

Organización Internacional de Comisiones de Valores
International Organisation of Securities Commissions
Organisation internationale des commissions de valeurs
Organizaçào Internacional das Comissões de Valore

29 November 2005

Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

Re: IFRS 3 and IAS 27 Proposed Amendments

Dear Mr. Teixeira:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the Exposure Drafts on the amendments to IFRS 3, Business Combinations, and IAS 27, Consolidated Financial Statements.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement.¹ Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all the comments that might be provided by individual members on behalf of their respective jurisdictions.

General Comments

Standing Committee No. 1 is supportive of the International Accounting Standards Board (IASB or the Board) in undertaking a joint project to converge accounting standards on matters that have ongoing effects on financial statements around the world. We also recognize the Board's significant efforts in developing an accounting model that is conceptually pure. However, we do have concerns with some significant aspects of the IFRS 3 draft standard. Some of these concerns are conceptual in nature, while

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others relate to some of the practical implications that may result from application of the draft standards. These concerns are discussed in the balance of this letter.

Additionally, while we believe continued progress in improving financial accounting standards is necessary, the proposed amendments to the business combinations and consolidations accounting guidance may result in widespread and significant change in practice. Further, many members believe that the changes in these standards represent a fundamental departure from existing practice in many areas of accounting outside of a business combination as well. Several of our comments reflect our recommendations to the Board to consider issues in the context of other current projects as well as to consider areas for which further guidance or clarity may be needed in the future.

Our particular comments are noted immediately below, followed by responses to the questions posed in each of the draft standards.

1.) Adoption of the Economic Entity Approach

The proposed standard is predicated on the economic entity concept of consolidated financial statements. Whether this concept is the preferable one seems to us to be a precursor question to determining the accounting for the establishment of a parent-subsidary relationship, such as occurs in a business combination. However, the ED seems to be weighted more toward discussing the accounting for the establishment of a parent-subsidary relationship than toward making the case for the economic entity concept to begin with. If the Board is going to move forward with the economic entity concept, then we believe it needs to make the case for this approach, and in doing so to consider the direction(s) of its other projects, such as Performance Reporting.

2.) Definition of Control

A business combination and acquisition accounting is required when an acquirer obtains control over one or more businesses. By reference to IAS 27, the proposed Standard defines control as “the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities” In comparison to IAS 27, the exposure draft to replace SFAS 141 defines control by reference to the term “controlling financial interest” in paragraph 7 of the exposure draft, *Consolidated Financial Statements Including Accounting and Reporting of Noncontrolling Interests in Subsidiaries*. Although the term “controlling financial interest” is not defined in that exposure draft, the term “controlling interest” is defined as “the portion of equity of the consolidated group attributable to the parent and the parent’s owners.” In light of this definition, one would not conclude that control exists unless an entity has over fifty-percent of the voting interest in another entity or is the Primary Beneficiary in a Variable Interest Entity under FASB Interpretation No. 46.

In contrast, we are aware that at its October 2005 meeting, the Board confirmed its view that “IAS 27 contemplates that there are circumstances in which one entity can control another entity without owning more than half the voting power.” For example, an entity holding a minority interest can control another entity if the balance of holdings is dispersed and the other shareholders have not organized their interests in such a way that they exercise more votes than the minority holder. Accordingly, it appears that the IASB’s and FASB’s definitions of control differ.

Given the importance of control in determining whether a business combination has occurred and the resulting accounting required by acquisition method accounting, we encourage both Boards to work toward developing a single definition of control. If the Boards are unable to address or agree on a common definition of control, then the definitional difference should be highlighted in each standard.

3.) Full Goodwill Method

We agree with the Board that recognition of all identifiable assets and liabilities at full fair value upon gaining control of the entity, as compared to recognizing separate “layers” of value at each step acquisition date, is appropriate and provides more useful information to users.

However, the proposal to record 100 per cent of the goodwill transactions where the acquisition of a controlling interest involves less than all of the equity interests of the acquiree is concerning to us. In these instances, the proposed standard requires that goodwill will be measured as the difference between the fair value of the entity as a whole and the fair value of the identifiable net assets acquired. We are concerned with the requirement to record the full goodwill associated with a business combination in these situations for the following reasons:

- a. Goodwill will be recorded based on a hypothetical or appraised value that incorporates a number of subjective assumptions and may not reliably capture the true amount an acquirer would pay to acquire 100 per cent of the entity. For instance, the hypothetical fair value calculated for an entity as a whole may not properly reflect any control premium that may be paid by the acquirer if the entire entity was in fact acquired. Such value would not necessarily otherwise be determined or estimated, because the acquirer, as part of deciding whether to undertake the transaction, would be focused on the fair value of the portion of the target it intends to buy, not the entire target entity.
- b. Although the proposed definition of goodwill attempts to describe it as a particular “thing” or “group of things”, in reality it remains identifiable only as an excess of the amount of cost or value to be allocated over the net amount of the identifiable assets acquired and liabilities assumed. As a residual, goodwill is distinctively different than any other asset recorded in a business combination whose value is easily understood and reliably measured. Although recognized as an asset, goodwill itself is not identifiable and is not separable or contractually-based. Given this, we prefer to limit goodwill recognition to the residual generated from the transaction.
- c. It is not clear what the full amount of goodwill represents and whether or how it will be viewed by investors. In addition to the valuation concerns, we also question whether the benefits of recognizing the noncontrolling interest’s share of goodwill outweigh the additional complexity caused by the requirement to measure and recognize 100 per cent of the value of the goodwill from both the initial acquisition accounting and subsequent impairment testing perspectives.

We prefer the alternative view set forth in the IFRS 3 exposure draft that provides a substitute model for recognizing and measuring goodwill when less than 100 per cent of the equity interests are acquired. Under the “parent only” approach, only purchased goodwill would be recognized in a business combination as measured by the difference between the amount paid and the parent’s share in

the net assets acquired. We acknowledge that if the “parent only” goodwill approach is selected, additional issues will need to be resolved related to the accounting for the goodwill element of future changes in ownership that do not result in loss of control.

As further discussed in the alternative view related to recognizing gains or losses on non-controlling equity investments, the acquisitions, or divestitures, of equity in a subsidiary would give rise to the recognition of additional, or reduction of, goodwill, which would be measured as the excess of the consideration given over the book value of the separately identified net assets in the subsidiary attributed to the additional interest. In addition to this alternative view, some members note another approach could be to also recognize only incremental or “purchased” goodwill, but the amount of goodwill recognized would be calculated by performing a hypothetical purchase price allocation at the acquisition date and each time a subsequent purchase occurs. The cost of the incremental interest acquired would then be allocated to the purchased goodwill, the proportionate share of the acquired entity’s book value excluding goodwill and the remainder of the purchase price would be offset against the book value of the noncontrolling interest acquired and a reduction of stockholder’s equity.

We acknowledge that these alternatives diverge from the Board’s conceptual model, but we believe both alternatives provide a practical solution to the difficulties of recognizing 100 per cent of the goodwill in transactions of less than 100 per cent of the equity interests.

4.) Fair Value Measurement Standard

In light of the significance of fair value measurements required by the proposed standards, it is important that any definition of fair value and related measurement guidance be subject to the IASB’s full due process procedures. As such, SC1 members have concerns and questions regarding the Board’s current due process to develop and issue the accounting guidance for how to determine fair value. The various concerns of individual members include:

- Given that the matter of how to determine fair value has not proceeded as a joint IASB/FASB project, the extent of the IASB’s pre-ED deliberations on this issue if it were to in essence issue the FASB’s final standard as its own ED.
- The possible divergence in the guidance for how to determine fair value, between the final measurement guidance issued by the IASB and FASB, given that the Boards did not deliberate congruently the measurement issues in developing the amendments for IFRS 3 and FAS 141.
- The belief that the Board should issue a discussion paper on how to perform fair value measurement before issuing an exposure draft on this guidance given the broader impact of how to determine fair value beyond business combinations.
- The role and timing of deliberations of whether “exit price” should be the predominant attribute for how to determine fair value.

Finally, we encourage the Board to consider whether it is appropriate and necessary to finalize any guidance related to fair value measurements prior to or in conjunction with the finalization of these draft Standards for IFRS 3 and IAS 27.

5.) Fair Value of Contingencies

We generally agree with measuring, initially, contingencies arising from contractual commitments at fair value, as we believe that such commitments should be clearly identifiable to the entities involved in the combination, and the contractual commitments makes it clear that the definition of a liability or asset has been met. We note, however, that a number of contingencies do not result from contractual arrangements. In these cases, an element of the contingency is often whether the potential obligor even has an obligation at all. We are not convinced that the so-called “stand-ready” obligation to defend against inappropriate claims represents a liability at all. If it does, then such obligations are surely too numerous to identify or evaluate, as they exist whether a claim has been filed or not. As such, we believe there are both conceptual and practical reasons to reconsider the proposed accounting for non-contractual contingencies and any implications to the accounting of negative goodwill due to not measuring non-contractual contingencies.

We encourage the Board to consider adopting a recognition threshold for such non-contractual items. For example, only those non-contractual contingent liabilities for which it is deemed “more likely than not” at the acquisition date that the company will ultimately be obligated would be recognized. In such cases, it seems clear that the definition of a liability has been met. Additionally, by not requiring analysis of the likelihood of various outcomes for items whose settlement is not probable, the burden on reporting entities would be significantly reduced. Disclosures related to contingencies where settlement is deemed less than “more likely than not” would be appropriate.

6.) Divergent Accounting for Similar Transactions

Certain of the changes being proposed diverge from the accounting for similar transactions outside of a business combination, potentially reducing comparability of financial statements and putting increased pressure on the definitions for “business” and “business combination”. Accordingly, we believe that the Board should quickly consider these, as well as other, inconsistencies that arise from the application of different accounting models for similar transactions that occur both within and outside of a business combination.

Transaction Costs

The requirement to account for acquisition-related costs separately from the business combination and not as part of the acquisition is inconsistent with the treatment of certain of those costs under a single asset or basket asset acquisition. We could understand if the Board chose to defer this change until a broader project on transaction costs could be considered.

Research Costs

Similarly, the Board’s decision that an acquirer must recognize and measure as an intangible asset both research and development activities is inconsistent with the treatment of research costs incurred outside of a business combination given that IAS 38 prohibits research costs from being recognized as an intangible asset. In particular, this difference could result in attempts to purchase in-process research in a particular form in order to attain a desired accounting result.

7.) Recognition of Gains or Losses on Previously Held Investments

We understand the conceptual merits of recognizing unrealized appreciation or depreciation in an investment given the proposed model set forth by the two exposure drafts. Nonetheless, we are concerned by this decision because, with relation to the investment that continues to be held, this is not an event that would normally trigger remeasurement. Under existing accounting practices, gains or losses on previously held investments are only recognized if prescribed by the relevant accounting literature. For instance, gains or losses would be required to be recognized for an investment being accounted for under the trading category as permitted by IAS 39. Additionally, losses on noncontrolling interests would be required to be recognized if the holder deems the investment to be impaired. However, other than in these limited circumstances, existing GAAP does not permit or require unrealized gains or losses to be recognized in income. As a result, we believe the accounting for such gains or losses in the draft standards represents a significant departure from the current requirements, by defining a new category of remeasurement event.

We suggest that the Basis for Conclusions for both standards be expanded to better justify the required accounting. We believe one plausible way to explain the requirement to recognize gains or losses on previously held investments would be to consider the gain or loss of control as essentially two transactions: the sale of the previously held investment, thus triggering the realization of any holding gain or loss; and then the purchase of a new investment with a different level of control. With such an explanation, the risk of confusing constituents with a new kind of remeasurement event would be reduced.

Alternatively, the Board might consider alternate ways of displaying the remeasurement gain or loss, at least until the display of such items can be considered as part of the Board's current Performance Reporting project.

8.) New Entity as the Acquirer

Paragraph 16 of the IFRS 3 exposure draft states "*if a new entity is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer based on the evidence available.*" Based on this statement, it is unclear whether a newly formed entity could ever be considered an accounting acquirer or whether this statement is limited to situations when a newly formed entity acquires two or more combining entities that existed before the business combination.

We believe there could be situations whereby a newly formed entity infused with significant amounts of cash and other assets could issue its equity interests to acquire an ongoing business and that newly formed entity may qualify as the accounting acquirer based on the application of the guidance in paragraphs 10 – 16 of the exposure draft. Accordingly, we do not believe that any guidance should preclude a newly formed entity from being the accounting acquirer. If the Board believes that it would be rare for a newly formed entity to be considered the acquirer, then it would be useful for the Board to explain that belief in the Basis for Conclusions or in the Application Guidance.

9.) Reverse Acquisition Guidance

The appendix includes guidance for applying the acquisition method to reverse acquisitions. Since many preparers encounter difficulties in accounting for reverse acquisitions, we support the Board's decision to include such guidance. However, we believe that the example provided seems overly complicated and could be simplified to illustrate more clearly the application of the principles regarding reverse acquisitions.

In addition to the overall comments we observed while reviewing and discussing the draft Standards, we would also like to take the opportunity to address those questions posed in each of the respective exposure drafts.

Proposed Amendments to IFRS 3

Question 1 – Objective, definition and scope

Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?

We generally agree with the objective and definition of a business combination and believe they are appropriate for accounting for all business combinations.

However, as it relates to the stated objective that the acquisition method is based on the fair value measurement attribute, we believe the Board could accomplish the vast majority of its intended changes while still applying a cost accumulation and allocation model.

Question 2 – Definition of a business

Are the definition of a business and the additional guidance appropriate and sufficient for determining whether the assets acquired and the liabilities assumed constitute a business? If not, how would you propose to modify or clarify the definition or additional guidance?

We agree with the definition of a business as provided in the exposure draft.

Questions 3 – 7 – Measuring the fair value of the acquiree

Question 3 - In a business combination in which the acquirer holds less than 100 per cent of the equity interests of the acquiree at the acquisition date, is it appropriate to recognize 100 per cent of the acquisition-date fair value of the acquiree, including 100 per cent of the values of identifiable assets acquired, liabilities assumed and goodwill, which would include the goodwill attributable to the non-controlling interest? If not, what alternative do you propose and why?

Please refer to our General Comment 3.

Question 4 – Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

Please refer to our General Comment 3.

Question 5 – Is the acquisition-date fair value of the consideration transferred in exchange for the acquirer's interest in the acquiree the best evidence of the fair value of that interest? If not, which forms of consideration should be measured on a date other than the acquisition date, when should they be measured, and why?

We support the Board's use of the acquisition-date for purposes of measuring the fair value of consideration transferred as we believe this provides the most relevant measurement date for determining the fair value of the business being obtained. We do not believe there are any other forms of consideration that should be measured on a date other than the acquisition date, except for certain of the committee member views regarding contingent consideration as stated in our response to Question 6 below.

Question 6 – Is the accounting for contingent consideration after the acquisition date appropriate? If not, what alternative do you propose and why?

We generally agree with the accounting for contingent consideration that is classified as equity or that represents financial instrument liability and therefore subject to the guidance of IAS 39. We believe that the proposed changes to IFRS 3, and the related changes to IAS 32 and IAS 39 to remove the scope exceptions for contingent consideration, are a vast improvement to financial reporting given that all financial instruments will be accounted for in the same fashion.

However, there is not complete agreement among the committee members with respect to the accounting for certain types of contingent consideration, specifically those arrangements commonly referred to as "earn-outs". While certain committee members support the requirement to measure and recognize all contingent consideration at fair value at the acquisition-date, other members believe that such arrangements generally demonstrate that the buyer and seller disagreed about the fair value of the acquired business, and therefore question whether a reliable measurement is possible. As a result, this letter does not reflect a consensus view on this question.

Question 7 – Do you agree that the costs that the acquirer incurs in connection with a business combination are not assets and should be excluded from the measurement of the consideration transferred for the acquiree? If not, why?

Please refer to our General Comment 6.

Question 8-9 - Measuring and recognizing the assets acquired and the liabilities assumed

Question 8 – Do you believe that these proposed changes to the accounting for business combinations [related to measuring and recognizing the assets acquired and liabilities assumed] are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

We generally agree with the Board's overall model for measuring and recognizing assets acquired and liabilities assumed at fair value. Please refer to our General Comments 3, 4, and 5 regarding specific concerns we have regarding use of fair value measurements.

Question 9 – Do you believe that these exceptions to the fair value measurement principle [for example, those related to deferred taxes, assets held for sale, or employee benefits] are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We believe that the limited exceptions are appropriate, although we encourage the Board to consider these areas of exception in future projects and whether such exceptions could be eventually eliminated. We acknowledge that certain of those exceptions, such as leases and employee benefit obligations, are best addressed as part of broader reconsiderations of the overall accounting models rather than certain aspects being amended only for purposes of a business combination.

Questions 10-12 – Additional guidance for applying the acquisition method to particular types of business combinations

Question 10 – Is it appropriate for the acquirer to recognize in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree? If not, what alternative do you propose and why?

Please refer to our General Comment 7.

Question 11 – Do you agree with the proposed accounting for business combinations in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest? If not, what alternative do you propose and why?

We agree with the proposed accounting for transactions in which the consideration transferred is less than the fair value of the interest acquired. We believe gain recognition is appropriate in these limited circumstances as it represents an economic gain that is inherent in a bargain purchase.

Question 12 – Do you believe that there are circumstances in which the amount of an overpayment could be measured reliably at the acquisition date? If so, in what circumstances?

We believe in the vast majority of situations, overpayments cannot be reliably measured. As such, we support the Board's proposal that any overpayment, whether or not reliably measured at the acquisition date, is subsumed into goodwill.

Question 13 – Measurement period

Do you agree that comparative information for prior periods presented in financial statements should be adjusted for the effects of measurement period adjustments? If not, what alternative do you propose and why?

We agree with the Board's decision to require prior financial statements to be adjusted for the effects of measurement period adjustments as this provides the most relevant financial information and ensures comparability among the periods presented.

Question 14 – Assessing what is part of the exchange for the acquiree

Do you believe that the guidance provided is sufficient for making the assessment of whether any portion of the transaction price or any assets acquired and liabilities assumed or incurred are not part of the exchange for the acquiree? If not, what other guidance is needed?

We believe the guidance provided for assessing whether a portion of the transaction price is not part of the exchange for the acquiree is sufficient. Specifically, we believe both the stated principle in paragraph 69 as well as the additional guidance included in the appendix provides sufficient information so that professionals exercising good judgment can reach reasonable conclusions as to whether any portion of the transaction price or assets acquired and liabilities assumed are not part of the exchange for the acquiree.

Question 15 – Disclosures

Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?

We support the disclosure objectives and believe the minimum disclosure requirements are appropriate.

Questions 16–18 – The IASB's and the FASB's convergence decisions

Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognized separately from goodwill? If not, why? Do you have any examples of an intangible asset that arises from legal or contractual rights and has both of the following characteristics:

- (a) the intangible asset cannot be sold, transferred, licensed, rented, or exchanged individually or in combination with a related contract, asset, or liability; and*
- (b) cash flows that the intangible asset generates are inextricably linked with the cash flows that the business generates as a whole?*

We agree with the Board's decision that an identifiable intangible asset can be reliably measured based on the discussion contained in the Basis for Conclusions.

Question 17 – Do you agree that any changes in an acquirer's deferred tax benefits that become recognizable because of the business combination are not part of the fair value of the acquiree and should be accounted for separately from the business combination? If not, why?

We agree with the Board's decision that changes in an acquirer's deferred tax benefits should be accounted for separately from the business combination based on the premise that any changes to the acquirer's deferred tax asset that result from a change in the acquirer's circumstances coincident with a business combination should not be recognized as part of the business combination. We note that this is consistent with the overall principle throughout the draft standard that the effect of transactions or events

that arise outside of the exchange transaction should be accounted for separately from the business combination.

Question 18 – Do you believe it is appropriate for the IASB and the FASB to retain those disclosure differences? If not, which of the differences should be eliminated, if any, and how should this be achieved?

While we fully support convergence of the related accounting requirements, we are not concerned with the existing disclosure differences between the two draft standards.

Question 19 – Style of the Exposure Draft

Do you find the bold type-plan type style of the Exposure Draft helpful? If not, why? Are there any paragraphs you believe should be in bold type, but are in plain type, or vice versa?

We are comfortable with the style and format of the exposure draft as we believe the stated principles will be clearly understood by readers.

Proposed Amendments to IAS 27

Question 1 – Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognized in profit or loss (see paragraph BC4 of the Basis of Conclusions).

Do you agree? If not, why not and what alternative would you propose?

Please refer to our General Comments 1 and 3.

In addition, we would like to highlight the present need for better guidance for transactions that result in changes in the parent's ownership interest in a subsidiary after control is obtained. The present guidance permits several approaches to account for these transactions which results in diverse accounting practices and lack of comparability of the financial information. Although the Board is addressing this issue in the amendments to IAS 27, we believe that some interim step should be considered for developing better guidance, since the Board is unlikely to issue the final amendments for IFRS 3 and IAS 27 until the 1st or 2nd quarter in 2007.

We understand that the IFRIC was previously asked to address this issue, but decided not address this issue since is part of the Business Combinations project. Nonetheless, we encourage the IFRIC to reconsider its prior decision given the current expected timeframe for completing the amendment to IFRS 3 and IAS 27.

Question 2- Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such

remeasurement be included in the determination of the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

Please refer to our General Comment 7 regarding our views with respect to remeasurement gains or losses.

Question 3- *As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognized in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of subsidiary would result in any gain or loss being recognized in profit or loss for the period. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).*

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

We agree with the overall principle that two or more transactions should be accounted for as a single transaction or arrangement if they are entered into at the same time, they achieve an overall commercial effect and the occurrence of one transaction is dependent on the other arrangement. However, we note that this issue of combining transactions, or "linkage", arises in many situations. We encourage the Board to revisit this issue as soon as possible to provide guidance that could be applied generally to such issues.

Question 4- *Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.*

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

We support the Board's proposal for allocation of losses to noncontrolling interest holders.

Question 5 – *The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which the Board believes that retrospective application is likely to be impracticable.*


Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

We agree with the Board's transitional approach for applying the guidance of the exposure draft, including the practical exceptions to applying the guidance retrospectively in certain instances in which it may be difficult and costly to apply the requirements of the standard, such as accounting for increases in a parent's controlling ownership interest in a subsidiary that occurred before the effective date of the amendments.

Closing

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Scott Taub
Chairman
IOSCO Standing Committee No. 1