Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
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IFRS Interpretations Committee's January 2013 Meeting

Agenda Topic 2 – IAS 16 Property, Plant and Equipament and IAS 38 Intangible Assets, IFRIC 12: variable payments for the separate acquisition of PPE and intangible assets.

Dear Mr. Upton,

We would like to give our views to the IFRS Interpretations Committee (IFRS IC) following the above publication, with compliments by all efforts made so far.

Background

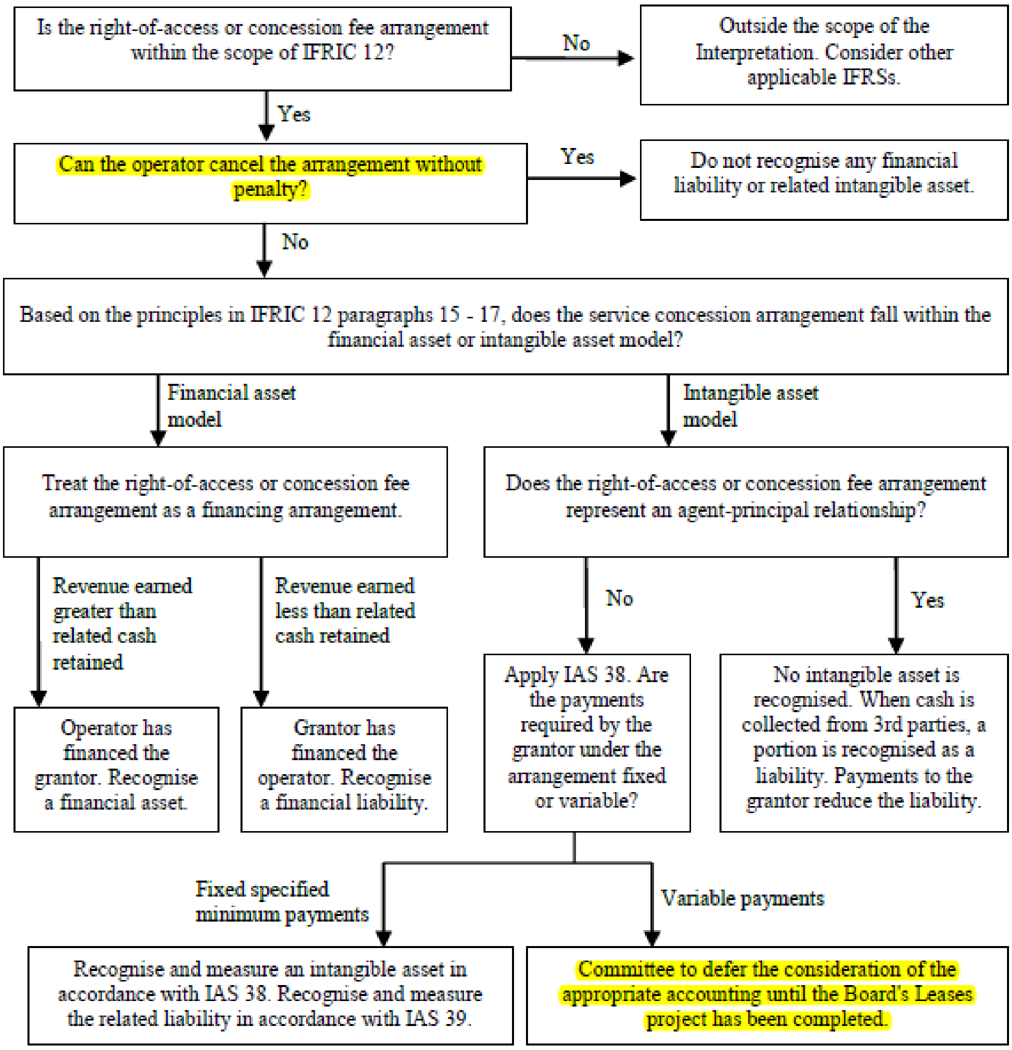
We think it is important to emphasize that this issue is under analysis by the IFRS IC since its November 2011 meeting and, as it has been proven necessary, its scope and its complexity increased considerably since then.

Based on this, after 15 months, 8 staff papers and a total of 234 pages, we are concerned that the tracking of the important issues and its variables will be lost and a paper depicturing the complete analysis so far would be very useful, notably for the new IFRS IC members.

Proposed Amendments to IFRIC 12

Paragraph 30 of the paper suggests that "the Interpretation Committee should proceed with these amendments [as proposed in Appendix C], even if it does not reach a conclusion on the accounting for variable payments for the separate purchase of assets."

However the proposed amendment did not make any distinction between fixed or variable payments and, therefore, it could be understood in a broad context of concession fees, not only the fixed ones [target of the proposed amendments as of May 2012 paper, included as Appendix C in the January 2013 paper]. This means that its application could be inconsistent with Appendix A – Summary (page 33) of staff paper as of January 2012, regarding this topic, applying it to both cases (fixed and variable) as follows:



We fully support amendments to clarify and settle this issue, however we think that the main content of this amendment is still fully under discussion. Indeed, after such a long and complex analysis, we think that if it proceed with the current proposed amendment, it will represent a year and a half of lost work, because it's current text still do not deal clearly with the challenge of initial recognition and remeasurement of variable or hybrid (fixed rate with variable component such as inflation – quite common in emerging economies) payments.

As we have mentioned in our former letters, we understand that addressing only fixed concession fees is actually addressing half (the easiest part) of the problem, which is not a good approach, and will create many problems in the application of IFRS, for variable and hybrid concession fees.

The consequence of the situation addressed above, on implementing the proposed amendment to record a liability for fixed concession payments, is the potentially huge mismatch between financial expenses and revenues over time. This would be caused by interest expense being recorded on the unwinding of the fixed concession liability over time, but with no inflation adjustment being recorded on the corresponding intangible asset, even though the concession operator's right to charge users is adjusted for inflation over the same period.

Additionally, as we could follow as observers of the 2012 March and May IFRS IC meetings in London, our memories are that the IC agreed to amend IFRIC 12 but not how. We think that this understanding is reflected in the related IFRIC UPDATE.

About the specific analysis developed in the current paper

Despite of the comments above, we agree with its main ideia that is possible to capitalize variable components of payments made to the grantor, notably inflation adjustment.

Indeed, we agree that the nature of variable payments is part of the acquisition cost of the asset. This conclusion is supported by the fact that, when making payments to the grantor, the operator intends to recover the values paid through its operations and, if this is not possible, the asset will impair. Therefore, any methodology for subsequent measurement should respect the fact that the amount paid to the grantor is an acquisition cost of the intangible asset. It seems that further development is necessary to achieve such capitalization in a balanced way, regardless the calculation method.

As a calculation method, the application of the EIR is critical in determining the balance sheet carrying amount and the impact on profit or loss for debt instruments held at amortized cost. The EIR has widespread application for both vanilla and complex debt instruments, however, IAS 39 is not clear in how the EIR method applies. Therefore, the resulting divergence in practice has the potential to result in significantly different financial results depending on the method of application used, resulting in lack of comparability in such a fundamental topic for every economy. Thus, we believe that further work is needed to address this lack of understanding about how to apply IAS 39, AG7 and AG8, notably for inflation linked debt. Based on our practical experience in Brazil and some other jurisdictions, it's application using expectations of future market variables is quite unclear to the accounting community and very unusual. Finally, we understand that the method chosen to calculate the EIR should not change the recognition of the amount capitalized.

Even considering that would be possible to apply IAS 39, AG7 or AG8, in situations such as inflation adjustments, we strongly believe that amending only IAS 39 is not enough, and amendments to IAS 38 and IAS 16 are necessary as well.

Final comments

Considering the topics above, we would like to suggest:

- IFRIC 12 should be amended only when the Committee reaches a consensus about fixed and variable payments, because of the strong relationship between initial recognition and subsequent measurement. Additionally it seems to us that the challenge presented in this topic is extremely similar to that one faced in the very relevant Lease Project and is inconsistent to address something prior of that project's conclusion; and

- IFRIC should publish a paper that contains a summary of the overall analysis and the consensus reached so far so that anyone interested on this issue could see the whole picture.

If the Committee decides to amend the IFRIC 12 right now, although the concerns we mentioned before, we will suggest some changes for your considerations:

Without a consensus over the amendment of IAS 39:

- Add to paragraph 27A (ii), Appendix C, a mention that this item applies solely and specifically for initial recognition of fixed payments. Subsequent measurements and variable payments have no guidance until this moment.

With a consensus over the amendment of IAS 39:

- Amend IAS 38 and IAS 16 in order to add examples that explicit the possibility of capitalization related to IAS 39, AG7 method 1 or AG8. These amendments are necessary once that, in our practical experience in discussion with market participants over this issue, many of them do not recognize the possibility on IAS 38 of capitalizing variable payments made to the grantor after the initial recognition as part of the acquisition cost.

Once more, we would like to suggest that the staff undertakes additional outreach activities. Due to the relevance of this issue to the infrastructure sector, a local meeting would be quite appreciated.

We hope that you will find our comments and observations helpful.