STAFF PAPER

14 May–15 May 2013

IFRS Interpretations Committee Meeting

Project	**IAS 28 *Investments in Associates and Joint Ventures*/IFRS 3 *Business Combinations***
Paper topic	Acquisition of an interest in an associate or joint venture under common control

CONTACT(S) Kazuhiro Sakaguchi ksakaguchi@ifrs.org +44 (0)20 7246 6930

Introduction

1. In October 2012, the IFRS Interpretations Committee (the Interpretations Committee) received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control.

2. The submitter's question is whether it is appropriate to apply the scope exemption for business combinations under common control, as set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control.

3. The Interpretations Committee deliberated this issue in January 2013 and tentatively decided not to take this issue onto its agenda.

4. This paper sets out the staff analysis on the comment letters received on the tentative agenda decision. This paper recommends to the Interpretations Committee that it should finalise its agenda decision with some changes to the wording. The proposed wording for the final agenda decision is presented in Appendix A of this paper.

Summary of the issue

5. The submitter is concerned with the diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control. The submitter observes two approaches for that accounting:

   (a) Approach A: apply paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* to the acquisition of an interest in an associate or joint venture under common control. Under this approach, on acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for either as goodwill, if positive (included in the carrying amount of the investment), or as gain, if negative. That paragraph states:

   > An investment is accounted for using the equity method from the date on which it becomes an associate or a joint venture. On acquisition of the investment, any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:
   >
   > (a) Goodwill relating to an associate or a joint venture is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
   >
   > (b) Any excess of the entity's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the entity's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.
   >
   > …

   (b) Approach B: apply paragraph 2(c) of IFRS 3, which includes a scope exemption for business combinations under common control, by analogy, to the acquisition of an interest in an associate or joint venture under common control. This approach is supported by paragraph 26 of IAS 28.

Paragraph 2(c) of IFRS 3 states (emphasis added):

> This IFRS applies to a transaction or other event that meets the definition of a business combination. **This IFRS does not apply to**:
>
> (a) the formation of a joint venture.
>
> (b) the acquisition of an asset or a group of assets that does not constitute a *business*. …
>
> (c) **a combination of entities or businesses under common control** (paragraphs B1–B4 provide related application guidance).

Paragraph 26 of IAS 28 states:

> Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, 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 or a joint venture.

6. If an entity applies Approach B, the entity will account for the acquisition of an interest in an associate or joint venture under common control as if it were a business combination under common control. In this case, because specific guidance to accounting for business combinations under common control is absent from IFRS 3, entities argue that they can consider a hierarchy of guidance when there is no specific Standard that applies to a particular transaction in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Interpretations Committee's discussions in January 2013

7. At its January 2013 meeting, the Interpretations Committee observed that paragraph 32 of IAS 28 has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between the acquisition of an investment under common control and the acquisition of an investment from an entity that is not under common control.

8. The Interpretations Committee also observed that paragraph 10 of IAS 8 requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

9. The Interpretations Committee, notwithstanding the above observations, noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control, which the IASB added as one of the priority research projects to its future agenda in May 2012. The Interpretations Committee was specifically concerned with the fact that there is diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.

10. In the light of its concerns about the broader issues that relate to accounting for business combinations under common control, the Interpretations Committee tentatively decided not to take this issue onto its agenda.

Summary of comment letters

11. The comment period for the tentative decision ended on 4 April 2013 and six responses were received.[1] All comment letters are attached in Appendix B of this paper.

12. One respondent agrees with the Interpretations Committee's decision not to add this issue to its agenda, because accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control.[2] However, that respondent is concerned that the observations by the Interpretations Committee in respect of IAS 28 may be interpreted inappropriately by readers as a directive to follow the specific accounting noted in the observation, especially when coupled with the staff

[1] KPMG IFRG Limited, Canadian Accounting Standards Board (AcSB), Organismo Italiano di Contabilita – OIC (The Italian Standard Setter), Petrobras, ABRASCA (Brazilian Association of Listed Companies). Deloitte Touche Tohmatsu Limited

[2] KPMG IFRG Limited.

analysis that was presented in the staff paper at the January 2013 meeting. That respondent thinks that the final agenda decision should refrain from including any analysis of the accounting in order to avoid the potential for misinterpretation of the decision.

13. Another respondent agrees with the Interpretations Committee's decision not to add this issue to its agenda for the reasons provided in the tentative agenda decision.[3]

14. Another respondent disagrees with the decision to not add this to the agenda decision.[4] Although that respondent recognises that the issue submitted may be considered within the context of a broader project on accounting for business combinations under common control, the respondent has concerns that diversity in practice will increase in the meantime. The respondent thinks that the Interpretations Committee should clarify the accounting for the issue submitted as well as other common control transaction issues (including the accounting in the separate financial statements of the acquisition of investments in subsidiaries under common control).

15. Two respondents have similar views on the tentative agenda decision.[5] They agree that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control. However, one of them disagrees with the Interpretations Committee's view presented in the tentative agenda decision. They think that the underlying principles for the accounting for business combinations of entities under common control should be analogised to the accounting for the acquisition of an interest in an associate or joint venture under common control. This is because they do not identify the conceptual basis that could support a different approach between the acquisition of an interest in an associate or joint venture under common control and business combinations of entities under common control. In addition, one of

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[3] Canadian Accounting Standards Board (AcSB).

[4] Organismo Italiano di Contabilita – OIC (The Italian Standard Setter).

[5] Petrobras, ABRASCA (Brazilian Association of Listed Companies).

the respondents is concerned that the costs of complying with the technical views on IAS 28 described in the tentative agenda decision would significantly outweigh the benefits earned.

16. Another respondent agrees with the Interpretations Committee's decision not to add this issue to its agenda for the reasons provided in the tentative agenda decision.[6] However, that respondent thinks that the final agenda decision should be made clearer by:

(a) removing the references to paragraph 32 of IAS 28 and to paragraph 10 of IAS 8 as they could be read as alluding to a conclusion that the Interpretations Committee has not formally reached. In particular, the respondent does not think that it is clear that paragraph 32 of IAS 28 specifically applies to common control transactions; and

(b) referring to diversity in practice in this area as having been indicated by the Interpretations Committee's outreach activities rather than simply as a fact.

Staff analysis

Views presented in the agenda decision

17. We note the comment that the Interpretations Committee should proceed with the agenda decision but remove any technical views on the accounting for the acquisition of an interest in an associate or joint venture under common control from the agenda decision.

18. In our view, the direction given by the IASB to the Interpretations Committee is the opposite. One of the tentative agreements by the IASB at its meeting held on 27 February through to 2 March 2012 was "when the Interpretations Committee reaches a conclusion on an issue, but for which it has decided not to add the item to its agenda, it should explain its decision in a rejection notice". The Trustees' report on the efficiency and effectiveness of the Interpretations Committee also

[6] Deloitte Touche Tohmatsu Limited.

supported the notion that the agenda rejection notices should provide helpful guidance in those circumstances when the Interpretations Committee has reached a view on an issue.

19. We therefore think that the Interpretations Committee's agenda decision should retain the explanation of how it has reached its conclusion.

20. We acknowledge the concern in the comment letter that the observations by the Interpretations Committee in respect of IAS 28 may be interpreted inappropriately by readers as a directive to follow the specific accounting noted in the observation. In addition, one respondent commented that the costs of complying with the technical views described in the tentative agenda decision would significantly outweigh the benefits earned.

21. We note, however, that agenda rejection notices do not compel the change in practice and judgment is left to entities, their auditors and their regulators because the agenda rejection notices do not form part of IFRS.

Analogical application

22. We note the comment that the Interpretations Committee should proceed with the agenda decision but the wording should be revised because the underlying principles for the accounting for business combinations of entities under common control should be analogised to the accounting for the acquisition of an interest in an associate or joint venture under common control.

23. The respondent who made this comment advocates that they do not identify the conceptual basis that could support a different approach between the acquisition of an interest in an associate or joint venture under common control and business combinations of entities under common control.

24. In our view, on the contrary, although some procedures and concepts for consolidating or acquiring a subsidiary are applied and adopted in IAS 28, there is a clear boundary between the fundamental concept of IFRS 3 and IAS 28 that an entity obtains either control of the acquired business or significant influence over the investee.

25. We note that the Interpretations Committee observed that paragraph 32 of IAS 28 has guidance on the accounting for the issue submitted and that applying another Standard by analogy is permitted only in the absence of a Standard that specifically applies to a transaction. Moreover, paragraph 2(c) of IFRS 3 provides a scope **exemption** for business combinations under common control. In our view, application of an exemption or exception by analogy is generally prohibited in IFRS. For example, paragraph 18 of IFRS 1 states that:

> An entity may elect to use one or more of the exemptions contained in Appendices C–E.[7] An entity shall not apply these exemptions by analogy to other items.

In addition, paragraph 96B of IAS 32 states that:

> *Puttable Financial Instruments and Obligations Arising on Liquidation*[8] introduced a limited scope exception; therefore, an entity shall not apply the exception by analogy.

Should the Interpretations Committee add this issue to its agenda

26. According to one comment, the Interpretations Committee should not proceed with the agenda decision but should clarify the accounting for the acquisition of an interest in an associate or joint venture under common control.

27. We note that most respondents agree that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control. The IASB added the project as one of the priority research projects to its future agenda in May 2012.

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[7] Appendix C: Exemptions for business combinations

Appendix D: Exemptions from other IFRSs

Appendix E: Short-term exemptions from IFRSs

[8] *Puttable Financial Instruments and Obligations Arising on Liquidation* is the amendments to IAS 32 and IAS 1 issued in February 2008.

28. We also note that, in September 2011, the Interpretations Committee rejected the issue on business combinations under common control because the accounting is too broad to be addressed through an Interpretation or an annual improvement.[9]

Diversity in practice

29. We note the suggestion made by a respondent that the final agenda decision should be made clearer by referring to the diversity in practice in this area as having been indicated by the Interpretations Committee's outreach activities rather than simply as a fact.

30. According to the result of the outreach activities (see the staff paper for the January 2013 meeting for detail), some apply paragraph 32 of IAS 28 and recognise any difference between the cost of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities either as goodwill or as gain, whereas others apply the IFRS 3 scope exemption by analogy.[10]

31. We note that the main reason that the Interpretations Committee decided not to add this issue to its agenda is that the issue would be better considered within the context of a broader project on accounting for business combinations under common control. In our view, including the statement that the Interpretations Committee does not add the issue to its agenda and the statement that there is diversity in practice in an agenda decision contradict each other, because the Interpretations Committee is expected to address the diversity in practice. Accordingly, we propose removing the statement about the diversity in practice from the final agenda decision.

[9] See IFRIC *Update* for September 2011 (http://media.ifrs.org/IFRICUpdateSept11.html#5): IFRS 3 *Business Combinations*—business combinations involving newly formed entities: factors affecting the identification of the acquirer

[10] If the IFRS 3 scope exemption is applied, in many cases, the acquisition of an interest in an associate or joint venture under common control is accounted for at its carrying values.

Staff recommendation

32. On the basis of the analysis above, we recommend to the Interpretations Committee that it should finalise its agenda decision with some changes to the wording. The proposed wording for the final agenda decision is presented in Appendix A of this paper.

Question for the Interpretations Committee

Question for the Interpretations Committee
Does the Interpretations Committee agree with the staff recommendation and the proposed wording for the final agenda decision?

Appendix A—Proposed wording for the final agenda decision

IAS 28 *Investments in Associates and Joint Ventures,* IFRS 3 *Business Combinations*

In October 2012, the Interpretations Committee received a request seeking clarification of the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. The submitter's question is whether it is appropriate to apply the scope exemption for business combinations under common control, which is set out in IFRS 3 *Business Combinations*, by analogy to the acquisition of an interest in an associate or joint venture under common control.

The Interpretations Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control.

The Interpretations Committee also observed that paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

The Interpretations Committee, notwithstanding the above observations, noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of a broader project on accounting for business combinations under common control, which the IASB added as one of the priority research projects to its future agenda in May 2012. ~~The Interpretations Committee was specifically concerned with the fact that there is diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.~~

In the light of the Interpretations Committee's concerns about the broader issues that relate to accounting for business combinations under common control, the Interpretations Committee ~~[~~decided~~]~~ not to take this issue onto its agenda.

KPMG IFRG Limited
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Tel +44 (0)20 7694 8589
mark.vaessen@kpmg.co.uk

Michael Stewart
Director of Implementation Activities
International Accounting Standards Board
First Floor
30 Cannon Street
London EC4M 6XH
United Kingdom

Our ref JS/IFRS-IC
Contact Mark Vaessen

14 March 2013

Dear Mr Stewart

Tentative agenda decision: IAS 28 Investments in Associates and Joint Ventures and IFRS 3 Business Combinations – Associates and common control

We are writing to express our support for the conclusion in tentative agenda decision, *IAS 28 Investments in Associates and Joint Ventures and IFRS 3 Business Combinations – Associates and common control*. We agree that the IFRS Interpretations Committee should not to take the issue onto its active agenda, because the matter is better considered within the context of a broader project on accounting for business combinations under common control.

However, we are concerned about the way in which the tentative agenda decision is drafted. We believe that the observation made by the Committee in respect of IAS 28 may be interpreted inappropriately by readers as a directive to follow the specific accounting noted in the observation; this is especially the case when coupled with the staff analysis in the public observer notes. Given the ultimate conclusion of the Committee to wait for the broader project, we do not believe that it is the Committee's intention to prescribe a specific interpretation in the meantime.

Accordingly, we believe that the final agenda decision should refrain from including any analysis of the accounting in order to avoid the potential for misinterpretation of the decision.

Please contact Mark Vaessen 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

KPMG IFRG Limited

Copy: Andrew Vials

Accounting Standards Board
AcSB
CNC
Conseil des normes comptables

277 Wellington Street West, Toronto, ON Canada M5V 3H2 Tel: (416) 977-3322 Fax: (416) 204-3412 www.frascanada.ca

277 rue Wellington Ouest, Toronto (ON) Canada M5V 3H2 Tél: (416) 977-3322 Téléc : (416) 204-3412 www.nifccanada.ca

March 18, 2013

(By e-mail to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street,
London EC4M 6XH
United Kingdom

Dear Sirs,

Re: Tentative agenda decision on IAS 28 *Investments in Associates and Joint Ventures* and IFRS 3 *Business Combinations* – Associates and common control

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on accounting for an acquisition of an interest in an associate or joint venture from an entity under common control. This tentative agenda decision was published in the January 2013 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

We would be pleased to provide more detail if you require. If so, please contact me at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Grace Lang, Principal, Accounting Standards at +1 416 204-3478 (e-mail grace.lang@cica.ca).

Yours truly,

P. Martin

Peter Martin, CPA, CA
Director, Accounting Standards

Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)
Italy, 00187 Roma, Via Poli 29
Tel. 0039/06/6976681 fax 0039/06/69766830
e-mail: presidenza@fondazioneoic.it

IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

3 April 2013

Re: Interpretation Committee tentative agenda decisions

Dear Wayne,
We are pleased to have the opportunity to provide our comments in order to contribute to the IFRS IC agenda decision (issued in January 2013) on IFRS 2 – "*Share-based Payment - Timing of the recognition of intercompany charges*", on IAS 28 - "*Investments in Associates and Joint Ventures and IFRS 3 Business Combination - Associates and common control*" and on IAS 7 - "*Statement of Cash Flows - identification of cash equivalents*".

We are writing to communicate some concerns about the tentative decisions reached on the above-mentioned issues.

IFRS 2 - *Share-based Payment* - Timing of the recognition of intercompany charges

The issue relates to the timing of recognition of intragroup payment arrangements in which a subsidiary recharges to its parent the share-based award made by the parent to the subsidiary's employees under a share-based payment agreement. The IFRS IC decided not to add this issue to its agenda because these arrangements fall into the category of common control transactions and any conclusions drawn could have unintended consequences on the treatment of other types of intercompany transactions. Therefore, in the absence of any guidance about these transactions, the IFRS IC thinks that the issue cannot be resolved efficiently.
The issue on intragroup transactions is common and relevant, especially in the jurisdictions where IFRS are applied to the individual accounts. In the absence of a clarification from the IFRS IC on the issue, diversity exists in practice, which will affect the comparability between financial statements.
Therefore, the OIC disagrees with the IFRS IC tentative decision not to add this issue to its agenda.

IAS 7 - *Statement of Cash Flows* - identification of cash equivalents

The issue relates to the classification of financial assets as cash equivalent in accordance with IAS 7.7. The submitter thinks that the classification of an investment should be made on the basis of the remaining period to maturity as at the balance sheet date and not with reference to the date of acquisition. The IFRS IC decided not to add this issue to its agenda because it considers as clear the requirements of IAS 7.7.
The OIC agrees with the IFRS IC tentative decision but believes that the IASB should broadly address the issue to clarify what the cash equivalents are.

IAS 28 - *Investments in Associates and Joint Ventures and IFRS 3 Business Combination* - Associates and common control

The issue relates to the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control and, in particular, about the application by analogy of the scope exemption set out in IFRS 3. The issues arise from a contradiction between paragraph 32 and paragraph 26 of IAS 28. In fact, paragraph 32 imposes the application of the equity method to the acquisition of an interest in an associate or joint venture while paragraph 26 says 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 or a joint venture*".
In its tentative agenda decision, the IFRS IC states that IAS 28.32 "*has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control". The IFRS IC noted that the issue would be better considered within the context of a broader project on accounting for business combinations under common control.*
The OIC disagrees with the agenda decision. Even if OIC recognizes that the issue might be addressed in the broader context of BCUCC project, it is acknowledged that in the last half decade many common control transaction issues related have not been addressed for this reason. **Diversity in practice increases in the meantime. The IFRS IC should clarify the accounting treatment for the issue under consideration and for other common control transaction issues that may be submitted in the future, at least until a deadline on the common control transaction project would be determined by the IASB.**

In addressing the issue under consideration, the IFRS IC should consider that the same problem arises the accounting in the **separate financial statements** of the acquisition of investments in subsidiaries from a common control part. Indeed it is not definitely clear whether in such a circumstance IAS 27 or the scope exemption of IFRS 3 applies.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

PETROBRAS

Rio de Janeiro, April 3, 2013

CONTABILIDADE 0011/2013

Mr. Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Acquisition of an interest in an associate or joint venture under common control
Reference: Tentative agenda decision (Agenda paper 22)

Dear Sir,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the topic: Acquisition of an interest in an associate or joint venture under common control. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

Petrobras is a mixed joint stock corporation controlled by the Federal Brazilian Government and we perform as an energy company in the following sectors: exploration and production, refining, oil and natural gas trade and transportation, petrochemicals, electric energy, biofuels and other renewable energy source distribution. One of the major energy companies in the world, we have a presence in 25 countries and our 2013-2017 business plan foresees investments in the order of US$236.7 billion (of which US$147.5 billion will be related to our Exploration & Production activities in Brazil).

We believe the topic covered by the IFRS Interpretations Committee is relevant for financial reporting worldwide and we appreciate the efforts in addressing it. We agree with the Committee's view that the accounting for the acquisition of an interest in an associate or joint venture under common control would be better addressed as part of a broader project on accounting for business combinations under common control. However, we disagree with the tentative agenda decision on how this issue should be dealt with.

We note that the IFRS IC based its tentative decision in the absence of a scope exemption in the IAS 28 for the issue. However, we have not been able to identify the conceptual basis that could support an approach different from the accounting for business combinations of entities under common control. In this sense, we do believe that the tentative agenda decision should prioritize the concepts that underlie financial reporting, as stated in the Conceptual Framework (OB 11):

> *"To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. <u>The concepts are the goal towards which the Board and preparers of financial reports strive</u>…" (emphasis added).*

The principles that underlie the accounting for business combinations of entities under common control should be analogized to the acquisition of interest in an associate or joint venture under common control and distinctions in forms should not prevail. In our view, a scope exemption for common control acquisitions should be included in IAS 28, or, alternatively, it could be a matter of accounting policy choice, until the completion of a broader project on the accounting for business combinations under common control.

Additionally, we believe that the costs of complying with IAS 28, as tentatively decided, would significantly outweigh the benefits that this approach could produce.

We hope that our recommendations help the IFRIC IC in making the decisions necessary to develop and maintain principles-based standards of high quality. If you have any questions in relation to the content of this letter please do not hesitate to contact us (contabilidade@petrobras.com.br).

Respectfully yours,
<u>/s/ Marcos Menezes</u>
Marcos Menezes - Chief Accountant

abrasca
Associação Brasileira das Companhias Abertas

RJ – 021/13
Rio de Janeiro, April 04, 2013

Mr. Hans Hoogervorst
International Accounting Standards Board
e-mail: ifric@ifrs.org

Subject: Acquisition of an interest in an associate or joint venture under common control

Reference: Tentative agenda decision (Agenda paper 22)

Dear Sir,

ABRASCA – Brazilian Association of Listed Companies - welcomes the opportunity to comment on the topic: Acquisition of an interest in an associate or joint venture under common control. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We are an association which represents the listed companies in Brazil engaged, in this matter, in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We believe the topic covered by the IFRS IC is relevant for financial reporting worldwide and we value the efforts in addressing it. However, it is our understanding that the accounting for the acquisition of an interest in an associate or joint venture under common control would be better addressed as part of a broader project on accounting for business combinations under common control.

We note that the IFRS IC based its tentative decision in the absence of a scope exemption in the IAS 28 for the issue. However, we have not been able to identify the conceptual basis that could support an approach different from the accounting for business combinations of entities under common control. In this sense, we do believe that the tentative agenda decision should prioritize the concepts that underlie financial reporting, as stated in the Conceptual Framework (OB 11):

Av. Brigadeiro Luiz Antônio, 2504 – Conj 151
01402-000 - São Paulo-SP
Tel (11) 3107-5557
Fax (11) 3107-5557
E-mail: abrasca@abrasca.org.br

Av. Rio Branco, 12 – 6º andar - Centro
20090-000 - Rio de Janeiro-RJ
Tel (21) 2223-3656
Fax (21) 2233-2741
Site: http://www.abrasca.org.br

> *"To a large extent, financial reports are based on estimates, judgements and models rather than exact depictions. The Conceptual Framework establishes the concepts that underlie those estimates, judgements and models. The concepts are the goal towards which the Board and preparers of financial reports strive…" (emphasis added).*

The principles that underlie the accounting for business combinations of entities under common control can be analogized to the acquisition of interest in an associate or joint venture under common control and distinctions in forms should not prevail. In our view, a scope exemption for common control acquisitions should be included in IAS 28, or, alternatively, it could be a matter of accounting policy choice, until the completion of a broader project on the accounting for business combinations under common control.

We hope that our recommendations help the IFRIC IC in making the decisions necessary to develop and maintain principles-based standards of high quality. If you have any questions in relation to the content of this letter please do not hesitate to contact us (alexandre@abrasca.org.br).

Respectfully yours,

Eduardo Lucano da Ponte
Superintendente Geral
ABRASCA

Deloitte.

Deloitte Touche Tohmatsu Limited
2 New Street Square
London
EC4A 3BZ
United Kingdom

Tel: +44 (0) 20 7936 3000
Fax: +44 (0) 20 7583 1198
www.deloitte.com

Direct: +44 20 7007 0884
Direct fax: +44 20 7007 0158
vepoole@deloitte.co.uk

Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
EC4M 6XH

E-mail: ifric@ifrs.org

4 April 2013

Dear Mr Upton

Tentative Agenda Decision – IAS 28 *Investments in Associates and Joint Ventures* and *IFRS 3 Business Combinations*: Associates and common control

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the January 2013 IFRIC Update of the tentative decision not to take onto the IFRIC's agenda a request for clarification on the accounting for an acquisition of an interest in an associate or joint venture from an entity under common control.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision, but believe that the tentative agenda decision could be made clearer by:

- removing the references to paragraph 32 of IAS 28 and to paragraph 10 of IAS 8 as they could be read as alluding to a conclusion that the Committee has not formally reached. In particular, we do not believe that is clear that paragraph 32 of IAS 28 specifically applies to common control transactions; and
- referring to diversity in practice in this area as having been indicated by the Committee's outreach activities rather than simply as a fact.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely

Veronica Poole
Global IFRS Leader
Technical