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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

20 January 2004

Dear Sir David

Exposure Draft ED 3 Business Combinations

I am responding to the above Exposure Drafts on my own behalf, not on behalf of PricewaterhouseCoopers.

My response concerns one area of significant importance that the Board needs to address in this final phase of writing the standard on business combinations based on ED 3. This is the area of transitional provisions, which is inconsistent with the latest announcements from the IASB.

Under ED 2 Share Based Payments, the standard is only to be applied to schemes introduced after the issuing of the Exposure Draft, i.e. 7 November 2002. Earlier adoption is encouraged. IFRS 1 is amended accordingly.

IAS 39 from December 2003 has an exemption from the requirement to restate comparative information for first-time adopters of IAS 39. IFRS 1 is amended accordingly.

ED 3 does not provide for any of the above exemption models. This irrespective of business combinations being one of the most important areas with respect to the transition to IFRS.

The problem is that the transitional rules of IFRS 1 take precedence of the specific exemption rules of the ED 3 standard.

This means that companies that choose to convert to IFRS in 2004 or 2005 should, according to JFRS 1, apply the rules of ED 3 retrospectively to their opening IFRS balance sheet at the date of transition i.e. 1 January 2003 or 1 January 2004. Thus in the 2004 annual report of a first-time adopter of IFRS, business combinations that have taken place in 2004 prior to the date of issue of ED 3 as well as business combinations that have taken place in 2003 will have to be restated according to IFRS 1. This is in contrast to a company already applying IFRS, which applies ED 3 prospectively from the date of issue. In addition to this inconsistency, it should be emphasised that a key element of ED 3 is its prospective application approach due to the difficulties of applying the standard to business combinations of the past.

Accordingly, it does not seem logical or appropriate to enforce a (limited) retrospective application for first-time adopters simply because IFRS 1 in its present form takes precedence over the transitional provisions of ED 3.

As was the case for the transitional rules for share based payments and financial instruments, IFRS 1 should be amended to the effect that no retrospective application is required for first-time adopters with respect to business combinations taking place prior to the date of issue of the final ED 3 standard.

If you have any questions in relation to this letter, please do not hesitate to contact me at + 45 3945 91 04.

Yours sincerely

PricewaterhouseCoopers

Morten Iversen
Partner