IFRS

STAFF PAPER

November 2017

IFRS Interpretations Committee Meeting

Project	**Acquisition of a group of assets**		
Paper topic	Agenda decision to finalise		
CONTACT(S)	Satenik Vanyan	svanyan@ifrs.org	+44 (0)20 7246 6924

This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (Board) can make such a determination. Decisions made by the Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update.*

Objective

1. This paper considers feedback on the IFRS Interpretations Committee's (Committee) tentative agenda decision on IFRS 3 *Business Combinations*—Acquisition of a group of assets that does not constitute a business (a group of assets). The paper:
   (a) analyses comments received on the tentative agenda decision; and
   (b) asks the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Introduction

2. At its June 2017 meeting, the Committee discussed how an entity accounts for the acquisition of a group of assets. In particular, the Committee discussed how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:
   (a) the sum of the individual fair values (FV) of the identifiable assets and liabilities is different from the transaction price; and
   (b) the group of assets includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.

3. Paragraph 2(b) of IFRS 3 requires an entity to do the following on acquisition of a group of assets:

   (a) identify and recognise the individual identifiable assets acquired and liabilities assumed; and

   (b) allocate the cost of the group to the individual identifiable assets and liabilities based on their relative FVs at the date of the acquisition.

4. The Committee considered two possible ways of accounting for the acquisition of the group.

5. Applying the first approach (which we refer to in this paper as Approach #1), an entity accounts for the acquisition of the group as follows:

   (a) it identifies the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition;

   (b) it determines the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative FVs of those assets and liabilities at the date of the acquisition; and then

   (c) it applies the initial measurement requirements in applicable Standards to each identifiable asset acquired and liability assumed. The entity accounts for any difference between the amount at which the asset or liability is initially measured and its individual transaction price applying the relevant requirements.

6. Applying the second approach (which we refer to in this paper as Approach #2), for any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard. The entity deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative FVs at the date of the acquisition.

7. The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets results in one of the two

approaches outlined above. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions.

8. In the light of its analysis, the Committee considered whether to add a project on the acquisition of a group of assets to its standard-setting agenda. The Committee had not obtained evidence that the outcomes of applying the two approaches outlined in the tentative agenda decision would be expected to have a material effect on the amounts that entities report. Consequently, the Committee tentatively decided not to add the matter to its standard-setting agenda.

Comment letter summary and staff analysis

9. We received ten comment letters, which are reproduced in Appendix C to this paper.

10. Two respondents (Deloitte and EY) agree with the Committee's tentative decision not to add the matter to its standard-setting agenda. EY says both approaches may lead to counter-intuitive accounting outcomes in some circumstances; it therefore supports the Committee's tentative decision not to rule out either approach.

11. The ASCG did not suggest adding a standard-setting project, but expressed the view that there is only one appropriate reading of paragraph 2(b) of IFRS 3, ie Approach 2. This is discussed further in paragraphs 14-20 of this paper.

12. Seven respondents (the OIC, the ANC, Mazars, the AcSB, ESMA, FRC Nigeria and the ASBJ) disagree with the Committee's tentative decision not to add this matter to its standard-setting agenda. They raised the following concerns:

    (a) Some respondents said in the light of the forthcoming amendment to the definition of a business in IFRS 3, the matter could become more widespread than currently observed.

    (b) The OIC said in an acquisition of a group of assets, the transaction price may be different from the sum of the individual FVs of the assets acquired. This may happen, for example, because the seller may be willing to grant a discount (that may be significant) in order to sell many assets in one transaction. In the OIC's view, if the discount is significant, the outcomes of the two approaches described in the tentative agenda decision may have

a material effect on the acquirer's financial statements. However, we did not obtain evidence of how widespread these types of transactions are, what the nature of the assets acquired might be in such transactions or how significant the discounts might be.

(c) Mazars provided examples of when, in its view, application of both approaches outlined in the tentative agenda decision gives anomalous outcomes. This is discussed further in paragraphs 21-29 of this paper.

(d) The AcSB's view is that unless there is objective evidence to suggest that the sum of the individual FVs of the assets acquired and liabilities assumed is different from the transaction price, then recognising a gain or loss (as might be the case applying Approach #1) seems counter-intuitive for a transaction of this nature. This is discussed further in paragraphs 21-29 of this paper.

13. We present below the concerns raised by respondents, together with our analysis of these concerns.

Staff analysis

The requirements in paragraph 2(b) of IFRS 3

Concern raised

14. The ASCG said in its comment letter that Approach #2 is the only reasonable reading of the requirements in paragraph 2(b) of IFRS 3. It says there are only a few reasons for any difference between the transaction price and the sum of the individual FVs of the identifiable assets and liabilities, and only a few assets to which an entity should allocate any difference. It notes uncertainty as to the FV of some assets as a reason that such a difference might exist. It is, therefore, of the view that an entity should allocate any difference to those assets for which there are less reliable measurements.

15. In the ASCG's view, FV measurements of financial instruments are generally more reliable than those of non-financial assets (eg property, plant and equipment or investment property). Consequently, it suggests an entity should recognise financial

instruments at FV and allocate the remaining transaction price to non-financial assets acquired.

16. The ASCG has subsequently clarified that there are no specific requirements in IFRS Standards that undoubtedly would say Approach #2 is the only reasonable reading of the requirements for an acquisition of a group of assets. Nonetheless it views Approach #2 as more persuasive than Approach #1 for the reasons outlined in its comment letter.

Staff analysis

17. We continue to think that Approach #1 is a reasonable reading of the requirements in paragraph 2(b) for the reasons outlined in the paragraphs 27–37 of [Agenda Paper 2] of the Committee's June 2017 meeting.

18. We think the views and concerns expressed by the ASCG were largely addressed in Agenda Paper 2 of the Committee's June 2017 meeting. Paragraph 31 of that agenda paper said we would expect that if an entity initially identifies a difference between the transaction price and the sum of the FVs of the assets acquired and liabilities assumed, it would first review the procedures it has used to determine the individual FV of each asset and liability within the acquired group, in a similar manner to the acquisition of a business that initially appears to be a bargain purchase (paragraph 36 of IFRS 3). Having conducted such a review, that initial difference may not exist or may be smaller than initially anticipated.

19. The tentative agenda decision reflected this by specifying that an entity first reviews the procedures it has used to determine the individual FVs of the identifiable assets and liabilities to assess whether a difference truly exists before allocating the transaction price.

20. Accordingly, in the scenario described in the ASCG's comment letter, we would expect an entity to first review the individual FVs for the assets acquired and liabilities assumed, and in particular the FVs of any assets or liabilities for which there are less reliable measurements. That review may identify that the entity needs to update the individual FV measurements of those assets or liabilities—the outcome of which might be that a difference between the transaction price and the sum of the individual FVs of the identifiable assets and liabilities may not exist.

Outcomes of the approaches in the tentative agenda decision

Concerns raised

21. Approach #1 might result in an entity recognising an immediate gain or loss if, for example, having reviewed the individual FVs of the identifiable assets and liabilities (as discussed in paragraphs 18-20 above):
    (a) there is a difference between the transaction price and the sum of the individual FVs of those assets and liabilities; and
    (b) the group of assets acquired includes identifiable assets and liabilities initially measured at fair value.

22. The AcSB said that unless there is objective evidence to suggest that the sum of the individual fair values of the assets acquired and liabilities assumed is different from the transaction price, then recognising an immediate gain or loss seems counter-intuitive.

23. Mazars also provided an example of what, in its view, is an anomalous outcome applying Approach #1. The example (which we refer to in this paper as the IP Example) involves the acquisition of all the shares in a real estate company that does not constitute a business. The real estate company holds an investment property that has been fully depreciated for tax purposes, and also has some rent receivables, cash and a financial liability. The transaction price for the shares is less than the sum of the individual FVs of the assets acquired and liabilities assumed solely because of the tax status of the investment property. Because the entity acquires shares in the company that holds the investment property and does not acquire the investment property itself, future tax deductions relating to the investment property will not be available to the entity. This results in a difference in the amount paid for the shares and the sum of the individual FVs of the identifiable assets and liabilities. In contrast, if the entity were to acquire the investment property itself, future tax deductions relating to the investment property are likely to be available.

24. For this example, Mazars suggests allocating the difference entirely to the investment property because, in its view, that would better depict the economics of the transaction (this would be outcome applying Approach #2). Instead, applying Approach #1 an

entity would allocate the difference to all the identifiable assets and liabilities based on their relative FVs.

25. Mazars also provides an example of what, in its view, is an anomalous outcome applying Approach #2. The example provided is similar to the IP Example mentioned above, except that the real estate company acquired also holds a significant investment in a listed entity. In this example, the transaction price is again less than the sum of the individual FVs of the assets acquired and liabilities assumed, but in this instance that difference relates entirely to a discount on the price of the listed shares. The acquirer pays less for the investment in the listed entity than the listed price per share because of the relative size of the investment compared to the depth of the market for the shares. For this example, Mazars suggests allocating the discount entirely to the investment in the listed entity. Instead, applying Approach #2 an entity would allocate the discount to the investment property.

Staff analysis

26. Agenda Paper 2 of the Committee's June 2017 meeting discussed the concern the AcSB raises in its comment letter. That paper identified as a consequence of Approach #1 the possible recognition of an immediate gain or loss on initial recognition of identifiable assets and liabilities initially measured at an amount other than cost. In that paper, we noted that although some might suggest that this is inappropriate, we do not necessarily agree. A number of IFRS Standards require the recognition of a gain or loss on initial recognition in particular scenarios (such as IFRS 9 and IAS 41), or include requirements that might result in such recognition of a gain or loss on initial recognition or immediately thereafter.

27. Agenda Paper 2 of the Committee's June 2017 meeting also discussed the concern raised by Mazars regarding Approach #2. That paper identified as a consequence of Approach #2 the possible allocation to non-financial assets of any difference between the transaction price and the sum of the individual FVs of identifiable assets and liabilities, regardless of the reason for that difference.

28. The June 2017 agenda paper did not explicitly discuss the first example provided by Mazars (the IP Example), and thus we have analysed it in paragraphs 30 - 41 of the paper.

29. We note that, in addressing the question raised in the submission, we have restricted our analysis only to analysing the existing requirements in paragraph 2(b) of IFRS 3. We did not reconsider those requirements, and thus generally did not consider the merits of the outcomes applying those requirements in particular situations. In our view, it would be appropriate to consider in more detail the outcomes of applying the requirements only if the Board or Committee were to decide to undertake standard-setting with respect to the acquisition of a group of assets.

The Investment Property (IP) Example

30. In the first example provided by Mazars (which we refer to as the IP Example), the acquirer (entity) acquires all the shares in a real estate company that does not constitute a business. We understand that this type of transaction is relatively common in the real estate sector. This is particularly the case in jurisdictions where it is advantageous for tax purposes to acquire all the shares of a company that holds an investment property, instead of acquiring the investment property itself.

31. We therefore think it is useful to analyse whether, for this example, the outcomes of applying Approach #1 and Approach #2 might be expected to have a material effect on the amounts that entities report.

32. In the IP Example, the identifiable assets and liabilities are the following:

    (a) an investment property that is fully amortised for tax purposes;

    (b) rent receivables;

    (c) cash; and

    (d) a financial liability, ie the unpaid balance of borrowings of the real estate company that the entity assumes as part of the transaction.

33. The transaction price for the group of assets is less than the sum of the individual FVs of the assets acquired and liabilities assumed. The entity first reviews the procedures it used to determine the individual FVs of those assets and liabilities, and identifies that the difference (discount) between the transaction price and the sum of the individual FVs of the identifiable assets and liabilities relates entirely to the tax status of the investment property. In its individual accounts, the real estate company would

have recognised a deferred tax liability that the entity will not recognise on initial recognition of the investment property applying paragraph 15 of IAS 12[1].

34. We have not obtained information about the significance of any discount for this example. Nonetheless, to understand when the outcomes might be expected to have an effect on amounts that entities report, we have analysed a hypothetical example below for which the figures are entirely 'made up'.

35. In our hypothetical example, an entity acquires the following group of assets for CU600,000:

	Fair value
	CU
Investment property	1,000,000
Rent receivables	20,000
Cash	30,000
	1,050,000
Financial liability	(250,000)
FV of net identifiable assets	**800,000**

36. As mentioned above, the entity has first reviewed the procedures it used to determine the individual FVs of the identifiable assets and liabilities, and identified that the discount of CU200,000 relates entirely to the tax status of the investment property. Applying Approach #1, the entity allocates the transaction price of CU600,000 to the identifiable assets and liabilities based on the relative FVs of those assets and liabilities as follows:

	CU
Investment property	750,000
Rent receivables	15,000
Cash	22,500
	787,500
Financial liability	(187,500)
	600,000

Note. The entity allocates the transaction price as follows: FV of the asset or liability/total FV of net identifiable assets x the amount of consideration. For

[1] See also March 2017 IFRIC Update for the Agenda Decision on IAS 12 – Deferred taxes when acquiring a single asset entity that is not a business.

example, for the investment property the calculation is 1,000,000 / 800,000 * 600,000 = CU750,000.

37. As a consequence, applying Approach #1 the entity allocates the discount to the assets and liabilities as follows:

	FV	**Allocated cost**	**Discount**
Investment property	1,000,000	750,000	250,000
Rent receivables	20,000	15,000	5,000
Cash	30,000	22,500	7,500
	1,050,000	**787,500**	**262,500**
Financial liability	(250,000)	(187,500)	(62,500)
	800,000	**600,000**	**200,000**

38. Applying Approach #2, the entity recognises each of the financial instruments at its FV (because financial instruments are initially measured at FV applying IFRS 9) and allocates the remaining amount of the transaction price to the investment property that is initially measured at cost. Accordingly, the entity allocates all the discount of CU 200,000 to the investment property as follows:

	FV	**Allocated cost**	**Discount**
Investment property	1,000,000	800,000	200,000
Rent receivables	20,000	20,000	-
Cash	30,000	30,000	-
	1,050,000	**850,000**	**200,000**
Financial liability	(250,000)	(250,000)	-
	800,000	**600,000**	**200,000**

39. In this example, Approach #1 and Approach #2 result in different allocations of the transaction price to the identifiable assets and liabilities. Nonetheless, in assessing the overall difference between the outcomes of applying Approach #1 and Approach #2, it is important to also consider the initial measurement requirements for the identifiable assets and liabilities (and, in addition, subsequent measurement for the investment property).

40. Having allocated the transaction price to the identifiable assets and liabilities, the entity:

   (a) measures each financial instrument at its FV applying the initial measurement requirements in paragraphs 5.1.1 and B5.1.1 of IFRS 9.

   In this example, even though applying Approach #1 there is a difference between the transaction price allocated to each financial instrument and its FV, that difference relates entirely to the tax associated with the investment property. Accordingly, the difference represents 'something other than the financial instrument' as described in paragraph B5.1.1 of IFRS 9.

   > The fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also paragraph B5.1.2A and IFRS 13). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument. For example, the fair value of a long-term loan or receivable that carries no interest can be measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

   (b) measures the investment property initially at cost, and subsequently using either the fair value model or the cost model in IAS 40 *Investment Property*.

      (i) If the entity applies the fair value model, then subsequent to initial recognition it remeasures the investment property at FV, ie CU1,000,000.

      (ii) If the entity applies the cost model, then it continues to measure the investment property at cost, ie the allocated transaction price. Applying Approach #1, cost is CU750,000; applying Approach #2, cost is CU800,000.

41. The following tables illustrate the outcomes of applying Approach #1 and Approach #2 to the IP Example, first assuming the entity applies the fair value model in IAS 40 to its investment property and, second assuming it applies the cost model:

(a) Investment property (fair value model)

	Approach #1 Measurement*	**Approach #2 Measurement***
Investment property	1,000,000	1,000,000
Rent receivables	20,000	20,000
Cash	30,000	30,000
	1,050,000	**1,050,000**
Financial liability	(250,000)	(250,000)
Overall gain recognised in P&L	**200,000**[2]	**200,000**[3]

* **Note**: this table shows the amounts at which the entity initially measures the identifiable assets and liabilities applying each approach, adjusted to reflect the subsequent measurement requirements in IAS 40. We've presented this analysis to provide a complete picture of the gain or loss the entity recognises as a result of the transaction. In our view, any immediate gain or loss the entity recognises on remeasuring the investment property at fair value applying the fair value model in IAS 40 is relevant in considering the overall effects of applying Approach #1 or Approach #2 to the transaction.

[2] Applying Approach 1, the gain of CU200,000 recognised comprises: (a) CU250,000 gain related to remeasuring the investment property at FV after initial recognition (CU1,000,000 – CU750,000 (allocated cost)); (b) CU5,000 gain related to initially measuring the rent receivables at FV (CU20,000 – CU15,000); (c) CU7,500 gain related to initially measuring the cash at FV (CU30,000 – CU22,500); and (d) CU62,500 loss related to initially measuring the financial liability at FV (CU250,000 – CU187,500).

[3] Applying Approach 2, the gain of CU200,000 recognised comprises CU200,000 related to remeasuring the investment property at FV after initial recognition (CU1,000,000 – CU800,000 (allocated cost)).

(b) Investment property (cost model)

	Approach #1 Measurement*	Approach #2 Measurement*
Investment property	750,000	800,000
Rent receivables	20,000	20,000
Cash	30,000	30,000
	800,000	**850,000**
Financial liability	(250,000)	(250,000)
Overall loss recognised in P&L	**(50,000)**[4]	**-**

Conclusion regarding the IP Example

42. As noted above, we understand that this type of transaction is relatively common in the real estate sector, although the exact form can vary—for example, in some cases, the real estate company acquired might hold only the investment property and not have any financial instruments; in other cases, the real estate company acquired might include some rent receivables or cash but not have any financial liabilities.

43. If the transaction were to include only the acquisition of investment property, then the matter discussed in this paper does not arise because there is no allocation of the transaction price to identifiable assets and liabilities—the transaction involves the acquisition of only one asset.

44. If the transaction were to include the acquisition of investment property together with some rent receivables or cash, any difference in outcomes between Approach #1 and Approach #2 would be expected to be small. For example, assume in the IP example (outlined in paragraphs 30-41 of this paper) that the real estate company acquired holds the investment property, as well as the rent receivables and cash, but does not have the financial liability. The entity would have paid CU850,000 for the shares in that company (ie CU250,000 more than it paid in the IP example above because, in this case, the entity does not assume a financial liability with a fair value of

[4] Applying Approach 1, the loss of CU50,000 recognised comprises: (a) CU5,000 gain related to initially measuring the rent receivables at FV (CU20,000 – CU15,000); (b) CU7,500 gain related to initially measuring the cash at FV (CU30,000 – CU22,500); and (c) CU62,500 loss related to initially measuring the financial liability at FV (CU250,000 – CU187,500).

CU250,000). In this case, even if the entity subsequently measures investment property applying the cost model in IAS 40, the difference between Approach #1 and Approach #2 would be only CU9,524—applying Approach #1, the entity would measure the investment property at CU809,524 (with a corresponding overall gain recognised in profit or loss of CU9,524) and applying Approach #2, at CU800,000 (with no gain recognised in profit or loss).[5]

45. In addition, the example illustrates that if the entity applies the fair value model in IAS 40 to its investment property, then there is no difference in outcomes between Approach #1 and Approach #2.

46. Nonetheless, as illustrated above, in a transaction that includes the acquisition of both (a) investment property to which the entity applies the cost model in IAS 40; and (b) financial instruments (initially measured at fair value), there may be a difference between the application of Approach #1 and Approach #2.

Research results

47. For the IP example, because the application of Approach #1 and Approach #2 might have an effect on the amounts that entities report only when an entity applies the cost model in IAS 40, we have researched how frequently that effect might arise.

48. We analysed the accounting policies of a sample of public real estate entities in different jurisdictions to identify the proportion of entities applying the fair value model in IAS 40 to investment property versus the cost model. We selected a sample of entities from countries (a) for which the combined market capitalisation of public real estate entities is more than 1 billion US dollars, and (b) that have more than 10 public entities in the sector. Out of 83 selected entities, 63 entities apply the fair value model in IAS 40 and 20 entities apply the cost model. Entities apply the cost model in IAS 40 more frequently in Malaysia, the Philippines, India and Thailand. Entities in

[5] Applying Approach 1, the transaction price allocated to the investment property is calculated as: CU1,000000 / CU1,050,000 * CU850,000 = CU809,524. The overall gain of CU9,524 relates to initially measuring the rent receivables and cash at FV applying IFRS 9, ie the difference between the transaction price allocated to the rent receivables and cash of CU40,476 (850,000 – 809,524) and the sum of the individual FVs of those assets of CU50,000.

Hong Kong, Australia, China, Singapore, France, Germany, Canada and the UK predominantly apply the fair value model in IAS 40.

49. The sample excludes real estate investment trusts (REITs). Our understanding and expectation is that the vast majority of REITs apply the fair value model in IAS 40.

50. We have also reviewed the financial statements of 10 insurance entities because we understand that insurance entities might also enter into transactions similar to the IP example. Eight of those insurance entities apply the fair value model in IAS 40 and two entities apply the cost model.

51. Appendix B to this paper includes further details about the research performed.

Staff conclusion—whether to finalise the agenda decision

52. The tentative agenda decision explained that, in the light of its conclusion that there are two ways to reasonably read the requirements in paragraph 2(b) of IFRS 3, the Committee considered whether to add a project on the acquisition of a group of assets. Having done so, the Committee tentatively decided not to add a project to its standard-setting agenda. This is because the Committee had not obtained evidence that the outcomes of applying the two approaches outlined in the tentative agenda decision would be expected to have a material effect on the amounts that entities report.

53. The comments received did not, in our view, provide information that would suggest the Committee should reconsider its conclusion that there are two ways to reasonably read the requirements in paragraph 2(b) of IFRS 3. Accordingly, the following paragraphs consider whether the comments suggest the Committee should reconsider its decision not to add a project to its standard-setting agenda. In other words,
    (a) do we now have evidence that the outcomes of applying Approach #1 and Approach #2 would be expected to have a material effect on the amounts that entities report; and if so
    (b) could the matter be resolved efficiently (is it sufficiently narrow in scope)?

When might the outcomes of applying Approach #1 and Approach #2 have a material effect?

54. Our analysis in Agenda paper 2 of the Committee's June 2017 meeting and in this paper has identified that we would not expect any difference in outcomes between Approach #1 and Approach #2 in the following situations:

    (a) when the group of assets acquired includes assets and liabilities initially measured entirely at cost or entirely at fair value applying the applicable Standards.

    (b) when the group of assets acquired includes assets and liabilities initially measured at both cost and fair value, but the assets or liabilities initially measured at cost are subsequently measured at fair value.

55. Consequently, the matter might have a material effect on the amounts that entities report if:

    (a) there is a significant difference between the transaction price and the sum of the individual FVs of the identifiable assets and liabilities;

    (b) the group of assets acquired includes assets and liabilities initially measured at both cost and fair value; and

    (c) the assets and liabilities initially measured at cost are also subsequently measured at cost.[6]

56. We have not been provided with any quantitative evidence or information that the outcomes of applying Approach #1 and Approach #2 would be expected to have a material effect on the amounts that entities report.

57. Mazars provided two examples in its comment letter. For one of those examples (ie the transaction that incorporates the acquisition of a significant investment in a listed entity (discussed in paragraph 25 of this paper)), there is no evidence or information as to how frequently entities would acquire such a significant investment together with other assets initially and subsequently measured at cost. It is only in that

[6] The June 2017 Committee meeting paper also identified that the matter might have a material effect if the transaction price allocated to an asset or liability that an entity initially measures at an amount other than cost or fair value is materially different from its initial measurement (for example, a deferred tax asset arising from the carryforward of unused tax losses).

scenario that Approach #1 and Approach #2 might possibly have a material effect on the amounts that entities report.

58. The IP Example is, however, one that we understand is relatively common in the real estate sector and for which the outcomes of applying Approach #1 and Approach #2 might have a material effect on the amounts that entities report. Nonetheless, that would be the case only if the entity applies the cost model in IAS 40. Our research highlights that we would expect the amounts reported by a large majority of entities that might enter into such transactions to be unaffected. This is because those entities apply the fair value model in IAS 40.

59. Finally, assuming transactions between unrelated parties, we would expect it to be relatively infrequent that the transaction price for a group of assets would be materially different from the sum of the individual FVs of identifiable assets and liabilities (other than as identified in the context of the IP Example). As noted in the tentative agenda decision, if an entity initially identifies such a difference, then it would first review the procedures it has used to determine the individual FVs of each of the assets and liabilities within the group. Having conducted such a review, that initial difference may not exist or be smaller than initially anticipated.

Could the matter be resolved efficiently (is it sufficiently narrow in scope)?

60. If the Committee were to undertake a standard-setting project on this matter, we would recommend a narrow-scope project to amend IFRS 3 to clarify Approach #1. Approach #1 would require little change to the requirements, and thus have a low risk of unintended consequences.

61. Nonetheless, respondents' views on the tentative agenda decision indicate that Approach #1 would result in outcomes in some scenarios that at least some stakeholders would view as anomalous or counter-intuitive. We therefore think any proposal that would address the accounting for the acquisition of a group of assets would lead to the need to consider that accounting more comprehensively—in particular, how the accounting for a group of assets compares to the accounting for the acquisition of a business. In our view, such a project would be far from narrow in

scope. Consequently, we anticipate that it would not be possible to address the matter efficiently.

62. We agree with respondents that the forthcoming amendment to the definition of a business in IFRS 3 is likely to increase the population of transactions that constitute the acquisition of a group of assets. Nonetheless, at this stage, we have no information as to whether the transactions that may have been acquisitions of a business in the past, but would be acquisitions of a group of assets applying the forthcoming amendment, would have the characteristics listed above in paragraph 55 of this paper.

Staff recommendation

63. On the basis of our analysis in paragraphs 54 - 62 of this paper, we recommend that the Committee does not add a project to its standard-setting agenda but, instead, finalises the tentative agenda decision published in IFRIC Update in June 2017.

64. In addition, we do not suggest asking the Board to consider whether to add a project on the acquisition of a group of assets at this time. As part of its 2015 Agenda Consultation, the Board decided not to add such a project to its work plan. Consequently, without any new evidence or information that would indicate the Board needs to address the accounting for the acquisition of a group of assets, we think the Board is unlikely to consider such a project to be a higher priority than other projects on its work plan.

65. In our view there is benefit in finalising the agenda decision at this time for two reasons:

    (a) it would narrow the possible accounting treatments to two approaches (for example, the submission had outlined 3 possible approaches); and

    (b) it is beneficial to highlight that, on initially identifying any difference between the transaction price and the sum of individual FVs of the identifiable assets and liabilities, an entity first reviews the procedures it has used to determine those individual FVs.

66. Appendix A to this paper outlines the draft wording for the final agenda decision subject to only a small change. In its comment letter, Mazars suggested the reference

to IAS 40 in the tentative agenda decision could be confusing. That reference was provided merely as an example, therefore on the basis that it might be confusing we propose to delete it from the agenda decision.

Question for the Committee

Does the Committee agree with our recommendation to finalise the agenda decision outlined in Appendix A to this paper?

Appendix A - Proposed wording for final agenda decision

We propose the following wording for the final agenda decision (deleted text is struck through).

IFRS 3 *Business Combinations*—Acquisition of a group of assets ~~that does not constitute a business~~

The Committee received a request ~~to clarify~~ <u>asking</u> how an entity accounts for the acquisition of a group of assets that does not constitute a business (the group). More specifically, the submitter asked ~~for clarity on~~ how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:

(a) the sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price; and

(b) the group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.

Paragraph 2(b) of IFRS 3 requires an entity to do the following on acquisition of a group of assets:

(a) identify and recognise the individual identifiable assets acquired and liabilities assumed; and

(b) allocate the cost of the group to the individual identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Other IFRS Standards include initial measurement requirements for particular assets and liabilities (for example, IFRS 9 *Financial Instruments* for financial instruments ~~and IAS 40 Investment Property for investment property~~).

The Committee observed that if an entity initially considers that there might be a difference between the transaction price for the group and the sum of the individual fair values of the identifiable assets and liabilities, the entity first reviews the procedures it has used to determine those individual fair values to assess whether such a difference truly exists before allocating the transaction price.

The Committee then considered two possible ways of accounting for the acquisition of the group.

Applying the first approach, an entity accounts for the acquisition of the group as follows:

(a) it identifies the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition;

(b) it determines the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative fair values of those assets and liabilities at the date of the acquisition; and then

(c) it applies the initial measurement requirements in applicable Standards to each identifiable asset acquired and liability assumed. The entity accounts for any difference between the amount at which the asset or liability is initially measured and its individual transaction price applying the relevant requirements.

Applying the second approach, for any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard. The entity deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions.

In the light of its analysis, the Committee considered whether to add a project on the acquisition of a group of assets to its standard-setting agenda. The Committee has not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B - Review of publicly available financial statements

B1. We reviewed publicly available financial statements of real estate entities to identify how common it might be for any difference to arise between the outcomes of applying Approach #1 and Approach #2. Hence, our analysis focussed on identifying entities that apply the fair value model in IAS 40 to investment property versus those that apply the cost model.

B2. We used S&P Global Market Intelligence Capital IQ platform to select entities for this purpose. Of 600 public real estate entities around the world, we selected 100 entities from countries (a) for which the combined market capitalisation of public real estate entities is more than 1 billion US dollars, and (b) that have more than 10 public entities in the sector.

B3 Because some entities' financial statements were not publicly available, the findings in the table below are based on the financial statements of 83 entities.

B4. The following table shows the number of entities applying the fair value model and the cost model for each country:

Headquarters - Country	Number of entities selected	Number of entities applying cost model	Number of entities applying FV model
Hong Kong	5		5
Germany	4		4
Philippines	5	4	1
Singapore	5		5
Thailand	5	3	2
India	4	4	
Australia	10	2	8
China	5		5
Canada	10		10
United Kingdom	6		6
Kuwait	5		5
France	5	1	4
Malaysia	8	5	3
Poland	4		4
Egypt	2	1	1
Total	**83**	**20**	**63**

B5 We also selected publicly available financial statements of 10 insurance entities, one from each of the following countries:

Country	Model applied
Zimbabwe	Fair value
United Kingdom	Fair value
Barbados	Fair value
Canada	Fair value
France	Cost
Italy	Fair value
Nigeria	Fair value
Qatar	Fair value
South Korea	Cost
Switzerland	Fair value

Appendix C - Copies of comment letters

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
ifric@ifrs.org

24 July 2017

Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2017 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ('IFRS IC') tentative agenda decisions included in the June 2017 IFRIC Update.

IAS 28—Acquisition of an associate or joint venture from an entity under common control

We think that this issue cannot be solved with non-authoritative guidance, because there is divergence in practice on how an entity should account for the acquisition of an interest in an associate or joint venture from an entity under common control. We think that these transactions are common in practice and may have a significant impact on the acquiring entity.

We strongly disagree with the IFRS IC conclusion that:
"*the requirements in IFRS Standards provide an adequate basis for an entity to account for the acquisition of an interest in an associate or joint venture from an entity under common control*."
We note that this conclusion is inconsistent with the IFRS IC Agenda Decision published in May 2013, which states that:
"*…The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.*
The Interpretations Committee 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 broader projects on accounting for business combinations under common control and the equity method of accounting…"

We also think that the existing divergence in practice is confirmed by the IFRS accounting manuals of some accounting firms. According with these manuals the following views can be considered:

- View 1: There is no scope exemption in IAS 28 for such transactions; therefore, the normal measurement rules are applicable
- View 2: An entity may apply the common control scope exclusion in IFRS 3 by analogy to the accounting for common control transactions in separate financial statements. … In our view, the common control exemption in accounting for business combinations should also apply to the transfer of investments in associates and joint ventures between investors under common control. Although IAS 28 does not include an explicit exemption for common control transactions, equity accounting follows the methodology of acquisition accounting. Therefore, we believe that it is appropriate to extend the application of the common control exemption to those transfers.
- View 3: IAS 28 is not clear. Two possible approaches:
    - Acquisition accounting: the difference between the fair value of the underlying assets and the consideration given is goodwill or a gain
    - Pooling of interests: the scope exemption for BCUCC extends to transfers of associates and JVs within an existing group

We note that the tentative agenda decision states that:
"The Committee observed that in accounting for the acquisition of the interest, the entity would assess whether the transaction includes a transaction with owners in their capacity as owners—if so, the entity determines the cost of the investment taking into account that transaction with owners."
We think that this statement may have significant unintended consequences because it might be applied by analogy to all common control transactions that are not business combinations under common control, transfer of non-financial assets (eg property plant and equipment, inventories, investment properties), transfer of financial assets, and, with reference to Separate Financial Statements, to the transfer of investments in subsidiaries. These transactions are very common in practice and some may interpret this statement as requiring to assess whether any common control transactions includes a transaction with owners in their capacity as owners (ie whether it includes a distribution or a contribution). We also question how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners, given that no guidance is provided in IFRS.

Consequently, we recommend the IFRS IC to address the accounting for the acquisition of an interest in an associate or joint venture from an entity under common control issuing authoritative guidance (ie a Standard, an Interpretation or an Amendment). In doing this, we recommend to:
- carefully consider the potential consequences (especially in separate financial statements) on the accounting for other common control transactions that are not business combinations under common control;
- explain how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners.

IFRS 3—Acquisition of a group of assets that does not constitute a business

We note that the tentative agenda decision states that:
"The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions … The Committee has

not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report"
We do not support these conclusions. We think that the IFRS IC should clarify how an entity should apply the requirements in paragraph 2(b), because in an acquisition of a group of assets the transaction price may be different to the sum of the individual fair values of the acquired assets. This may happen, for example, because the seller in order to conclude an important transaction that involves many assets may be willing to grant a discount (that may be significant) that it would not grant if it sold only a single asset. In our view, if the discount is significant, the outcomes of the two approaches described in the tentative agenda decision may have a material effect on the financial statements of the buyer.

IAS 37—Costs considered in assessing whether a contract is onerous

We note that the tentative agenda decision states that:
"The Committee discussed two possible ways of applying the requirements in paragraph 68 of IAS 37 relating to the unavoidable costs of fulfilling the contract:

a. unavoidable costs are the costs that an entity cannot avoid because it has the contract (for example, an entity would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract).
b. unavoidable costs are the costs that an entity would not incur if it did not have the contract (often referred to as 'incremental costs')."

We think that the IFRS IC should clarify the differences between the two possible ways of reading "unavoidable costs", for example specifying that an entity would not generally consider depreciation as an unavoidable cost if it applies the "incremental cost" approach (unless the entity has purchased a particular item of plant and equipment to fulfil the contract).
We also think that the IFRS IC should recommend the IASB to clarify the meaning of "unavoidable costs" in IAS 37, because the outcomes of the two approaches outlined in the tentative agenda decision may have a material effect on the entity financial statements. This should reduce the risks of difference in practice.

IAS 38—Goods acquired for promotional activities

We agree with the IFRS IC conclusions reported in this tentative agenda decision; however, we suggest clarifying in the fact pattern of the tentative agenda decision that "doctors" are not "customers" as defined by IFRS 15 *Revenue from Contracts with Customers.* This is to clarify that the guidance in IFRS 15 on identifying performance obligation does not apply to the promotional activities described in the tentative agenda decision.

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

Yours sincerely,
Angelo Casò
(Chairman)

MAZARS

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

Paris, August 2, 2017

Tentative Agenda Decisions – IFRIC Update March 2017

Dear Sue,

MAZARS is pleased to comment on the above IFRS Interpretations Committee tentative agenda decisions published in the June 2017 IFRIC Update.

With the exception of IAS 38 (Goods acquired from promotional activities), we have strong reservations on the tentative agenda decisions proposed by the Committee.

1. The agenda decision on IFRS 3 identifies two possible ways of applying the requirements of the standards, and both of them may lead in some instances to irrelevant outcomes. Therefore, without reducing diversity in practice, the agenda decision would make some entities change their current practice for a less relevant outcome.

2. Regarding the IAS 28 issue, the Committee changed its mind since the May 2013 agenda decision, and the current tentative decision would lead to increased costs and complexity for preparers by requiring significant restatements between the financial statements of the acquirer and those of the ultimate parent.
   Moreover, the tentative agenda decision includes a statement relating to "*transactions with owners in their capacity as owners*" which could be seen as establishing a principle of identifying – and separating – an embedded equity transaction in any transaction between entities under common control that is not made on terms equivalent to those that prevail in arm's length transactions.

3. IFRS 15 has deleted IAS 11 guidance regarding the costs to consider in an onerous construction contract. We encourage the IFRS Interpretations Committee or the Board to undertake a project to provide a consistent guidance under IAS 37 on measuring provisions for onerous contracts with customers, tackling with the questions of both the costs and the expected benefits to take into account.
   In the meantime, the issue could be partially dealt with through an agenda decision, but we strongly disagree with the tentative decisions made by the Committee. We do not think that incremental costs is a reasonable reading of the requirements in paragraph 68 of IAS 37. On the contrary, we believe that the costs that relate directly to a contract as

described in IFRS 15 could be a relevant measure of the costs that the entity cannot avoid because it has the contract. We therefore do not understand the rationale for refusing that approach, which has the merit to rely on a consistency between the wording used in both IFRS 15 and IAS 37.

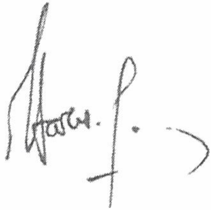
Our comments on the various tentative agenda decisions are detailed in the Appendices to this letter.

Should you have any questions regarding the above comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin

Financial Reporting Technical Support



Edouard Fossat

Financial Reporting Technical Support

MAZARS

Appendix 1

IFRS 3 *Business Combinations*—Acquisition of a group of assets that does not constitute a business (Agenda Paper 2)

We do not agree with the IFRS IC's tentative agenda decision made in June 2017 regarding **IFRS 3 Business Combinations—Acquisition of a group of assets that does not constitute a business.**

While we agree that the two approaches of allocating the acquisition price to individual items within the group described in the tentative agenda decision can be considered as compliant with the existing IFRSs, we are concerned there may be situations where neither of them could correctly and reliably depict the economic substance of the acquisition transaction. Moreover, stating that 2 methods are compliant:

- Will not completely eliminate diversity in practice, two different readings of the standards being considered as acceptable;
- Will oblige entities that currently first assess the reasons for a discount in the transaction price and allocate the discount according to this assessment before applying IFRS 3.2(b), to change their practice and adopt one of the two methods described in the Tentative Agenda Decision, with an outcome that could be a less relevant representation of the underlying economics of the transaction.

If the IASB finalises its proposed amendment to the definition of a business in IFRS 3, the issue would be more widespread, as some transactions that are business combinations applying the existing definition are likely to become acquisitions of a group of assets applying the proposed definition.
We therefore believe that this issue deserves to be added to the Board's or the Interpretations Committee's standards setting agenda.

We are convinced that there are situations where there are identifiable objective reasons for a discount in the transaction price compared to the sum of the individual fair values of the assets and liabilities acquired.
We agree with the following Committee's observation in the Tentative Agenda Decision:
"The Committee observed that if an entity initially considers that there might be a difference between the transaction price for the group and the sum of the individual fair values of the identifiable assets and liabilities, the entity first reviews the procedures it has used to determine those individual fair values to assess whether such a difference truly exists before allocating the transaction price."
When assessing whether such a difference truly exists, the entity may identify the reasons for that difference, and may conclude that all or part of the discount relates to one of the identifiable assets acquired.
In those situations, applying Approach #1 or Approach #2 may lead to irrelevant outcomes.

Example of irrelevant outcome from application of Approach #1:

Suppose the acquisition (with a discount in the transaction price compared to the sum of the individual fair values of the acquired assets and liabilities) of a separate real-estate entity that does not constitute a business. The identifiable assets and liabilities are the following:

- An investment property that has been fully amortised for tax purposes;
- Some rental receivables;
- Cash and cash equivalents;
- A financial liability that is the unpaid balance of the borrowing raised by the entity for acquiring the investment property.

Under this fact pattern, the acquirer identifies that the discount relates in its entirety to the tax status of the investment property: no future tax deductions will be available since the asset has been already fully depreciated for tax purposes.

Applying Approach #1 to this fact pattern would lead to allocating the discount to all identified assets and liabilities according to IFRS 3.2(b), including cash and cash equivalents and the financial liability. We are convinced that, given this specific fact pattern, allocating the discount in its entirety to the investment property would better depict the economics of the transaction.

Example of irrelevant outcome from application of Approach #2:

Now suppose the acquisition (with a discount in the transaction price compared to the sum of the individual fair values of the acquired assets and liabilities) of a separate entity that does not constitute a business. The identifiable assets and liabilities are the following:

- An investment property, with no significant difference between its fair value and its tax base;
- Some rental receivables;
- A significant investment (5%) in a listed entity;
- Cash and cash equivalents;
- A financial liability that is the unpaid balance of the borrowing raised by the entity for acquiring the investment property and the investment in the listed entity.

When assessing whether the discount in the transaction price truly exists, the acquirer identifies that the discount relates to the holding in the listed entity, given its relative size compared to the depth of the market for the equity instruments of that listed entity.

Applying Approach #2 to this fact pattern would lead to:

1. Recognising the financial liability, the rental receivables, the cash and cash equivalents at their fair value;
2. Recognising the investment in the listed entity at its fair value according to IFRS 13 (i.e. using a Price x Quantity formula);
3. Allocating the residual amount of the transaction price, after deducting the individual fair values of the financial assets and the financial liability, to the investment property that is to be initially recognised at cost.

Approach #2 leads therefore to allocating the entire discount to the investment property, despite the acquirer's assessment that the discount relates to the holding in the listed entity.

Mazars' preferred solution

The two examples above clearly demonstrate that there are some situations where applying either Approach #1 or #2 would lead to irrelevant outcomes. It would be the case whenever (a) a clear rationale exists for the discount in the transaction price, and (b) a reasonable allocation of that discount to some of the acquired assets and liabilities can be made based on the underlying economics of the acquisition.

We would therefore recommend the IFRS Interpretations Committee and the Board to consider introducing a guidance for allocating the transaction price consistent with the principles for allocating a discount to the performance obligations under IFRS 15: according to IFRS 15.81, a discount is allocated proportionately to all performance obligations unless there is observable evidence that the entire discount relates to only one or more, but not all, performance obligations in a contract.

Other comments

Should the Interpretations Committee decide to finalize its agenda decision, we would like to point out that quoting IAS 40 as a standard that includes initial measurement requirements for particular assets may be misleading. Indeed, one may understand that under Approach #2, investment properties would be recognized at fair value at the same time as financial instruments, before allocating the residual of the transaction price proportionately to other assets and liabilities.
Since Approach #2 requires to first measure assets and liabilities initially measured at an amount other than cost, this first step will not apply to investment properties, which are initially measured at cost according to IAS 40.20, whatever the model chosen for subsequent measurement.

AUTORITE DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12
Phone (+ 33 1) 53.44.28 53
Internet http://www.anc.gouv.fr/
Mel patrick.de-cambourg@anc.gouv.fr

Chairman

Paris, 3rd August 2017

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

PDC N°70

June 2017- IFRS-IC tentative decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in June 2017 IFRIC Update. This letter sets out some of the most critical comments raised by interested stakeholders involved in ANC's due process.

IAS 38 – Goods acquired for promotional activities

ANC concurs with the IFRS-IC that goods acquired for promotional activities are immediately expensed.

IAS 37 – Costs considered in assessing whether a contract is onerous

ANC acknowledges and agrees that the notion of "unavoidable costs of fulfilling a contract" can be understood and applied in different ways. While we appreciate the pragmatic approach taken by the IFRS-IC at the eve of the adoption of IFRS 15, we believe that accepting two different approaches will not reduce the diversity in practice. Therefore, ANC encourages the IFRS-IC or the IASB to initiate a project to provide further guidance and to foster consistency in the application of IAS 37. This project could be undertaken as part of the IFRS 15 Post implementation review (or sooner). Among other things, such a project would explore whether further variants or approaches exist. It would also clarify whether these approaches are accounting policies or accounting estimates in light of the current IASB's project on this topic.

In the meantime ANC's view is that neither conclusion nor guidance should be introduced in the decision.

IAS 28 – Acquisition of an associate or joint venture from an entity under common control

As mentioned in the agenda paper, the request has already been discussed by the IFRS-IC in January and May 2013. It then concluded that "*it would be better to consider this matter within the context of broader projects on BCUCC and the equity method of accounting*". The scope of the BCUCC and equity method projects that is currently decided or contemplated will however not deal with that issue. Therefore, the Committee decided in March 2017 to reconsider the issue.

ANC fully supports the ambition of the Committee to address this issue but disagrees with the proposed wording for rejection and its conclusion. ANC believes that a more comprehensive analysis should be conducted before a conclusion can be made. For example, the IFRS-IC has not considered circumstances where a subgroup comprising subsidiaries and equity accounting investments are transferred within a group and whether it would be appropriate to apply the principles of predecessor accounting for the subsidiaries, and the principles of IFRS 3 for the equity accounted investments.

ANC therefore believes that the IFRS-IC should conclude consistently with its decision made in 2013 and encourage the IASB to enlarge the scope of its project on BCUCC to include this particular aspect.

ANC is also concerned by the reference to "*transactions with owners*". Those transactions cover a much wider scope than only transfers of equity accounted investments within a group, e.g. sale of goods as part of intercompany transactions. ANC suggests removing such reference which could give rise to unintended consequences.

IFRS 3/IFRS 9 – acquisition of a group of assets that does not constitute a business

ANC does not disagree with the two approaches suggested by the IFRS-IC. However, in light of the future amendment of IFRS 3 on the definition of a business, ANC believes that this issue could become far more widespread than currently observed based on the outreach conducted by the IFRS-IC. ANC therefore recommends that the IFRS-IC adds this issue to its agenda to foster consistency.

Yours sincerely,

Patrick de CAMBOURG

Financial Reporting and Standards Canada
277 Wellington Street West,
Toronto, ON Canada M5V 3H2
T. 416 204.3467 F. 416 204.3412
www.frascanada.ca

August 15, 2017

Submitted by electronic mail to ifric@ifrs.org

IFRS Interpretations Committee
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

Re: IFRS 3 Business Combinations—Acquisition of a group of assets that does not constitute a business

The Canadian Accounting Standards Board (AcSB) appreciates the efforts of the IFRS Interpretations Committee and its process to consider the issue we submitted on how to allocate the transaction price to the identifiable assets acquired and liabilities assumed in the acquisition of a group of assets that does not constitute a business.

We followed the process of the Committee to deliberate this issue and decide not to add this item to its agenda. However, we held discussions with various stakeholders both before and after we submitted the issue. These discussions have lead us to think that there is diversity in views in Canada on how a transaction price should be allocated between financial and non-financial assets that are acquired as part of a bundle when a difference exists. We are concerned that these diverse views coupled with the conflicting guidance in the current standards, is resulting in diversity in practice globally. As a national standard setter we thought it was important to elevate this issue to the Committee.

On acquisition of a group of assets that does not constitute a business, paragraph 2(b) of IFRS 3 requires an entity to allocate the cost of the group to the individual identifiable assets acquired and liabilities assumed based on their relative fair values at the date of the acquisition. The Committee concluded that

a reasonable reading of this requirement results in two possible accounting approaches. The outcome of applying these two approaches is different and that is problematic. Unlike the second approach, the first approach would result in an immediate gain or loss being recognized for the difference between the relative fair value of assets acquired or liabilities assumed, and the fair value of such assets or liabilities based on the initial measurement requirements of the applicable Standard. Unless there is **objective evidence** to suggest that the sum of the individual fair values of the assets acquired and liabilities assumed is different from the transaction price for the acquisition as a whole, then recognizing a gain or loss seems counter-intuitive for a transaction of this nature.

We understand that the most prevalent practice in Canada is to account for the acquisition of the group by applying the second approach and such that the use of the first approach results in diverse practices globally. Furthermore, we are concerned that the Committee's tentative agenda decision that concludes the requirements permit the use of two approaches will lead to further diversity. We think that the Committee should proactively monitor this issue, as acquisitions of groups of assets that do not constitute a business are expected to be more frequent when the amendments to the Definition of a Business (ED/2016/1) are issued and become effective.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@acsbcanada.ca) or Michael Massoud, Principal, Accounting Standards (+1 416 204-3286 or email mmassoud@acsbcanada.ca).

Yours truly,

Linda F. Mezon, FCPA, FCA
CPA (MI)
Chair, Canadian Accounting Standards Board
lmezon@acsbcanada.ca
+1 416 204-3490

About the Canadian Accounting Standards Board

We are an independent body with the legal authority to establish accounting standards for use by all Canadian publicly accountable enterprises, private enterprises, not-for-profit organizations and pension plans in the private sector. We are comprised of a full-time Chair and volunteer members from a variety of backgrounds, including financial statement users, preparers, auditors and academics; a full-time staff complement supports our work.

Our standards

We have adopted IFRS© Standards as issued by the IASB for publicly accountable enterprises. Canadian securities legislation permits the use of U.S. GAAP in place of IFRS in certain circumstances. We support a shared goal among global standard setters of high-quality accounting standards that result in comparable financial reporting outcomes regardless of the GAAP framework applied.

We developed separate sets of accounting standards for private enterprises, not-for-profit organizations and pension plans. Pension plans are required to use the applicable set of standards. Private enterprises and not-for-profit organizations can elect to apply either the set of standards developed for them, or IFRS Standards as applied by publicly accountable enterprises.

Our role vis-à-vis IFRS

Our responsibility to establish Canadian GAAP necessitates an endorsement process for IFRS Standards. We evaluate and rely on the integrity of the IASB's due process as a whole, and monitor its application in practice. In addition, we perform our own due process activities for each new or amended IFRS Standard to ensure that the standard is appropriate for application in Canada. We reach out to Canadians on the IASB's proposals to understand and consider their views before deciding whether to endorse a final IFRS Standard. A final standard is available for use in Canada only after we have endorsed it as Canadian GAAP.

esma European Securities and Markets Authority

THE CHAIR

Date 18 August 2017
ESMA32-61-193

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

Ref: The IFRS Interpretations Committee's June 2017 tentative agenda decisions

Dear Mrs Lloyd,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the June 2017 IFRIC Update of the tentative agenda decisions related to the application of IFRS 3 *Business combinations* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.* We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

Acquisition of a group of assets that does not constitute a business – IFRS 3

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an entity accounts for the acquisition of a group of assets that does not constitute a business. ESMA notes that the IFRS IC concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches of allocation of transaction price to individual acquired assets and liabilities.

ESMA disagrees with the tentative decision not to address this issue because such decision perpetuates the diversity in practice and might even encourage inconsistent application to develop in jurisdictions where such diversity did not exist before. Furthermore, in light of the upcoming amendment to IFRS 3 on the definition of a business, ESMA is of the view that this issue could become far more widespread and material than currently observed based on the outreach conducted by the IFRS IC.

Consequently, in order to ensure consistent application of the IFRS, ESMA calls on the IFRS IC to use the opportunity to recommend to the Board to consider this issue in the currently discussed amendments of IFRS 3 on the definition of business. In the meantime, before any further guidance is provided, ESMA agrees with the IFRS IC that an entity shall apply its reading of the requirements consistently to all asset acquisitions.

Costs considered in assessing whether a contract is onerous – IAS 37

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify which costs an entity considers when assessing whether to recognise an onerous contract provision applying IAS 37. ESMA notes that the IFRS IC concluded that reasonable reading of the requirements in paragraph 68 of IAS 37 on unavoidable costs of fulfilling a contract results in one of the two approaches; one defining unavoidable costs as the costs that an entity cannot avoid because it has the contract, i.e. including allocation of overhead costs; the other limiting unavoidable costs to incremental costs (referring to the costs that an entity would not incur if it did not have the contract).

ESMA regrets that the IFRS IC concluded that it would be unable to resolve the matter efficiently within the confines of existing IFRS Standards. Based on the enforcement experience in Europe, ESMA notes that the notion of '*unavoidable costs of fulfilling a contract*' can be understood and applied in different ways. ESMA believes that accepting two different approaches will lead to increased diversity in practice. Furthermore, ESMA believes that consistency should be ensured between the interpretation of the costs to be included in the calculation of the provision under IAS 37 and the definition of the costs to fulfil a contract in paragraph 95 of IFRS 15 *Revenue from Contracts with Customers*.

Consequently, ESMA disagrees with the IFRS IC tentative agenda decision. We consider that the issue is sufficiently narrow and thus can be efficiently addressed without opening all the conceptual issues related to IAS 37. However, in light of the inability of the IFRS IC to resolve the issue efficiently, ESMA suggests the IFRS IC refers the issue to the Board to consider addressing it in a narrow-scope amendment in order to provide additional guidance and foster consistency in the application of IAS 37.

In the meantime, ESMA agrees with the IFRS IC that an entity shall apply its reading of the requirements consistently to all applicable contracts.

We would be happy to discuss these issues further with you.

Yours sincerely,

Steven Maijoor

FINANCIAL REPORTING COUNCIL OF NIGERIA
Federal Ministry of Industry, Trade and Investment

August 17, 2017

The Chairman
International Accounting Standards Board
30, Cannon Street
London EC4M 6XH
United Kingdom

RE: INVITATION TO COMMENT ON TENTATIVE AGENDA DECISION AND COMMENT LETTERS- IFRS 3- ACQUISITION OF A GROUP OF ASSETS THAT DOES NOT CONSTITUTE A BUSINESS

The Financial Reporting Council (FRC) of Nigeria welcomes the tentative agenda decision and comment letters – IFRS 3

In view of the responses received from the constituents in Nigeria, the Council wishes to comment on the tentative agenda to IFRS 3.

Tentative Agenda Decision

The Committee received a request to clarify how an entity accounts for the acquisition of a group of assets that does not constitute a business (the group). More specifically, the submitter asked for clarity on how to allocate the transaction price to the identifiable assets acquired and liabilities assumed when:

a. *the sum of the individual fair values of the identifiable assets and liabilities is different from the transaction price; and*
b. *the group includes identifiable assets and liabilities initially measured both at cost and at an amount other than cost.*

Paragraph 2(b) of IFRS 3 requires an entity to do the following on acquisition of a group of assets:

a. *identify and recognise the individual identifiable assets acquired and liabilities assumed; and*

LCCI Conference and Exhibition Centre, (4th Floor), Plot 10, Nurudeen Olowopopo Drive,
Central Business District, Alausa, P. O. Box 10968, Ikeja, Lagos, Nigeria.
Tel: (234) 1-7937405, 7918779, Fax: 2712153, 2712156, www.financialreportingcouncil.gov.ng

b. allocate the cost of the group to the individual identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

Other IFRS Standards include initial measurement requirements for particular assets and liabilities (for example, IFRS 9 Financial Instruments for financial instruments and IAS 40 Investment Property for investment property).

The Committee observed that if an entity initially considers that there might be a difference between the transaction price for the group and the sum of the individual fair values of the identifiable assets and liabilities, the entity first reviews the procedures it has used to determine those individual fair values to assess whether such a difference truly exists before allocating the transaction price.

The Committee then considered two possible ways of accounting for the acquisition of the group.

Applying the first approach, an entity accounts for the acquisition of the group as follows:

a. it identifies the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition;
b. it determines the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative fair values of those assets and liabilities at the date of the acquisition; and then
c. it applies the initial measurement requirements in applicable Standards to each identifiable asset acquired and liability assumed. The entity accounts for any difference between the amount at which the asset or liability is initially measured and its individual transaction price applying the relevant requirements.

Applying the second approach, for any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard. The entity deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.

The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions.

In the light of its analysis, the Committee considered whether to add a project on the acquisition of a group of assets to its standard-setting agenda. The Committee has not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

COMMENTS

The Council appreciates IFRS Interpretations Committee's (IFRIC) effort in further clarifying on how to apply paragraph 2(b) of *IFRS 3 - Business Combinations* for an assets or group of assets that does not constitute a business.

The two approaches recommended in the Committee's update appear reasonable.

However, the Council wish to point out that the two approaches recommended may produce different results in practice.

With regards to the first approach:

(a) Will the allocated amounts be considered to be the cost of those items which are required by the relevant accounting standards to be measured initially at cost? This will be the case for property, plant and equipment, intangible assets and investment properties.

(b) Paragraph (c) of the first approach requires that the difference between the amount at which the asset or liability is initially measured and its individual transaction price should be accounted for by applying the relevant requirements of the applicable standards. One major question then is what happens if the relevant accounting standard does not indicate how such difference should be treated?

Secondly, as regards the second approach:

(a) In transactions where the composition of the assets contains financial and non-financial assets, the allocation to the non-financial asset under the second approach becomes complex when the sum of the fair values of the financial assets equals or exceeds the transaction price.

(b) Also the possibility of this approach leading to a negative value for the remaining assets to be initially measured at cost after deducting from the transaction price of the group, the initial amounts of those assets and liability measured at an amount other than cost. This will be the case where the initial amounts of those assets and liabilities measured at an amount other than cost exceed the transaction price of the group. We believe that

apportioning negative residual value could result in a materially different outcome from the first approach.

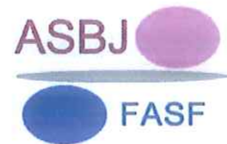
Since the main objective of IASB is to ensure that this transaction or event do not give rise to goodwill, the Council therefore, recommend that one of the two approaches should be adopted and recommended by IASB/IFRIC so as to ensure financial statements are comparable from one entity to the other.

If you require any further information or clarification do not hesitate to contact the Executive Secretary/Chief Executive Officer on (234) -7937405 or dasapokhai@financialreportingcouncil.gov.ng.

Yours sincerely,

VINCENT OKHIRIA
Assistant Director (Directorate of Accounting Standards, Public/Private)
For: Executive Secretary/CEO

Accounting Standards Board of Japan (ASBJ)
Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-Chome, Chiyoda-Ku Tokyo 100-0011, Japan
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL https://www.asb.or.jp/en/



21 August 2017

IFRS Interpretations Committee
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comments on the Tentative Agenda Decision Relating to IFRS 3 *Business Combinations* — Acquisition of a group of assets that does not constitute a business

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcomes the opportunity to comment on the IFRS Interpretation Committee's (the "Committee") tentative agenda decision relating to IFRS 3 *Business Combinations* — Acquisition of a group of assets that does not constitute a business in the June 2017 IFRIC Update.

2. Given that several approaches were observed in practice, in our discussions, we could not reach a consensus regarding the two approaches outlined as possible solutions. Nevertheless we would like to share with you the following views for the Committee's future consideration:

   (a) The tentative agenda decision allowing both approaches is acceptable because it takes into account the existing accounting treatments observed in practice.

   (b) Only the first approach is the appropriate approach, for the reasons provided by IASB staff in the staff paper.

   (c) The second approach is more appropriate because there are concerns about the first approach that it may result in a gain or loss on initial recognition.

3. However, we note that, even for those who agree with the tentative agenda decision are not convinced with the Committee's rationale for not adding this issue to its standard-setting agenda, stating that it "has not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected

to have a material effect on the amounts that entities report". This is because the materiality of the accounting treatment may differ among entities.

4. Although we could not reach a consensus regarding the two approaches outlined in the tentative agenda decision, we all agreed that if the IASB were to make any clarifications related to this issue, such clarification should not be made using an agenda decision but should be made through the normal standard-setting process to amend IFRS 3, which would include extensive discussions by the IASB and full due process. This is because the issue addresses how multiple IFRS standards should be applied to the transaction in question.

5. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

Yukio Ono
Chairman of the Accounting Standards Board of Japan

ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 21. August 2017

Dear Sue,

IFRS IC's tentative agenda decisions in its June 2017 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2017 *IFRIC Update*.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Comments on the tentative agenda decisions

IFRS 3 – Acquisition of a group of assets that does not constitute a business

We do not agree with the tentative decision, since we are not convinced that the IFRS IC's decision to offer a choice as to in which order the requirements in IFRS 3 and IFRS 9 shall be applied is appropriate. Unless there were only insignificant differences (e.g. resulting from transaction costs only) – which we do not expect to be the case –, we believe that there is only one appropriate reading of the relevant requirements.

We believe there are (only) a few reasons why a difference between the transaction price and the sum of the individual fair values could exist and (only) a few assets to which this difference should then be allocated. Based on our understanding, there are assets where there is more uncertainty – or less reliability – as regards their fair values than for other assets. This uncertainty is reflected in the (partial) transaction price deviating from the fair value of those assets. Hence, we believe that the difference should be allocated to those assets only.

Given the specific facts and circumstances provided, we deem the fair value of financial instruments to be more reliable than the fair value of non-financial instruments (e.g. PPE). Consequently, we deem only the "second approach" an appropriate reading of the requirements – which is, firstly, to measure financial instruments at their fair value (i.e. by first applying IFRS 9) and, secondly, to allocate the "difference" to all other assets based on their relative fair values (i.e. then applying IFRS 3).

IAS 28 – Acquisition of an associate or JV from an entity under common control

We agree with the tentative decision since it appropriately clarifies existing requirements and answers the narrow issue discussed. Whilst we agree that no analogy can be drawn from IFRS 3.2(c), we nevertheless question – and suggest the IASB reconsider – why there is no comparable scope exemption in IAS 28 (i.e. why there is unlike accounting in respect of interests acquired from an entity under common control).

This said, the issue discussed underlines that more fundamental and comprehensive questions around the accounting for business combinations under common control as well as the equity method are still unanswered and deserve further and timely work.

IAS 37 – Costs considered in assessing whether a contract is onerous

We do not fully agree with the tentative decision, as it lacks clarity in detail. In particular, the wording of the decision does not clarify, nor define, which costs are comprised in applying IAS 37.68 under alternative (a) (i.e. “costs that cannot be avoided when an entity has the contract”) or (b) (i.e. “incremental costs”). Hence, we believe that this decision will not reduce diversity in practice.

We consider the sum of costs comprised in applying alternative (a) being more comprehensive than the sum of costs comprised in applying alternative (b). Further, we deem the wording under alternative (a) being “too wide” and the wording under alternative (b) being “too narrow” or restrictive. We believe that the answer to the question whether any of the two alternatives are an appropriate reading of IAS 37.68 depends on how (a) and (b) are defined. The proposed wording of the decision seems to be leaving maximum room for individual interpretation as to which costs shall be comprised in the assessment and therefore does not contribute to consistent application.

IAS 38 – Goods acquired for promotional activities

We do not agree with the tentative decision. From the wording of the decision, we understand that goods shall be expensed upon ownership or right to access, if their distribution was part of “promotional activities”. Further, we understand that the IFRS IC interprets BC46B as implying that, if there are promotional activities, the respective goods have no other purpose than being distributed for marketing reasons. If our understanding was correct, we would disagree with the IFRS IC’s thinking.

We consider the “intention to use” the goods for marketing purpose/activities to being only a necessary condition and the actual “usability” for marketing purposes to constitute the sufficient condition leading to an entity expensing the expenditures. However, we do not agree that the mere intention to use goods for marketing purposes implies that those goods necessarily have no other purpose. Instead, we think that only if and *as far as* those goods cannot be used for other purposes, any expenditure on such goods shall be recognised as marketing expenses. Hence, we would read BC46B to rather describe a (rebuttable) presumption, not a consequence.

Deloitte.

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

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

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

21 August 2017

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

Dear Ms Lloyd

Tentative agenda decision – IFRS 3 *Business Combinations*: Acquisition of a group of assets that does not constitute a business

Deloitte Touche Tohmatsu Limited is pleased to respond to IFRS Interpretations Committee's publication in the June IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification on the accounting for an acquisition of a group of assets that does not constitute a business.

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.

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte Touche Tohmatsu Limited is a private company limited by guarantee incorporated in England & Wales under company number 07271800, and its registered office is Hill House, 1 Little New Street, London, EC4a, 3TR, United Kingdom.

© 2017 . For information, contact Deloitte Touche Tohmatsu Limited.

Ernst & Young Global Limited
6 More London Place
London
SE1 2DA

Tel: +44 [0]20 7980 0000
Fax: +44 [0]20 7980 0275
ey.com

International Financial Reporting Standards Interpretations Committee
30 Cannon Street
London
EC4M 6XH

21 August 2017

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): IFRS 3 *Business Combinations*—Acquisition of a group of assets that does not constitute a business (IFRIC Update June 2017 Agenda Paper 2)

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) of the IFRS Interpretations Committee (the Committee) published in the June 2017 *IFRIC Update*.

In the above tentative agenda decision the Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business could result in two acceptable approaches outlined in this agenda decision, as follows:

> *Applying the first approach, an entity accounts for the acquisition of the group as follows:*
> - *(a) it identifies the individual identifiable assets acquired and liabilities assumed that it recognises at the date of the acquisition*
> - *(b) it determines the individual transaction price for each identifiable asset and liability by allocating the cost of the group based on the relative fair values of those assets and liabilities at the date of the acquisition; and then*
> - *(c) it applies the initial measurement requirements in applicable Standards to each identifiable asset acquired and liability assumed. The entity accounts for any difference between the amount at which the asset or liability is initially measured and its individual transaction price applying the relevant requirements.*
>
> *Applying the second approach, for any identifiable asset or liability initially measured at an amount other than cost, an entity initially measures that asset or liability at the amount specified in the applicable IFRS Standard. The entity deducts from the transaction price of the group the amounts allocated to the assets and liabilities initially measured at an amount other than cost, and then allocates the residual transaction price to the remaining identifiable assets and liabilities based on their relative fair values at the date of the acquisition.*

The Committee also noted that it has not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report. On this basis, the Committee tentatively decided not to add this matter to its standard-setting agenda.

We support the Committee's decision to issue an agenda decision to clarify the accounting for such transactions. While we understand that the most technically robust reading of paragraph 2(b) of IFRS 3 would lead to the first approach being applied, we understand that the second approach is more prevalent in practice and avoids the counter-intuitive accounting outcome referred to below.

We note that, for financial instruments accounted for under IFRS 9 *Financial Instruments*/IAS 39 *Financial Instruments: Recognition and Measurement,* applying the first approach may result either in immediate or deferred recognition of any Day 1 gain or loss, and this may lead to some counter-intuitive accounting outcomes. We also acknowledge that the second approach leads to counter-intuitive accounting incomes under some circumstances, as demonstrated in par. 46 of the June 2017 IFRS IC Agenda Paper.

Therefore, overall, we support the IFRS IC agenda decision not to rule out either approach.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

Ernst + Young Global Limited

Ernst & Young Global Limited is a company limited by guarantee registered in England and Wales No. 4328808.