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International
Accounting Standards
Board

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**March 2009, London**
Project:	**Annual Improvements Project**
Subject:	**Comment Letter Analysis on Proposed Amendment to IFRIC 9: Scope of IFRIC 9 and Revised IFRS 3 (Agenda Paper 10A)**

Summary

1. At the January 2009 meeting, the Board decided to issue an exposure draft (ED) on *Post-implementation Revisions to IFRIC Interpretations – Proposed amendments to IFRIC 9 and IFRIC 16* (ED/2009/1). This agenda paper discusses the comments received on the proposed amendment to IFRIC 9.

2. This proposed amendment is a consequence of the changes to the definition of a business combination in IFRS 3 (as revised in 2008). In summary, the ED proposes to amend IFRIC 9 to exclude from its scope contracts with embedded derivatives acquired in a combination of entities or businesses under common control or the formation of a joint venture. This amendment would maintain the scope exclusion for these types of transactions subsequent to the adoption of revised IFRS 3.

3. The staff recommends that the Board approve the proposed amendment to paragraph 5 of IFRIC 9 as discussed in the ED, with the minor drafting revisions set out in Appendix A [omitted from observer note].

4. Appendix B to this agenda paper [omitted from observer note] includes other comments the staff does not intend to discuss unless requested by the Board.

Staff analysis

5. The Board received 26 comment letters on ED/2009/1 which had a comment deadline of 2 March 2009. All of the comment letters were supportive of the proposed amendment to IFRIC 9 with a few comment letters raising additional items the Board should consider.

6. Three comment letters either believe the scope exception from IFRIC 9 should include contracts acquired in acquisitions of **investments in associates** or that the scope exception is not sufficiently clear on this issue and clarification is needed. One of the respondents states, "…we understand that, prior to the revised IFRS 3, acquisitions of associates were excluded from the scope of IFRIC 9 because they were treated as being within the scope exemption for business combinations. However, acquisitions of associates are not business combinations under the new definition, and would now fall within IFRIC 9's scope. We think that this too is unintentional and that it would be consistent to exclude acquisitions of associates…from the scope of IFRIC 9…".

7. The staff does not agree that acquisitions of associates should have been treated as being within the scope exemption for business combinations under the original (pre-revised) IFRS 3. Under the original IFRS 3, "A business combination is the bringing together of separate entities or businesses into one reporting entity. The result of nearly all business combinations is that one entity, obtains control of one or more other businesses, the acquiree." The acquisition of an interest in an associate results in the acquirer having significant influence (and not control) over the acquiree. Therefore, the guidance in IAS 28 is applicable and not the guidance in IFRS 3. Additionally, the staff does not believe clarification on this issue is needed as the standards are clear.

8. The same comment letter states, “Furthermore, we note that paragraphs 20 and 23 of IAS 28 *Investments in Associates* require entities to account for the acquisition of an associated based on the principles in IFRS 3. IFRS 3 (as revised in 2008) provides guidance on the assessment of embedded derivatives. It follows that IAS 28 would require entities to follow that guidance with regard to the assessment of embedded derivatives acquired as part of the associate. Exempting associates from the scope of IFRIC 9 could help to avoid confusion as to whether entities have to follow IFRIC 9 or the revised IFRS 3 in accounting for acquisitions of associates involving contracts with embedded derivatives.”

9. The staff does not agree with this comment. The staff notes that paragraph 20 of IAS 28 refers to “the consolidation procedures described in IAS 27” and paragraph 23 of IAS 28 explains the accounting methodology required on acquisition of the investment in an associate. While this methodology is similar to the methodology prescribed by IFRS 3 used in accounting for business combinations, it is not the same.

10. In a business combination, the acquirer is purchasing a business, as defined in IFRS 3, resulting in the acquisition of the individual assets, liabilities and contracts of the acquiree. In contrast, the acquisition of an interest in an associate is the acquisition of a financial interest in another entity over which the reporting entity has significant influence (but not control). The acquisition of an interest in an associate is the acquisition of a financial instrument that will be presented in the statement of financial position on one line (and not the acquisition of a business that will be consolidated within all aspects of the financial statements of the group). This is consistent with the Board’s conclusions reached regarding impairment losses in investments in associates as noted in the *Improvements to IFRSs* issued in May 2008 and stated in BC27 of IAS 28.

11. Additionally, the staff believes it is unlikely that an acquirer of an investment in an associate (having only significant influence and not control) would be able to obtain access to information about all of the contracts to which the associate is a party. Given this likely lack of access, the staff does not believe an assessment (or reassessment) of the embedded derivatives would be possible. If access to all of the contracts is possible, the staff believes this might be an indicator that the

acquirer, in fact, has control (and should therefore apply the provisions of IFRS 3 upon acquisition and IAS 27 thereafter).

12. On the advice of the IFRIC, the staff has included in the draft Basis for Conclusions the reasons a scope exemption from IFRIC 9 for investments in associates is not needed.
13. Finally, the staff has incorporated minor drafting suggestions as appropriate. See Appendix A for a draft of the proposed amendment.

Staff Recommendation

14. The staff recommends that the Board approve the proposed amendment to paragraph 5 of IFRIC 9 as discussed in the ED, with the minor drafting revisions set out in Appendix A.

Questions for the Board

15. Does the Board agree with the staff's recommendation in paragraph 13? If not, what does the Board recommend?

16. Does the Board agree with the draft amendment proposed in the Appendix A to this paper? If not, why and what drafting does the Board recommend?

Appendix A – Draft wording

[Appendix A omitted from observer note]

Appendix B – Other comments

[Appendix B omitted from observer note]