IFRS

STAFF PAPER

September 2017

IFRS Interpretations Committee Meeting

Project	**Acquisition of an associate or joint venture from an entity under common control**		
Paper topic	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments made 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 IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control. 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 an interest in an associate or joint venture from an entity under common control. In particular, the Committee discussed whether an entity could apply by analogy the scope exception for business combinations under common control in IFRS 3 *Business Combinations* (BCUCC scope exception).

3. The Committee observed that IAS 28 does not include a scope exception for the acquisition of an interest in an associate or joint venture from an entity under common

control. Accordingly, an entity applies the requirements in IAS 28 when it acquires such an interest. The Committee concluded that the entity does not apply by analogy the BCUCC scope exception. In doing so, the Committee noted that the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture should not be used as a basis to apply the BCUCC scope exception by analogy.

4. 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.

5. The Committee concluded 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. Consequently, the Committee tentatively decided not to add this matter to its standard-setting agenda.

Comment letter summary and staff analysis

6. We received eleven comment letters, reproduced in Appendix C to this paper.

7. Four respondents (PwC, Deloitte, ASCG and FRC Nigeria) agree with the Committee's tentative decision not to add this matter to its standard-setting agenda. They agree with the Committee's conclusion that an entity cannot apply the BCUCC scope exception in IFRS 3 by analogy to the transaction. One respondent (EY) also agrees with this conclusion, however it recommends that the Committee not finalise the agenda decision until the Board completes its work on the BCUCC project.

8. Five respondents disagree with the conclusion and say the Committee should not finalise the agenda decision. One respondent (ASBJ) expressed mixed views saying some of its members agree with the agenda decision while others suggest the Committee not finalise the agenda decision until the Board completes its work on the BCUCC project.

9. In addition, six respondents (OIC, PwC, Mazars, ANC, KPMG and Deloitte) suggest the Committee remove the reference to transactions with owners in their capacity as owners from the agenda decision.

10. The concerns raised by respondents, together with our analysis of these concerns, are presented below.

Applying the BCUCC scope exception by analogy

11. As outlined in paragraphs 7 and 8 of this paper, five respondents disagree with the Committee's conclusion that an entity cannot apply the BCUCC scope exception by analogy to this transaction. In addition, one respondent (ASBJ) expressed mixed views. The concerns raised by respondents in this respect are:

Inconsistency with agenda decision published in May 2013

12. The Committee discussed this transaction and published an agenda decision in May 2013 (May 2013 agenda decision)—Appendix B to this paper reproduces the May 2013 agenda decision for ease of reference. This decision states:

> 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.

13. OIC says the Committee's conclusion on the applicability of the BCUCC scope exception is not consistent with the May 2013 agenda decision, which explicitly acknowledged a lack of clarity in this respect. Mazars asks why the Committee has revised its position from 2013 and whether IAS 28 includes any new requirements that explain its revised view.

Staff analysis

14. We think the tentative agenda decision is not inconsistent with the May 2013 agenda decision. The May 2013 agenda decision does not, in our view, provide any technical conclusion on this matter—rather, it acknowledges the diversity in practice and the basis for that diversity. In May 2013, the Committee decided that the matter would be

better considered within the context of broader projects on the accounting for BCUCC and the equity method accounting.

15. As outlined in paragraph 3 of Agenda paper 8 of the Committee's June 2017 meeting, since the Committee discussed this matter in May 2013, the Board has decided upon the initial scope of the BCUCC project. That initial scope will not include consideration of the acquisition of an associate or joint venture from an entity under common control. In addition, although the Board has not yet determined the scope of the equity method research project, we understand from the project team that the Board is unlikely to consider this matter as part of that project. Therefore, the Committee revisited this matter at its June 2017 meeting and published a tentative agenda decision.

Conclusion

16. We think the tentative agenda decision is not inconsistent with the May 2013 agenda decision. The Committee reached a conclusion on the matter applying the existing requirements because it is now clear that the Board will not address it in the near term as part of another project.

Application of concepts and procedures in paragraph 26 of IAS 28

17. KPMG says the reference to 'concepts' and 'procedures' in paragraph 26 of IAS 28 is unclear and subject to different interpretations—including the applicability of the BCUCC scope exemption. Paragraph 26 of IAS 28 states (emphasis added):

> Many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the *concepts underlying the procedures* used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture.

18. KPMG says some consider the BCUCC scope exception a 'concept used in accounting for the acquisition of a subsidiary'. Applying paragraph 26 of IAS 28, this concept would extend to the acquisition of an associate or joint venture from an entity under common control. Petrobras expressed a similar view on the application of this

paragraph. KPMG suggests the Committee further analyse and determine principles for what is, and is not, covered by paragraph 26 of IAS 28.

Staff analysis

19. We continue to agree with the Committee's conclusion that an entity should not use the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture as a basis to apply paragraph 2(c) of IFRS 3 by analogy.

20. As mentioned in paragraph 17 of Agenda Paper 8 of the Committee's June 2017 meeting, paragraph 26 of IAS 28 refers to the concepts underlying *the procedures used*, and not to the scope of IAS 28 or IFRS 3. Paragraph 26 also sits under the heading 'Equity method procedures'—the section of IAS 28 that specifies the procedures an entity uses when applying the equity method.

21. In addition, as noted in Agenda Paper 8 of the June 2017 meeting, it is inappropriate, in our view, for an entity to apply an exemption or exception by analogy—exceptions and exemptions do not establish principles or concepts that an entity can apply by analogy to other situations. Applying an exception or exemption by analogy would result in an entity not applying requirements that specifically apply to the particular transaction in question.

22. We also think further analysis of the procedures and concepts referred to in paragraph 26 of IAS 28 is beyond the scope of this matter.

Conclusion

23. In our view, an entity should not use the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture as a basis to apply paragraph 2(c) of IFRS 3 by analogy.

Applying the requirements in paragraph 32 of IAS 28 results in anomalous outcomes

24. ANC and KPMG say applying the requirements in paragraph 32 of IAS 28 to the transaction could result in anomalous outcomes in some situations. In particular, they say in a situation in which an entity transfers a subgroup that comprises both subsidiaries and associates to another subsidiary within the group, the acquiring

subsidiary would have to recognise its interest in the associates at its share of the fair value of each associate's identifiable assets and liabilities (or at cost, if higher). However, it could recognise the assets and liabilities of subsidiaries at their previous carrying amounts.

Staff analysis

25. Agenda Paper 8 of the Committee's June 2017 meeting specifically considered whether applying the requirements in paragraph 32 of IAS 28 leads to anomalous outcomes in group restructurings. In particular, paragraphs 29-33 of that paper discuss a situation similar to that identified by the respondents.

26. Paragraph 33 of that paper outlines our view on the outcome of applying the relevant requirements. It states:

> The nature of the relationship between an entity and its subsidiary is different from the nature of its relationship with an associate—an entity controls a subsidiary whereas it has significant influence over an associate. The method of accounting for a subsidiary—consolidation of the assets and liabilities of the subsidiary—is also different from the method of accounting for an associate—as a single-line investment asset. We also note that an associate would typically have third-party investors, whereas a subsidiary may be wholly-owned by the parent entity…

Conclusion

27. We continue to think the outcomes in a group restructuring are not anomalous; rather, they reflect the differing nature of the investments.

Transactions with owners

Concern raised by respondents

28. The tentative agenda decision states:

> 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.

29. Six respondents (OIC, PwC, Mazars, ANC, KPMG and Deloitte) suggest the Committee remove this statement from the agenda decision. The main reasons for their suggestion are as follows:

    (a) some respondents say the sentence establishes a general principle and entities will have to apply this by analogy to all common control transactions, including purchase of PPE, inventory, etc.

    (b) some respondents say there is no support for this statement in IFRS Standards. For example, KPMG says the sentence implies that the purchase price of the associate is always restated to fair value to separate out the part that represents a transaction with owners. It disagrees with this 'every-time, notional re-pricing' principle that, in its view, the sentence implies.

    (c) One respondent says IAS 28 does not define cost and does not make a distinction between a third party acquisition or a common control transaction. The respondent also says the sentence is inconsistent with an agenda decision published in May 2009. At that time, the Committee discussed how an entity determines the initial carrying amount of an equity method investment—the agenda decision from May 2009 states:

    > …generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issue of the asset…

Staff analysis

30. The wording in the tentative agenda decision does not, in our view, establish any new principle or create new requirements. If a transaction includes a transaction with owners in their capacity as owners, IAS 1 *Presentation of Financial Statements* requires an entity to recognise and present that transaction in the statement of changes in equity separately from other transactions. This is because:

    (a) paragraph 7 of IAS 1 defines total comprehensive income as follows (emphasis added):

> Total comprehensive income is the change in equity during a period resulting from transactions and other events, *other than those changes resulting from transactions with owners in their capacity as owners.*
>
> Total comprehensive income comprises all components of 'profit or loss' and 'other comprehensive income'.

(b) paragraph 106(d)(iii) of IAS 1 states that the statement of changes in equity includes the following information:

> ….
>
> d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from: …
>
> iii) transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control.

31. The wording in the agenda decision is intended to highlight that an entity would consider whether the overall transaction includes a transaction with owners in their capacity as owners. It is not intended to imply that an entity always recognises any difference between the purchase price and the fair value of its acquired interest in the associate or joint venture as a capital contribution or distribution (ie a transaction with owners in their capacity as owners).

32. As mentioned in paragraph 23 of Agenda Paper 8 from the Committee's June 2017 meeting, some or all of the difference between the consideration an entity pays and the net fair value of its share of the investee's identifiable assets and liabilities in a common control transaction *could be* the result of a transaction with owners in their capacity as owners. For example, if the consideration an entity pays to acquire an interest in an associate from an entity under common control is CU80, and the entity's share of the net fair value of the associate's identifiable assets and liabilities is CU100, the difference of CU20 *could* represent a capital contribution from the parent entity.

33. Based on our analysis above, we do not recommend deleting the reference to transaction with owners in their capacity as owners from the agenda decision—we agree with the view expressed by some Committee members at the June 2017 meeting that the reference provides a good reminder for entities to consider the substance of the transaction—particularly in the context of a common control transaction. Nonetheless, we think the reference to the cost of the investment might be misread and recommend deleting that reference. Accordingly, we propose that the sentence would read as follows (new text is underlined and deleted text is struck through):

> The Committee <u>also</u> observed that in accounting for the acquisition of the interest, the entity would ~~assess~~ <u>consider</u> 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~~.

Finalising the agenda decision

34. Some respondents suggest the Committee not finalise the agenda decision until the Board completes its work on the BCUCC project.

35. We disagree. This is because the BCUCC project is currently in the research phase and could take some time to complete. In the meantime, we think it would be helpful to explain how to apply the existing requirements.

Staff recommendation

36. On the basis of our analysis, we recommend finalising the agenda decision, subject to the changes mentioned above. Appendix A to this paper outlines the proposed wording for the final agenda decision.

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

Appendix A - Proposed wording for final agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control

The Committee discussed a request to clarify how to account for the acquisition of an interest in an associate or joint venture from an entity under common control. In particular, the submitter asked whether it is appropriate to apply by analogy the scope exception for business combinations under common control in paragraph 2(c) of IFRS 3 *Business Combinations*.

The Committee observed that IAS 28 does not include a scope exception for the acquisition of an interest in an associate or joint venture from an entity under common control. Accordingly, an entity applies the requirements in IAS 28 when it acquires such an interest. The Committee concluded that the entity does not apply by analogy the scope exception for business combinations under common control in IFRS 3. In doing so, the Committee noted that the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture should not be used as a basis to apply paragraph 2(c) of IFRS 3 by analogy.

The Committee also observed that in accounting for the acquisition of the interest, the entity would ~~assess~~ consider 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~~.

The Committee concluded 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. Consequently, the Committee ~~[~~decided~~]~~ not to add this matter to its standard-setting agenda.

Appendix B - Agenda decision published in May 2013[1]

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

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

The Interpretations Committee observed that paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* has guidance on the acquisition of an interest in an associate or joint venture and does not distinguish between acquisition of an investment under common control and acquisition of an investment from an entity that is not under common control. The Interpretations Committee also observed that paragraph 10 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires management to use its judgement in developing and applying an accounting policy only in the absence of a Standard that specifically applies to a transaction.

The Interpretations Committee also observed that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 Consolidated Financial Statements. That paragraph further states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture. The Interpretations Committee also observed that paragraph 2(c) of IFRS 3 states that IFRS 3 does not apply to a combination of entities or businesses under common control. The Interpretations Committee observed that some might read these paragraphs as contradicting the guidance in paragraph 32 of IAS 28, and so potentially leading to a lack of clarity.

[1] Reproduced for ease of reference.

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. The Interpretations Committee also noted that the IASB, in its May 2012 meeting, added a project on accounting for business combinations under common control as one of the priority research projects as well as a project on the equity method of accounting as one of the research activities to its future agenda. Consequently, the Interpretations Committee decided not to take this issue onto its agenda.

Appendix C - Copies of comment letters

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(The Italian Standard Setter)
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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)

Private & Confidential
Director of Implementation Activities
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1 August 2017

Dear Henry and Patrina,

June 2017 Agenda Paper 8 - Interpretations Committee Tentative Agenda Decision: IAS 28 Investments in Associates and Joint Ventures—Acquisition of an associate or joint venture from an entity under common control

We are responding to the IFRS IC's tentative agenda decision *IAS 28 Investments in Associates and Joint Ventures—Acquisition of an associate or joint venture from an entity under common control*, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the rejection. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We agree with the committee that the acquisition of an associate or joint venture from an entity under common control is not in the scope of IFRS 3, *Business Combinations*. IAS 28, *Equity Accounting*, does not have a scope exclusion and therefore this acquisition would be in the scope of IAS 28. However, we do not support the inclusion of the following statement:

"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."

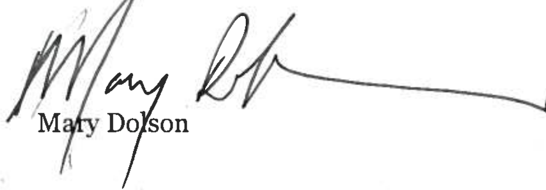
We cannot see support for this statement in the accounting literature and therefore do not believe an agenda decision is an appropriate mechanism to address this issue. We would recommend it is deleted and covered as part of the equity accounting project.

IAS 28 requires an entity to record an initial investment in an associate or JV at cost [IAS28.10]. **IAS 28 does not define cost** and does not make a distinction between a third party acquisition or a common control transaction. In May 2009 the IC deliberated how the initial carrying amount of an equity method investment should be determined and concluded that "generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issue of the asset." This appears inconsistent with the June 2017 IC rejection.

If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney PwC Head of Reporting and Chief Accountant (+44 207 804 2160), or Mary Dolson (+44 207 212 5697).

We appreciate your help with this item.

Yours sincerely



Mary Dolson

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.

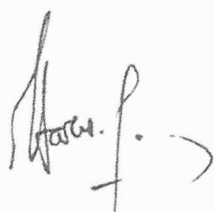
Our comments on the various tentative agenda decisions are detailed in the Appendices to this letter.

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

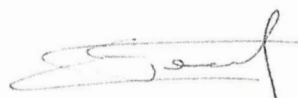
Michel Barbet-Massin

Financial Reporting Technical Support



Edouard Fossat

Financial Reporting Technical Support



MAZARS

Appendix 2

IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control (Agenda Paper 8)

The Committee has concluded that *"the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture should not be used as a basis to apply paragraph 2(c) of IFRS 3 by analogy"*.

While we can understand that an exception must be applied strictly, we are concerned that this might differ from what is seen in practice and might create some complexity for preparers. Applying the agenda decision would lead to a different carrying amount of the investment, and different values assigned to the underlying assets and liabilities, in the consolidated financial statements of the acquirer (based on the application of IAS 28 and IFRS 3 provisions by the acquirer at the date of transfer of the equity investment from the transferor under common control) compared to those in the consolidated financial statements of the ultimate parent (based on historical equity accounting). This would require significant restatements to pass from the consolidated financial statements of the acquirer to those of the parent company.

In May 2013, the Committee had considered the same issue and had concluded that *"this lack of clarity (...) would be better considered within the context of broader projects"*. At that time, the Committee had endorsed a status quo, and had not obliged preparers to record restatements between the two levels of consolidated financial statements.
We wonder why the Committee decided in 2017 to revise its position, and what additional guidance has been included in IAS 28 that explains this shift.

In addition, the Committee suggests that any off-market element in such a transaction should be accounted for separately, taking into account the fact that *"the transaction includes a transaction with owners in their capacity as owners"*. While we understand the rationale, we are concerned that the agenda decision as drafted seems to establish 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.
Neither IAS 28 nor IAS 16, IAS 38, IAS 2 – which are standards that may deal with the acquisition of assets from a seller under common control – include provisions for separating a "transaction with owner in its capacity of owner" component. On the contrary, IAS 24 only requires disclosures on transactions with related parties in order to enable users of the entity's financial statements to understand the effect of related party transactions on its financial statements.

We therefore suggest removing the reference to *"transactions with owners"* from the agenda decision, considering that this issue deserves a comprehensive debate at Board level.

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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.

MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

MINISTÈRE DE L'ACTION ET DES COMPTES PUBLICS

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

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Our ref MV/288

11 August 2017

Dear Ms Lloyd

Comments on Committee's tentative agenda decision on IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control

We appreciate the opportunity to comment on the International Financial Reporting Interpretations Committee's (IFRIC) tentative agenda decision on IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control. We have consulted within the KPMG network in respect of this letter, which represents the views of the KPMG network

Re-pricing intra-group transactions

Regarding the acquisition price, the tentative agenda decision requires an entity to consider whether the transaction includes a *transaction with owners* in their capacity as owners. This implies a point of principle that we do not believe is inherent in the concept of cost and that, if it were, would apply to many other transactions with far-reaching effects.

What it implies is that the purchase price of the associate (in this case) is always restated to fair value to separate out that part that represents a transaction with owners, with the consequent difference from the actual price being dealt with as a distribution/ contribution received/ paid as the case may be. Whilst we agree that there are some cases where a *transaction* is properly *characterised* as a partial owner's transaction, this applies only to a small sub-set of non-arms-length pricing. For example, it applies to a purchase at overvalue, as the over-value will be accounted for other than as the carrying value of the purchased asset: We agree, the difference is not characterised as a loss (instead a distribution to parent or investment in subsidiary). However, the agenda decision implies notional re-setting of all non-arms-length pricing, for example, even if the purchase price is an undervalue that reduces but does not eliminate the IAS 28.32(a) goodwill, the pricing is grossed-up to fair value and the undervalue is

accounted for as an owner's transaction (distribution or contribution received). It is that every-time, notional re-pricing principle that we do not agree with.

We are not aware of any grounds in current IFRS standards for such a principle. Further, we note that neither IAS 28 nor IAS 24 have any requirements in such respects – in fact IAS 24 is based on the premise of disclosing transactions, not re-measuring them, because they might not be at arms-length. Yet paragraphs 23 and 24 of the related Agenda Paper (Agenda Paper 8) consider that such a principle can be read into the concept of cost. We do not agree. Cost is not defined by IFRS as the price that would have been paid at arms-length.

The suggested treatment would have further, far-reaching consequences. If this were a principle inherent in IFRS and in cost, then any transaction between related parties would require its cost to be so remeasured if it was not exchanged at fair value – e.g. transfers of PPE or inventory or the provision of services. That would, at a stroke, mandate pervasive re-measurement of intra-group transactions in the financial statements of many group entities. It would also strongly suggest that, as there must be two parties to an owners' transaction, the same re-pricing applies in the seller's financial statements.

Concepts underlying procedures – a fundamental problem with IAS 28

The tentative agenda decision indicates that the requirements in IAS 28.26[1] should not be used as a basis to apply the common control exemption of IFRS 3.2(c). However, we have concerns, because the notions of concepts and procedures referred to in IAS 28.26 are significantly unclear and subject to different interpretations. One of the different interpretations is over the applicability of the exemption in IFRS 3.2(c), for the transfer of a subsidiary between entities under common control and hence a "concept used in accounting for the acquisition of a subsidiary", to a transfer of an associate between entities under common control. Further analysis is needed to determine principles for precisely what is and is not covered by IAS 28.26.

Anomalous outcomes will occur

Although the IFRIC Paper provides some analysis and concludes that there would be no anomalous outcomes, we are concerned that this is not the case. For example, a parent company M controls two entities S1 and S2, S1 is the parent company of a subgroup which comprises two controlled trading entities X and Y as well as an associate Z. In this situation, if the entire subgroup S1 is transferred to S2, the transferee S2 would have to apply a different accounting treatment in its consolidated financial statements for the recognition of the associate Z from that for the recognition

[1] IAS 28.26 states that an entity adopts the concepts underlying the procedures used in accounting for the acquisition of a subsidiary in accounting for the acquisition of an investment in an associate or joint venture.

of the rest of the sub group. The business-combination accounting with fair values would have to be applied to the associate Z but not to the assets and liabilities of the other entities S1, X and Y.

* * *

We therefore consider that the need for further analysis, in respect of the above mentioned concerns, requires these issues to be addressed as part of the International Accounting Standards Board's (IASB's) ongoing projects on business combinations under common control and equity accounting. The agenda decision on its own appears to pre-empt the discussions that the Board should be having while conducting those two projects.

Please contact Mark Vaessen +44 (0)20 7694 8871 or Mike Metcalf +44 (0)20 7694 8081 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

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-IAS 28 ACQUISITION OF AN ASSOCIATE OR JOINT VENTURE FROM AN ENTITY UNDER COMMON CONTROL

The Financial Reporting Council (FRC) of Nigeria welcomes the tentative agenda decision and comment letters - IAS 28

In view of the responses received from the constituents in Nigeria, the Council wishes to comment on the tentative agenda to IAS 28.

Tentative Agenda Decision

The Committee discussed a request to clarify how to account for the acquisition of an interest in an associate or joint venture from an entity under common control. In particular, the submitter asked whether it is appropriate to apply by analogy the scope exception for business combinations under common control in paragraph 2(c) of IFRS 3 Business Combinations.

The Committee observed that IAS 28 does not include a scope exception for the acquisition of an interest in an associate or joint venture from an entity under common control. Accordingly, an entity applies the requirements in IAS 28 when it acquires such an interest. The Committee concluded that the entity does not apply by analogy the scope exception for business combinations under common control in IFRS 3. In doing so, the Committee noted that the requirements in paragraph 26 of IAS 28 on the procedures used in accounting for an interest in an associate or joint venture should not be used as a basis to apply paragraph 2(c) of IFRS 3 by analogy.

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.

The Committee concluded 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. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

COMMENTS

The Council agrees with the Committees decision not to add this matter to its standard setting agenda because an entity does not apply by, analogy the scope exception for business combinations under common control in IFRS 3, as the requirements in IFRSs 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.

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)

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21 August 2017

IFRS Interpretations Committee
International Accounting Standards Board
30 Cannon Street
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United Kingdom

Comments on the Tentative Agenda Decision Relating to IAS 28 *Investments in Associates and Joint Ventures*— Acquisition of an associate or joint venture from an entity under common control

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 IAS 28 *Investments in Associates and Joint Ventures*— Acquisition of an associate or joint venture from an entity under common control in the June 2017 IFRIC Update.

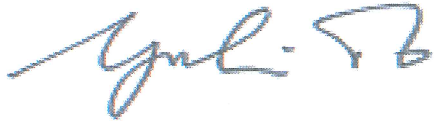
2. In our discussions, we could not reach a consensus regarding the proposals. Nevertheless we would like to share with you the following views for the Committee's future consideration:

    (a) The Committee should not clarify whether an entity should only apply the requirements in IAS 28 for the transaction in question until the International Accounting Standards Board (IASB) concludes on the accounting treatment for business combinations under common control (hereinafter referred to as "BCUCC") in its ongoing project on "Business Combinations under Common Control". The transaction in question is a transaction under common control, and the accounting for such transaction should be consistent with the accounting for BCUCC. The IASB should firstly analyse the accounting for BCUCC from a conceptual perspective before making any conclusions.

    (b) The Committee's tentative agenda decision is acceptable because the transaction in question is included in the scope of IAS 28.

3. 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

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IFRS Technical Committee

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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.

Deloitte.

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21 August 2017

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

Dear Ms Lloyd

Tentative agenda decision – IAS 28 *Investments in Associates and Joint Ventures*: Acquisition of an associate or joint venture from an entity under common control

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 an interest in an associate or joint venture from an entity under common control.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda and with the statement that IFRS 3.2(c) does not apply to the acquisition of an interest in an associate or joint venture from an entity under common control.

We also acknowledge the need to consider all facts and circumstances in developing an accounting policy for such transactions. However, we believe that the issues arising from common control transactions, whether a business combination or a transfer of assets, should be addressed holistically, rather than by addressing a narrow class of transaction in an agenda decision as it is then unclear whether a similar approach should be extrapolated as applying in other circumstances. For this reason, we recommend deletion of the statement that "the entity determines the cost of the investment taking into account that transaction with owners".

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

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PETROBRAS

Rio de Janeiro, August 21, 2017

CONTRIB 029/2017

Ms Lloyd
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: IFRS Interpretations Committee tentative agenda decisions - June 2017 IFRIC Update

Reference: Exposure Draft ED/2017/2

Dear Ms,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision, IAS 28 Acquisition of an associate or joint venture from an entity under common control (June 2017 IFRIC Update). We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

According to the requirements found in paragraph 26 of IAS 28, "The concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate or a joint venture".

The procedures used in accounting for the acquisition of a subsidiary are defined in IFRS 3, which contains a scope exception for business combinations under common control in paragraph 2(c). The Committee observed that IAS 28 does not include such a scope exception and concluded that it should not be adopted by analogy when an entity accounts for the acquisition of an investment in an associate or a joint venture.
The Committee also observed that when accounting for the acquisition of the interest, the entity would assess whether the transaction includes a transaction with owners in their capacity as owners, which should not be recognized as income in the statement of profit or loss.

Based on the above, the Committee tentatively decided not to add this matter to its standard-setting agenda.

In our view, despite the Committee's observations, the issue should be added to its standard-setting agenda.

The fact that IAS 28 does not include a scope exception for acquisitions under common control does not make an analogy with paragraph 2(c) of IFRS 3 implausible, because such analogy would be embedded in the concepts underlying the procedures used in accounting for the acquisition of a subsidiary. Hence, it is a matter of how these concepts should be applied and not whether something should be out or in the scope of IAS 28. This is especially true, if it is considered that the nature of the transactions involving businesses and investments in associates or joint ventures are essentially the same.
Also, considering that transactions with owners are difficult to identify, we believe that this topic should be addressed as well, to avoid divergence in practice.

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

/s/Rodrigo Araujo Alves

Rodrigo Araujo Alves
Chief Accounting and Tax Officer

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International Financial Reporting Standards Interpretations Committee
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21 August 2017

Dear IFRS Interpretations Committee members,

Invitation to comment - Tentative Agenda Decision (TAD): IAS 28 *Investments in Associates and Joint Ventures*—Acquisition of an associate or joint venture from an entity under common control (IFRIC Update June 2017 Agenda Paper 8)

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 the entity does not apply by analogy the scope exception for business combinations under common control in paragraph 2(c) of IFRS 3, in accounting for the acquisition of an interest in an associate or joint venture from an entity under common control. In addition, the Committee stated in the tentative agenda decision that an entity applies the requirements in IAS 28 when it acquires such an interest.

We agree that paragraph 26 of IAS 28 should not be used as a basis for applying paragraph 2(c) of IFRS 3 by analogy. We note, however, that the Board has an ongoing research project on Business Combinations under Common Control which may provide further insights into the concepts of common control transactions in general. We would therefore advise the Committee to avoid mandating any accounting requirements for these transactions until a general principle has been developed.

We also note that in a business combination under common control, it is uncommon and may be difficult, to separate out the acquisition of (a group of) individual assets or an associate or joint venture from the greater business combination under common control and apply different accounting concepts to those various components. The agenda decision could potentially lead to entities having to make a distinction between the acquisition of an associate or joint venture in a separate common control transaction and one that forms part of a business combination under common control.

The Committee also 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. For the reasons outlined above, we are concerned about the precedent this sets for other common control transactions. The requirements for initial recognition of an associate or joint venture, i.e. recognition at

cost, are no different from those of items of Property, Plant and Equipment under IAS 16 or Intangible Assets under IAS 38. The agenda decision may imply that an equity component needs to be imputed in any transaction amongst entities under common control, if executed at a transaction amount that is different from an arm's length price. If this was not the intention of the Committee, we would recommend to make that clear.

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

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