REDOVISNINGSRÅDET

15 November 2005

International Accounting Standards Board
30 Cannon Street
London ED4M 6XH
United Kingdom

Re: ED of Proposed Amendments to

IFRS 3 *Business Combinations*
IAS 27 *Consolidated and Separate Financial Statements*
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
IAS 19 Employee Benefits

Dear Sirs,

We appreciate the opportunity to respond to the Board's abovementioned Exposure Drafts. The comments in this letter represent the view of the Swedish Financial Accounting Standards Council.

Our letter consists of the following main sections:

- Major Issues
- Response to the Board's specific questions

Major Issues

We would like to express our appreciation of the Board's efforts to achieve convergence between IASB's and the FASB's standards on Business Combinations in order to develope high quality financial reporting standards. We believe that these efforts are of great importance for capital market participants, as well as for the reporting entities.

We also appreciate that the Board has made an effort to ensure that the project Business Combinations, Phase II, entails a fairly broad approach, by dealing with four related standards simultaneously: IFRS 3, IAS 27, IAS 37 and IAS 19. In this manner, a number of interrelated issues have been dealt with in one context, and the resultant amendments have been presented as a single package. This is a user friendly approach compared to the alternative approach of dealing with these standards on a one by one basis.

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Below, we comment upon some major issues in addition to our response to the Board's specific questions.

1. Timing and project development

1.1 From the EDs and from other we understand that the project, Business Combinations, Phase II, is one in a series of projects concerning or related to business combinations. We believe that the Board should have presented a plan at an early stage illustrating the manner in which these projects are interrelated, including an approximate timetable.

1.2 In our opinion, 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 existing Standards.

1.3 In an appendix to this letter we set forth our viewpoints on this matter more in detail.

2. Coordination of the development with the FASB

We have noted that certain amendments to IAS 37 may increase the difference between IAS 37 and US GAAP. Although we believe that the Board should not be restricted to proposing only changes that are in line with current or proposed US GAAP, we are of the opinion that the proposed amendments to IAS 37 are of such a nature that a move in tandem with the FASB, supported by appropriate research work, would have been a preferable way forward. From a convergence point of view, any differences affecting reconciliations between IFRS and US GAAP should be carefully considered.

3. Basis for Conclusions

We believe that the Basis for Conclusion is of mixed quality. Some of the comments provide good explanations of the Board's thinking. On the other hand, other comments, and a rather large number, illustrate only the Board's decisions and not the basis for such decisions, e.g. research, viewpoints from users, etc. In such cases it is, therefore, difficult to judge whether the Board's decisions are well founded. The rationale for the Board's proposal of radical changes to IFRS 3 is, according to our opinion, inadequately clarified in the Basis for Conclusions. A detailed example is ED-IFRS 3 BC 136 which states: "The Board believes that an entity's financial statements provide users with more useful information about the entity's financial situation when they include all of the assets under its control, regardless of the extent of the ownership interest held." This sentence accounts only for the Board's opinion but says nothing about the reasons behind the that opinion. Nor does it reflect the extent to which a cost benefit analysis has been performed.

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4. The parent entity perspective versus the economic entity approach

We would have welcomed a clarification of the Board's position regarding the parent entity perspective and the economic entity approach and the manner in which these two perspectives may have influenced the proposed amendments. Although, for example, the treatment of non-controlling interests represents a step in the direction of the economic entity approach, the Board has not fully clarified its position in relation to these two perspectives, nor has it clarified the direction in which it intends to proceed in the further development of IFRSs.

5. Divergence between the proposed amendments and the Framework

5.1 It might be argued that some of the proposed amendments are not consistent with the Framework. An example is the amendment to the criterion for recognition of liabilities in IAS 37. Principally, we believe that amendments to existing standards, as well as the development of new standards, should be consistent with the Framework. According to our opinion, changes in major concepts should, generally, first be reflected in the Framework. If, for special reasons, deviations from the Framework are deemed to be necessary, then such deviations should normally lead to the simultaneous introduction of such changes in the Framework. This should be done in order to ensure that the Framework is up-to-date at all times. This is due to the following reasons:

- The Framework has a number of important purposes, as indicated in its paragraph 1.
- According to IAS 8 paragraph 11, the Framework shall in certain cases be considered when selecting accounting policies.

5.2 In rare cases, when an immediate update of the Framework is not feasible or appropriate, we believe that deviations in standards from the Framework should be included in a properly documented plan for the amendment to the Framework at a later date.

6. The full goodwill method

6.1 Although we understand the conceptual reasons for the Board to propose recognition of full goodwill (ED-IFRS 3 BC15 and BC135), we have reservations as to the Board's proposal in this respect. Our concerns are discussed below.

6.2 ED-IFRS 3 BC136 states, among other things: "The Board believes that an entity's financial statements provide users with more useful information about the entity's financial position when they include all of the assets under its control, regardless of the extent of ownership interest held." This may be a convincing statement from a conceptual point of view, but it fails to provide a basis for the Board's beliefs e.g. with reference to user needs. The Board has not provided any evidence indicating that the requirements in IFRS 3 of recognising only the parent entity interest in goodwill, as stipulated in IFRS 3, would result in inadequate information. Nor are we aware of any views among capital market participants suggesting that recognising goodwill in accordance with IFRS 3 would not be useful from a user's point of view.

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6.3 When considering the manner in which to account for goodwill, the nature of goodwill and the components comprising goodwill will have to be evaluated. The Board has done this in its project leading to IFRS 3. BC130 and BC131 of IFRS 3 state the following:

"BC130. In developing ED 3 and the IFRS, the Board observed that when goodwill is measured as a residual, it could comprise the following components:

(a) the fair value of the 'going concern' element of the acquiree. The going concern element represents the ability of the acquiree to earn a higher rate of return on an assembled collection of net assets than would be expected from those net assets operating separately. That value stems from the synergies of the net assets of the acquiree, as well as from other benefits such as factors related to market imperfections, including the ability to earn monopoly profits and barriers to market entry.

(b) the fair value of the expected synergies and other benefits from combining the acquiree's net assets with those of the acquirer. Those synergies and other benefits are unique to each business combination, and different combinations produce different synergies and, hence, different values.

(c) overpayments by the acquirer.

(d) errors in measuring and recognising the fair value of either the cost of the business combination or the acquiree's identifiable assets, liabilities or contingent liabilities, or a requirement in an accounting standard to measure those identifiable items at an amount that is not fair value.

BC131. The Board observed that the third and fourth components conceptually are not part of goodwill and not assets, whereas the first and second components *are* part of goodwill. The Board described those first and second components as 'core goodwill', and focused its analysis first on whether goodwill should be recognised as an asset."

6.4 Thus, expected synergies and other benefits from combining the acquiree's assets with those of the acquirer are important components of goodwill according to the Board's analysis.

According to the ED, goodwill is recognised and measured similar to any other assets of the acquiree. A significant question to address is whether this is justifiable with reference to the synergy component of goodwill, which makes goodwill different from other assets. The synergies achieved when acquiring e.g. 60 per cent of the shares of an acquiree are often different from the synergies achieved when acquiring 100 per cent of the shares. What an acquirer could do in terms of exercising benefits of synergies when acquiring 60 per cent of the shares, may not be the same as what he could do when acquiring 100 per cent of the shares. Potential synergies increase with increasing shareholding but not necessarily on a straight-line basis, as synergies 'are unique to each business combination', see paragraph 6.3 above.

Furthermore, goodwill is a component of the value of the business as a whole. It is recognised and measured as a residual in a business combination, rather than as an asset having a separate existence. Recognising 100 per cent of goodwill in an acquisition of less than 100 per cent of the shares of the acquiree, results, therefore, in a lack of the qualities comprising faithful representation. What is unique for a particular business combination cannot be derived from a hypothetical transaction as proposed in the ED.

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6.5 The residual nature of goodwill is reinforced by the fact that it is the result of an acquisition transaction. The grossing up of goodwill to 100 per cent, as proposed by the Board, disregards this fact. Goodwill is an amount implicit in an acquisition transaction. Goodwill attributable to the non-controlling interests is not part of an acquisition transaction. The disconnection of goodwill from an acquisition transaction, as proposed in the ED, gives the ED a flavour of "as-if" accounting, which, for the reasons discussed in paragraph 6.4 above, results in lack of relevance.

6.6 Although the Framework does not specify the objective of consolidated financial statements, investors, as providers of risk capital to the entity, take a priority position amongst users requiring information (see paragraph 10 of the Framework). We believe that consolidated financial information should continue to provide information primarily from the point of view of providers of capital to the entity. Non-controlling interests have different information needs. Often these needs are met by the financial statements of the relevant subsidiary, as the non-controlling interests have a stake only in that entity. This is different from the Board's view that the financial statements should be presented as if the parent and the non-controlling interests had the same interests in a common economic entity.

6.7 As reflected above, we do not support the recognition of full goodwill. However, if full goodwill were to be recognised as proposed in the ED, we believe that the guidance provided in the ED regarding level three of the fair value hierarchy in ED-IFRS 3 E19-E21 is too general and vague and, therefore, of limited practical use. Examples 4 through 6 in the ED-IFRS 3 A63-A70 provide good illustrations of the mathematics involved but provide only limited information as to the manner in which the components of the calculations are to be obtained. In our opinion, the proposed measurement approach lacks the quality of reliability.

6.8 We note that IAS 39 paragraph 46 (c) states that investments in equity instruments, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured shall be measured at cost. ED-IFRS 3, on the other hand, indicates that such assets, when acquired in a business combination, should be measured at fair value. ED-IFRS 3 thereby indicates a higher degree of use of fair values, in this respect, than IAS 39, however, without the provision of appropriate explanations for this difference.

6.9 According to information in the footnote to paragraph 3 (i) in ED-IFRS 3, the definition of 'fair value' in the proposed IFRS 3 may change as a consequence of FASB's Statement on fair value measurement, which is planned to be issued in the fourth quarter of 2005. We note that the Board proposes an extended use of fair values prior to establishing an agreed upon definition of the concept. We find it important that the Board takes an active role in this process. However, we do not understand the extent to which the IASB will participate in the final work on the definition.

6.10 For the above reasons, we are of the opinion that the Board's proposal to change to the full goodwill method and to an extended application of a fair value approach should not be implemented for the time being. In our opinion, further steps require more research, debate and deliberations.

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7. Accounting for business combinations achieved in stages

7.1 We note that the proposed amendment to IFRS 3 regarding the accounting for business combinations achieved in stages will have the effect that non-controlling equity interests in the acquiree, owned immediately before the acquisition date, will be revalued at fair value with the difference between the fair value and the carrying amount being recognised in profit or loss. We cannot see that this will lead to an improvement in the financial information.

7.2 We also note that subsequent acquisitions or dispositions of interests in the acquiree after control has been obtained, shall be accounted for as equity transactions. This could have, among other things, the effect that the controlling interest's portion of the group's equity as reported in the consolidated balance sheet will decrease (or increase) in conjunction with the acquisition of additional shares in a subsidiary. We cannot see that this reflects economic reality, nor does it provide the investors with better financial information.

7.3 As a consequence of the critical viewpoints expressed above and as a consequence of our rejection of the Board's proposal to change to the full goodwill method, we suggest that the proposed amendment to IFRS 3 regarding the accounting for business combinations achieved in stages should not be implemented for the time being.

Thus, we suggest that the accounting for business combinations in IFRS 3 be retained. However, the principles in IFRS 3 need to be expressed more clearly, as the text in paragraph 36 of IFRS 3 has proven to provide for a wide divergence of practices, as indicated in, amongst other sources, the IFRIC Update February 2005.

8. Accounting for non-controlling interests

We are of the opinion that the proposed amendments to IAS 27 regarding the accounting for non-controlling interests should not be implemented and that, therefore, IAS 27 should be retained in this respect for the time being. This position is consistent with our rejection of the Board's proposal to change to the full goodwill method (see section 6 above) and of the proposed amendment regarding business combinations achieved in stages (see section 7 above).

9. The proposed amendments to IAS 37

9.1 We believe that the most important of the proposed amendments to IAS 37 relate to the probability recognition criterion and the measurement of liabilities. The Board proposes that probability should no longer be a recognition criterion but be considered in the measuring of liabilities.

9.2 The ED introduces the two concepts unconditional obligations (and rights) and conditional obligations (and rights). Although we can see some merits in this approach, we are of the opinion that it will be extremely difficult to implement. One reason for this is the fact that, in many cases, it will most certainly be very difficult to determine the triggering event for the recognition of the unconditional obligation. We are also uncertain whether the Board has performed any field tests to verify that the proposed amendments will work in practice.

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9.3 The Board proposes the same method for single obligations as for a class of similar obligations. Thus, a single obligation (of a potentially large magnitude) shall be recognized as a liability at its expected value, even if the probability is very low (even the previous threshold for contingent liabilities, ‘not remote’, has been discarded). Even though investors are seen as the main users of the information, and it could be argued that from a diversified portfolio perspective, even truly single obligations of individual companies are additive, the Framework also explicitly identifies other users for whom the natural focus is on the individual company. In that context, the relevance of recognizing a liability, which could be large compared to the equity base, even though the probability of the obligation ever resulting in an outflow of resources is considered to be quite low (bearing in mind, too, the difficulties in defining the obligating event previously mentioned), could be questioned, not least because of the numerous direct legal consequences of accounting information.

9.4 We have observed that the same, or similar, amendments as the Board proposes have not been suggested by the FASB. We believe, therefore, that the proposed amendments to IAS 37 would, in certain areas, lead to increased differences between IASB’s and FASB’s standards, at least in the short perspective.

9.5 We believe that the proposed amendments are not consistent with the Framework. Our opinion regarding the treatment of such situations is explained in section 5 above.

9.6 Based upon the above considerations, we suggest that the abovementioned amendments to IAS 37 should not be implemented for the time being. However, we believe that further research and debate would be justified.

10. Time for implementation

The amendments to IFRS 3 Business Combinations, IAS 27 Consolidated and Separate Financial Statements, IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits are proposed to be applied to an entity’s first financial annual period commencing on or after 1 January 2007. The Board’s Project Plan indicates that the new versions of IFRS 3, IAS 27, IAS 37 and IAS 19 will not be issued until quarters 3 or 4, 2006. This will, according to our opinion, provide the reporting entities with too short a time period in which to implement the changes that will be the consequence of the amendments. We suggest, therefore, that the Standards be published, at a minimum, two quarters before their effective dates.

11. Project information

Business Combinations, Phase II, is an extensive project, which has been underway for a considerable period of time. During the project many decisions have been made, some of which have been subsequently modified or changed. We are of the opinion that the information presented during the project in IASB Update has provided the reader with up to date details concerning individual decisions, as they were taken. However, we would have welcomed fairly comprehensive updates in the project summaries, at more frequent intervals, concerning the status of the total project, based upon the decisions made to date. This would have considerably facilitated the reader’s ability to more easily establish a complete overview of the project.

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Response to Specific Questions

IFRS 3 Question 1 – Objective, definition and scope

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

As mentioned in paragraph 1 in the section 'Major Issues' above and in the Appendix to this letter, we would have preferred that the Board had carried out the planned study of the fresh start method prior to proposing the acquisition method to be used for all business combinations. However, as the number of potential appliers of the fresh start method is limited and the outcome of a study of the method might be that the method is not to be introduced, we find it acceptable, although not desirable, that the new version of IFRS 3 requires the acquisition method to be used for all business combinations.

IFRS 3 Question 2 – Definition of a business

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

We have some concerns on this issue.

We believe that the proposed phrase '*capable* of being conducted and managed' could lead to interpretation problems, as many assets now outside the definition may meet the criteria of the new, proposed definition, e.g. properties. It seems unclear as to how the distinction between business combinations and other acquisitions should be made.

Until these uncertainties have been resolved, we believe that the definition in IFRS 3 should be retained. This definition has been in place for a limited period of time only. We do not see why a change should take place until further experience from applying the definition has been gained, and it has been proven that a change is justified.

Additionally, we would welcome a clarification of the difference between 'a return to investors' and 'dividends'.

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IFRS 3 Question 3 – Measuring the fair value of the acquiree

In a business combination in which the acquirer holds less than 100 per cent of the equity interest 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

As explained in paragraph 6 in the section 'Major Issues' above, we are of the opinion that the proposed change to the full goodwill method and to an extended application of fair values should not be implemented for the time being. We, therefore, find it inappropriate to implement the changes indicated in Question 3.

We would also like to add the following comments:

- We cannot see that the Board has proven that the benefits arising from the application of the amendment (which we, at this time, believe to be minimal) arising from the application of the amendment will, in fact, outweigh the costs created by implementation of the proposed amendment.
- The measurement of the fair value of the acquiree will comprise considerable approximations. This will reduce the reliability and verifiability of the financial information.
- The guidance provided in the ED on the manner in which to measure fair value is general and vague.

IFRS 3 Question 4 – Measuring the fair value of the acquiree

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

No.

We believe that the ED does not provide sufficient guidance on the manner in which to gross up the amount of the fair value of the interest acquired to the fair value of the acquiree as a whole.

We believe that, in practice, the fair value of an acquiree as a whole is not always easily derived from quoted market prices. Example 3 in A15 illustrates some of the difficulties in this context. This also demonstrates the uncertainty of the measurement.

We note that the acquirees in all three examples in A12-A17 are quoted entities and that the measurement of the fair values of unquoted entities is not illustrated in any example. The measurement of the fair values of these types of entities may incur an even greater degree of uncertainty.

As we reject the full goodwill method for the time being, we have no suggestions as to the manner in which the guidance could be improved.

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IFRS 3 Question 5 – Measuring the fair value of the acquiree

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

In general, we agree that the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree is the best evidence of the fair value of that interest.

IFRS 3 Question 6 – Measuring the fair value of the acquiree

Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

Response

Yes.

> Note: We are also contemplating an alternative, negative answer. This is, however, not yet formulated.

IFRS 3 Question 7 – Measuring the fair value of the acquiree

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

As explained in paragraph 6 through 8 in the section 'Major Issues' above, we are of the opinion that the full goodwill method and an extended use of fair values should not be implemented for the time being and that IFRS 3 should be retained in this and certain other respects. Against this background, we see no reason for a change in the accounting for costs incurred in connection with business combinations.

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IFRS 3 Question 8 – Measuring and recognising the assets acquired and the liabilities assumed

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

We agree with the recognition and measurement changes.

We note that paragraphs 28 to 31 in ED-IFRS 3 do not contain the reliability measurement criterion in paragraph 37 (a) to (c) of the current IFRS 3. In BC98 of ED-IFRS 3 the change is explained by the fact that the reliability measurement criterion is already included in the Framework (paragraphs 86-88). We would, however, prefer that the criterion be retained in the new version of IFRS 3, for the sake of clarity.

IFRS 3 Question 9 – Measuring and recognising the assets acquired and the liabilities assumed

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

Yes, we believe that the exceptions are appropriate. We have not found any exceptions to add or eliminate.

IFRS 3 Question 10 – Additional guidance for applying the acquisition method to particular types of business combinations

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

No. As explained in the section 'Major Issues' paragraph 7 above, we suggest that the principles for the accounting for business combinations achieved in stages in IFRS 3 be retained for the time being, however with some clarifications.

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IFRS 3 Question 11 – Additional guidance for applying the acquisition method to particular types of business combinations

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

We note that the Board states (in ED-IFRS 3 BC177) that placing limits on gains recognition is inconsistent with the fair value measurement principles in the draft revised IFRS 3. This illustrates a weakness in the fair value measurement approach and emphasises that which we have already said in the section 'Major Viewpoints' paragraph 6.10, that is, that the proposed extended application of fair values should not be implemented.

If, however, the Board decides to introduce the extension of fair value measurement proposed in the EDs, we find this limitation to be necessary in order to ensure a reduction in the difficulties inherent in its application.

IFRS 3 Question 12 – Additional guidance for applying the acquisition method to particular types of business combinations

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

We believe that there are circumstances in which an overpayment exists in the sense of a payment in excess of fair value. An example of this is when a market leader acquires a competitor in order to reduce competition. Another example is when a manufacturer undertakes an overpayment in acquiring one of his general agents (or dealers), in an effort to prevent a competitor from acquiring the general agent, something that could have serious effects on the marketing of the manufacturer's products.

We are of the opinion that, in the majority of cases, the overpayment cannot be measured reliably due to the difficulty of reliably measuring the fair value of the entity in this context.

The Board seems to have a different view, namely that the fair value of an acquiree can always be measured reliably, even when such a measurement cannot be based upon the transferred consideration. If this is taken to be correct, we find it surprising that the Board believes that it would not be possible to measure the overpayment, as this is equivalent to the amount of consideration, with deduction for the amount of the fair value.

IFRS 3 Question 13 – Measurement period

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

Yes.

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IFRS 3 Question 14 – Assessing what is part of the exchange for the acquiree

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

Yes. However, we are a bit concerned that it may be difficult to see the general principle behind the detailed guidance in A87-A109. We would, therefore, encourage the Board to make efforts to articule the underlying principle of the proposed guidance.

IFRS 3 Question 15 - Disclosures

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

Yes.

IFRS 3 Question 16 – The IASB's and the FASB's convergence decisions

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

We are not sure that we fully understand the difference between 'reliability' and 'sufficient reliability'. We are not aware of any IASB literature explaining the difference between 'reliable' and 'sufficiently reliable'. We do not support the further use of similar, but seemingly non-identical, expressions in accounting standards, unless any differences are made clear.

We do not believe that an intangible asset that is identifiable can always be measured reliably. Examples may be intangible assets, e.g. brands, patents or licences, which cannot be sold, transferred, licensed, rented or exchanged individually and do not generate separate cash flows.

We note that paragraph 78 of IAS 38 states that it is uncommon that an active market exists for intangible assets. We believe that this is the case also for intangible assets acquired in a business combination. Therefore, it is difficult to determine the fair value without making use of valuation techniques. We are not convinced that such techniques always result in reliable information.

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IFRS 3 Question 17 – The IASB's and the FASB's convergence decisions

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

Yes.

IFRS 3 Question 18 – The IASB's and the FASB's convergence decisions

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

Yes. Although we regret that some differences between IASB's and FASB's standards will be retained, we understand that these differences are difficult to remove for the moment, as they are related to standards that are not revised in the context of this project.

IFRS 3 Question 19 – Style of the Exposure Draft

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

Yes, we find the bold type-plain type style helpful.

We have not identified any paragraphs in which we think the type style should change.

IAS 27 Question 1

Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).

Do you agree? If not, why not and what alternative would you propose?

Response

We disagree with the proposed treatment. In agreement with the dissenting Board members (see ED-IAS 27 AV1-AV3), we believe that the consequences of changes in controlling interests in subsidiaries, after control is established, should be reported in the income statement. See also paragraph 8 in the section 'Major Issues' above on accounting for non-controlling interests.

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IAS 27 Question 2

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

Response

We disagree with the proposal that a gain is to be recognised on the remaining interest in the former subsidiary. We believe that the remaining interest should not be remeasured and that, consequently, no gain or loss should be recorded. See also paragraph 8 in the section 'Major Issues' above on accounting for non-controlling interests.

IAS 27 Question 3

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

Response

Yes.

We suggest that the Board includes the following additional disclosure requirement in IAS 27 paragraph 40:

(x) a description of multiple arrangements, as described in paragraph 30F, which have resulted in loss of control of a subsidiary and the reasons why these have been accounted for as a single transaction and as separate transactions.

IAS 27 Question 4

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

Response

No. As indicated in paragraphs 6 through 8 in the section "Major Issues" above, we are of the opinion that the full goodwill method, the proposed accounting for business combinations achieved in stages and the accounting for non-controlling interests should not be implemented for the time being. Against this background, we see no reason for implementing the proposed change, as this is related to the above-mentioned major issues.

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IAS 27 Question 5

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

Response

Yes. We generally believe in retrospective application as it ensures comparability and enhances understanding. However, we accept that there may be circumstances in which retrospective application is not possible, as the information needed is not available, or is not appropriate due to the fact that such application could be influenced by hindsight. In such cases, prospective application should be required. We, therefore, agree with the proposal.

IAS 37 Question 1 – Scope of IAS 37 and terminology

(a) Do you agree that IAS 37 should be applied in accounting for all non-financial liabilities that are not within the scope of other Standards? If not, for which type of liabilities do you regard its requirements as inappropriate and why?

(b) Do you agree with not using 'provision' as a defined term? If not, why not?

Response

(a) We find it desirable that the IFRSs cover all types of liabilities and, therefore, we support the proposed change of the scope of IAS 37 to include all non-financial liabilities that are not within the scope of other Standards. In other words, we support establishing IAS 37 as a default standard. However, we cannot see that this widening of the scope of IAS 37 has been preceded by a study of which additional types of liabilities that may be covered by the Standard.

(b) Yes.

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IAS 37 Question 2 – Contingent liabilities

(a) Do you agree with eliminating the term 'contingent liability'? If not, why not?

(b) Do you agree that when the amount that will be required to settle a liability (unconditional obligation) is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability should be recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur)? If not, why not?

Response

(a) Yes. We believe that, for the sake of clarity, the term 'liability' should be used only for items that are recognised in the balance sheet.

(b) No. The application of the proposed amendments requires, in our opinion, a definition of the conditions in which an unconditional obligation should be recognised (the obligating event), supplemented by appropriate guidance. We cannot, however, find that the Board has provided such a definition and guidance in the Exposure Draft and, therefore, we believe that the amendments should not be introduced. See also our response to IAS 37 Question 5.

IAS 37 Question 3 – Contingent assets

(a) Do you agree with eliminating the term 'contingent assets'? If not, why not?

(b) Do you agree that items previously described as contingent assets that satisfy the definition of an asset should be within the scope of IAS 38? If not, why not?

Response

(a) Yes, we believe that, for the sake of clarity, the term 'asset' should be used only for items that are recognised in the balance sheet.

(b) Yes. However, we cannot see how the proposed new paragraph 17B in IAS 38 relates to paragraph 21 in IAS 38. Paragraph 17B states that any amounts which the entity expects to receive as a result of pursuing a legal claim comprise conditional rights, while paragraph 21 says that an intangible asset should be recognised only if it is probable that the expected future benefits will flow to the enterprise and that the cost of the asset can be measured reliably.

IAS 37 Question 4 – Constructive obligations

(a) Do you agree with the proposed amendment to the definition of a constructive obligation? If not, why not? How would you define one and why?

(b) Is the additional guidance for determining whether an entity has incurred a constructive obligation appropriate and helpful? If not, why not? Is it sufficient? If not, what other guidance should be provided?

Response

(a) Yes.

(b) Yes.

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IAS 37 Question 5 – Probability recognition criterion

Do you agree with the analysis of the probability recognition criterion and, therefore, with the reasons for omitting it from the Standard? If not, how would you apply the probability recognition criterion to examples such as product warranties, written options and other unconditional obligations that incorporate conditional obligations?

Response

We are of the opinion that the probability recognition criterion in IAS 37 should be retained, for the following reasons:

- As explained in paragraph 9.3 in the section 'Major Issues' we are concerned that the population of single liabilities to be considered for recognition would increase as a consequence of the amendment, and we fear that the measurement of the previously unrecognised liabilities would be unreliable and vague. Thus, the information currently provided in the notes would be replaced by figures in the balance sheet which do not meet high quality standards. We believe that this would reduce, rather than improve, the quality of the financial information.
- We cannot see that the accounting for a large population of similar obligations will change as a consequence of the proposed amendment. Consequently, we cannot see that the amendment will lead to an improvement.
- We are of the opinion that the Board has not proven that the market actually demands the information which would be provided as a consequence of the amendment.
- A corresponding amendment does not seem to have been suggested by the FASB for the moment. An amendment to IAS 37 would, therefore, lead to increased differences in certain areas between IASB:s and FASB:s Standards in this respect, at least temporarily.
- The Board argues (BC36-BC48) that the amendment is consistent with the Framework. We are of the opposite opinion.

IAS 37 Question 6 – Measurement

Do you agree with the proposed amendments to the measurement requirements? If not, why not? What measurement would you propose and why?

Response

No.

As explained in paragraph 1 in the section 'Major Issues' above, we are of the opinion that the Board's general projects on measurement should be completed prior to the proposal of any major amendments to the existing standards.

Another reason is that the proposed amendments do not, as such, seem to lead to improvements, for the following reasons.

- IAS 37 is based upon the principle that a single obligation should be measured at its most likely outcome. Already this approach sometimes causes problems, as it can be difficult to obtain reliable information concerning the most likely outcome. Under the proposals, reliable probability information and expected cash flow information will be required, and we believe this is much more difficult to obtain.

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- We are not convinced that the measurement of single obligations according to the proposed method will result in reliable and relevant figures. The measurement of a large population of similar obligations can be based on statistics from earlier periods, combined with management's judgement, which normally leads to reliable information. On the contrary, the same possibility does not exist when measuring single obligations. We are, therefore, not convinced that the same method should be used for the two categories of obligations.
- The legal lay-off approach is more emphasised in the amendment and with a wider area of application. This will certainly lead to major difficulties. The Board has already realized the nature of these difficulties in the context of the revenue project and we are convinced that they are not confined to that area.
- Furthermore, even if the alternative outcomes and their respective probabilities could be reliably estimated, the expected cash flow does not necessarily represent the amount an entity would rationally pay to settle an obligation. In certain situations more complicated techniques, such as option pricing theory, may be needed.

IAS 37 Question 7 – Reimbursement

Do you agree with the proposed amendment to the recognition requirements for reimbursements? If not, why not? What recognition requirements would you propose and why?

Response

Yes.

IAS 37 Question 8 – Onerous contracts

(a) Do you agree with the proposed amendment that a liability for a contract that becomes onerous as a result of the entity's own actions should be recognised only when the entity has taken that action? If not, when should it be recognised and why?

(b) Do you agree with the additional guidance for clarifying the measurement of a liability for an onerous operating lease? If not, why not?

(c) If you do not agree, would you be prepared to accept the amendments to achieve convergence?

Response

(a) Yes.

(b) Yes. However, we would welcome a clarification that a decrease in the market prices below the prices in the entity's purchase contracts (regarding goods and services, e.g. rents) does not, in itself, make the purchase contract onerous.

(c) Not applicable.

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IAS 37 Question 9 – Restructuring provisions

(a) Do you agree that a liability for each cost associated with a restructuring should be recognised when the entity has a liability for that cost, in contrast to the current approach of recognising at specified point a single liability for all the costs associated with the restructuring? If not, why not?

(b) Is the guidance for applying the Standard's principles to costs associated with a restructuring appropriate? If not, why not? Is it sufficient? If not, what other guidance should be added?

Response

(a) Yes.

(b) Yes.

IAS 37 An additional remark

ED-IAS 37 paragraph 45 states that changes in the carrying amount of a non-financial liability resulting from *the passage of time* are recognised as a borrowing cost.

ED-IAS 37 paragraph 68 (a) (iii) states that an entity shall disclose changes in the discounted amount resulting from *the passage of time* and the effect of any *change in the discount rate*. We interpret paragraph 68 (a) (iii) in such a manner as to imply that the amount to be reported is to comprise the total effect of the two factors. To avoid misunderstanding, we would welcome a clarification in paragraph 45 that the effect of a change in the discount rate according to paragraph 44 (c) should not be reported as a borrowing cost.

IAS 19 Question 1 – Definition of termination benefits

Do you agree with this amendment? If not, how would you characterise such benefits, and why?

Response

Yes.

IAS 19 Question 2 – Recognition of termination benefits

Is recognition of a liability for voluntary and involuntary termination benefits at these points appropriate? If not, when should they be recognised and why?

Response

Yes.

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IAS 19 Question 3 – Recognition of involuntary termination benefits that relate to future service

Do you agree with the criteria for determining whether involuntary termination benefits are provided in exchange for future services? If not, why not and what criteria would you propose? In these cases, is recognition of a liability over the future service period appropriate? If not, when should it be recognised and why?

Response

Yes.

Yours faithfully,

The Swedish Financial Accounting Standards Council

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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.

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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.

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