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Mr Robert Garnett
Chairman
The International Financial Reporting
Interpretations Committee of the
International Accounting Standards Board
30 Cannon Street
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Our ref MT/288
Contact Mary Tokar

17 December 2007

Dear Bob

IAS 39 *Financial Instruments: Recognition and Measurement* – Scope of paragraph 2(g)

We note from the November 2007 *IFRIC Update* that the IFRIC tentatively decided not to add the issue of interpreting paragraph 2(g) of IAS 39 to its agenda as it did not expect significant diversity in practice in the application of those requirements. The IFRIC also stated that specifying how to apply the scope exception in paragraph 2(g) would require the development of application guidance rather than an Interpretation.

We generally support the statement that for the scope exception of paragraph 2(g) to apply, an acquirer or vendor must conclude that a business combination exists or will occur, which includes the contract in question. We also accept the IFRIC's decision not to add this item to its agenda. However, in relation to the issue of whether the scope exception could be applied to other similar transactions, such as those to acquire an interest in an associate, we question the general statement that scope exceptions cannot be applied by analogy to other transactions.

We are aware of at least two areas in which scope exemptions are being applied by analogy in practice. One area is common control transactions. IAS 28 *Investments in Associates* states that "…the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate." Although there is no specific scope exemption in IAS 28 or IAS 31 *Interests in Joint Ventures* for transfers between entities under common control of investments in associates and / or interests in joint ventures, such an exemption is inferred in practice.

We also have seen a scope exemption being applied by analogy in the context of IFRS 2 *Share-based Payment*. Share-based consideration paid for net assets acquired in a business combination is outside the scope of IFRS 2. We have seen this exemption being applied beyond business combination transactions within the scope of IFRS 3 *Business Combinations* to common control transactions, acquisition of minority interests after control is obtained, acquisition of significant influence, and the formation of joint ventures.

We believe that unless the general statement that scope exceptions cannot be applied by analogy to other transactions is narrowed to "the scope exception in paragraph 2(g) cannot be applied to other similar transactions, such as those to acquire an interest in an associate", the agenda decision implies an expectation of a significant change in practice. We believe that the IFRIC should not seek to expect such a change in practice through an agenda decision.

In addition, the IFRIC stated that in accordance with both IFRS 3 and the revised version of IFRS 3 to be issued in 2007, a business combination exists when the acquirer obtains control of the acquiree. We believe that as a general principle the IFRIC should not comment on standards that have yet to be issued by the IASB.

Please contact Mary Tokar or Julie Santoro at +44 (0)20 7694 8871 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

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cc Andrew Vials