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Mr. Stig Enevoldsen
EFRAG, Chairman
Avenue des Arts 41
B - 1040 Brussels

21 may, 2004

Re : IFRS Draft for comments :

1. IFRS 3 Business Combinations;
2. Proposed Amendments to IAS 36 *Impairment of Assets*, and IAS 38 *Intangible Asset*.

Dear Mr Enevoldsen,

We are pleased to provide our comments on the draft letter concerning the adoption of IFRS 3 Business Combinations as published by the IASB on 31 March 2004.

OIC considers IFRS 3 a significant improvement over the now superseded IAS 22 and also an important steps towards convergence with USA GAAPs.

However we continue to have a strong concern on some matters already raised in our comment letter of March 4, 2003 on ED3. We are therefore extremely disappointed that our proposals for changes have not been accepted by the Board.

We refer particularly to the recognition of contingent liabilities of the acquiree as part of allocating the cost of a business combination. We reiterate that this recognition is inconsistent with IAS 37 and with the Framework. It is inconsistent also with the fact that contingent assets of the acquiree are not taken into account. While we are of the opinion that contingent assets should not be part of the allocation exercise we nevertheless note the inconsistency with contingent liabilities and such inconsistency has no justifiable reason.

We are also disappointed with the provision that negative goodwill should always be recognised to profit and loss. We continue to believe that when negative goodwill is a “premium” against future losses, this negative goodwill should be deferred to offset expected losses when these materialize.

In our comment letter to ED3 we also suggested to consider amortization of goodwill in those circumstances where future cash flows cannot be reliably determined. Our suggestion, which we still believe appropriate, has not been accepted by the Board.

We also had a suggestion to consider time value (i.e. discounting) deferred taxes in those cases where it is possible to reasonably estimate timing of reversal and to amend IAS 12 accordingly. Our suggestion, regrettably not accepted, would have avoided a mismatch in measurement whereby assets and liabilities assumed in a business combination are measured taking into account time value but the related tax effect does not take into account time value.

The above comments denote a number of disagreement with IFRS 3 as promulgated but considering that it is nonetheless an improvement over IAS 22, we recommend its adoption by Efrag. We however urge the Board to reconsider our comments above in future so that the Board can correct what we consider intellectual mistakes.

We also urge the Board to complete Phase II of the project on Business Combination given the importance of the subject.

With reference to the adoption of IAS no. 36, Impairment of Assets, and no. 38, Intangible Assets, as emended consequent to the project Improvement, OIC agrees in general with the opinion expressed by EFRAG.

Firstly the above is relevant to the concerns expressed by EFRAG with reference to the difficulties encountered in the application of the impairment of goodwill and to the inconsistency between therecognition criteria contemplated by the framework and those applied under IAS 38.

Secondly, we share the opinion of EFRAG regarding the priority of positive aspects of amendments provided with respect to the concerns initially identified and consequently we express favorable opinion on EFRAG recommendation of the adoption of IAS 36 and 38, in their amended version.

Yours sincerely,

Prof. Angelo Provasoli
(OIC – Chairman)