UNICE
THE VOICE OF BUSINESS IN EUROPE

22.7/8/1 25 May 2004

Mr Patrick Mommens
Project Manager
EFRAG
41 Avenue des Arts
1040 Brussels

Dear Mr Mommens,

RE: DRAFT EFRAG LETTER ON THE ADOPTION OF IFRS 3 AND AMENDED IAS 36 AND 38

In response to your consultation on the draft EFRAG letter regarding adoption of IFRS 3 and amended IAS 36 and 38 as published by the IASB on 31 March 2004, UNICE would like to offer the following remarks.

UNICE concurs with the positive endorsement advice that is formulated in the draft letters. On balance, we are of the opinion that the proposed new standard meets the requirements of the Regulation of the European Parliament and of the Council on the application of international accounting standards.

However, we strongly object to the IASB's infringements of the IAS framework, on the same grounds as EFRAG's comments or as dissenting views expressed. So did we, no later than when commenting on ED2 and later on the endorsement of IFRS 2. When responding to EFRAG in its request for the founding fathers' views on what the IASB's post-2005 views should be, we highlighted that revising the present framework through an adequate due process should come first.

We do not agree with EFRAG that the impairment-only approach is likely to provide less reliable information than systematic amortisation along with impairment would. Amortisation can be preferred for practical reasons. We would have preferred to stick to amortisation, had the two-step impairment test been adopted as initially proposed. Because the IASB has decided to revert to the previous IAS 36 impairment test, we are ready to support the impairment-only approach. We disagree with EFRAG that management's forecasts involved in the impairment approach are likely to undermine the reliability of the valuation performed.

UNICE agrees with EFRAG that no standard should ever infringe the Framework. We therefore still strongly object to the probability criterion for recognition to be overridden by IFRS 3 (contingent liabilities) and IAS 38 (purchased R&D). Besides the due process issue, we believe those standards would form the basis for higher quality financial information, had the Framework been fully complied with.

On the other hand, we have been pleased to note that some important changes have taken place, where we had stressed an urgent need to readdress the proposed amended requirements of IAS 36:

- the published IAS 36 has reverted to the initial one-step impairment test approach,
- the disclosure requirements have been significantly reduced, hence eliminating useless and burdensome disclosures.

We agree that field visits as part of the consultation process have greatly helped in achieving these most desirable results.

As you are aware, the IASB is close to issue a new exposure draft on Business Combinations proposing to amend IFRS 3 as a result of their deliberations on the so-called project Business Combinations phase 2.

Some of the main concerns we had while responding to ED3 are acutely present in the exposure draft to come:

- the future amendments to IFRS 3 would be based on a working principle setting forth fair value as the most relevant measurement attribute for acquisitions,
- contingent assets and liabilities would have to be accounted for,
- goodwill would no longer be considered a residual but an asset in itself to be recorded at fair value,
- implementation of the new requirements would raise endless concerns of reliable measurements,
- management's intent would as much as possible be absent from the valuation, notwithstanding the search for the valuations most relevant to future cash flow predictions.

We are faced with these issues at present because the IASB keeps on issuing exposure drafts and standards that are in breach of consistency with the present Framework, or that impose fair value as the best measurement attribute without any sound justification being developed, endlessly postponing the adequate due process of revising the Framework or the fair value measurement debate, that would leave any further step ahead pending.

UNICE believes that EFRAG should give a clear warning to both the Commission and the IASB that no further infringement of the present Framework is acceptable.

We hope that the above-mentioned comments are taken into account and remain at your disposal should you need further clarification or background information.

Yours sincerely,

(original signed by)
Jérôme P. Chauvin
Director, Company Affairs Department