities should not be recognized as part of the cost of acquisition, unless they meet the criteria of IAS 37. In addition, the FASB and the IASB should try to reach a consensus in accounting for guarantees (US-GAAP: FIN 45).

- Measuring the identifiable assets acquired and liabilities assumed:
  The proposed rule on the recognition of portions of fair value for minorities differs from current US GAAP. However, the IASB indicated that the FASB has tentatively agreed to amend its standards to converge with IASB's proposed treatment.
  if both the FASB and the IASB will agree on such an accounting treatment, we would not object.

- Negative goodwill:
  The proposed rule differs from current US GAAP, but the IASB indicated that the FASB has tentatively agreed to amend its standards to converge with IASB's proposed treatment. However, we believe that the IASB should follow the current US GAAP requirement to first reduce certain assets and to recognize only the remainder as a gain.

Remarks on ED-IAS 36:

- Frequency of impairment tests for intangibles with indefinite life:
  We propose an approach that does not prescribe an impairment test for intangibles with indefinite useful lives exclusively at year end. Any date during the year should be possible given a consistent application in the following years.

- Segments vs. cash generating units (CGU):
  With a focus on comparability and on a clear guidance, we propose to follow the US approach to define a cash generating unit as a segment or one level below. We would very much appreciate if the lowest level to test goodwill for impairment could be clearly and explicitly limited to one level below the segment level.

- Impairment testing for goodwill and for other assets:
  We propose to separate the impairment test processes for goodwill and for other assets. The goodwill impairment test should be grounded on a proper basis, especially on an asset valuation that is tested for impairment in advance.

- Cash flow projections:
  ED-IAS 36 requires to take into account both past actual cash flows and management's past ability to forecast cash flows accurately. In addition, a company should disclose whether the cash flow projections reflect past experience and, if not, how and why they differ from past experience.
  In our eyes, the most recent forecasts should serve as the most relevant basis for the impairment tests. Any deviation should only be allowed if new events or new information necessitates an update. As a limiting factor, the auditor has to review the appropriateness of the cash flow projections. Any update must be communicated to the auditors. If the auditors finally do not agree, they are required to communicate this for example in the auditor's report. We disagree to a disclosure of an update of the internal forecasts in the notes.

- Impairment test procedures:
  Due to the proposed combined impairment test for goodwill and other assets, ED-IAS 36 generally focuses primarily on the assets of the CGU and demands for a pre-tax approach in

the calculation of the fair value of the CGU. We suggest to prepare separate impairment tests for goodwill and for other assets. We additionally prefer to at least allow an after-tax calculation and to consider liabilities relating to the operations of a CGU/Reporting Unit in the goodwill impairment test. ED-IAS 36.99 seems to consider liabilities only as an exception. In our eyes, taxes and liabilities should at a minimum be allowed to be considered in fair value calculations that intend to produce theoretical purchase prices, especially for an entity or a business. The theoretical purchase price for a business represents the principal theoretical basis for the goodwill impairment test. According to the IASB proposals, US-GAAP and IAS could differ significantly.

- Guidance on the display of impairment effects:
  Compared to US-GAAP ED 3 as well as ED-IAS 36 are silent on the P&L display of impairments or effects of negative goodwill. The PASB and the FASB should converge to a common display.

- Disclosure requirements:
  We object to the additional disclosure of ED-IAS 36. The disclosure requirements should not exceed those required by SEAS 1 42.
  Moreover, we do not agree to the excessive and overly detailed disclosure requirements proposed in ED-IAS 36. We disagree to the proposed disclosure of all forecast assumptions and to the sensitivity analysis. We especially object to the excessive disclosure requirements as demonstrated in the example in ED-IAS 36.A83 All assumptions underlying the cash flow forecasts are required to be disclosed per segment or cash generating unit. In addition ED IAS 36.1 34d requires to disclose the amount by which the aggregate of the recoverable amounts of the cash-generating units exceeds the aggregate of their carrying amounts. With this information the fair value of at least the segments could be determined. To disclose for example gross margins and especially fair values per segment or even for a single cash generating unit results in a significant competitive harm (e.g. with respect to M&A activities).

For further questions, please contact Dr. Friedrich Siener (phone + 49 (711) 1 7 92 256, e-mail friedrich.siener@daimlerchrysler.com

Kind regards,
DaimlerChrysler AG

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