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Mr Hans Hoogervorst
International Accounting Standards Board
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Our ref MV/288
Contact Mark Vaessen

5 October 2015

Dear Mr Hoogervorst

Comment letter on ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*

We appreciate the opportunity to comment on the International Accounting Standards Board's Exposure Draft (ED) *Effective Date of Amendments to IFRS 10 and IAS 28*. We have consulted with, and this letter represents the views of, the KPMG network.

We support the Board's proposal to defer the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). However, we believe that the Board should revisit the amendment sooner than planned, and not wait for progress on the broader equity accounting project. In the meantime, we consider that early adoption should be prohibited. We outline our reasons below.

We have had concerns on the application of the amendments as issued in September 2014 since they were issued and believe that the issuance and subsequent deferral of this amendment indicates that the IASB's quality controls could be enhanced, including an improved fatal flaw review process, as it is important to identify concerns in the drafting stage rather than after issuance. However, we agree that deferral and reconsideration will enhance the quality of the accounting solution. We have outlined our concerns with the current wording of the amendments to IFRS 10 and IAS 28 below.

However, it remains the case that the amendment was drafted to address an issue identified in practice where diversity in application exists. That underlying issue still needs to be addressed. Indefinite deferral, linking the solution of the issue with a much broader research project, concerns us, as we believe that the issue should be addressed sooner.

We therefore would recommend that, without waiting for the research project, the IASB goes ahead now to undertake a narrow-scope project to see through to a conclusion its solution to the original concerns whilst at the same time dealing with the issues that have arisen from the 2014 amendment.

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Scope of the amendments

We believe that the amendments to IFRS 10 and IAS 28 are not clear on the scope of their application. It is unclear to us whether the requirements that distinguish the transfer of a business from the transfer of a non-business apply only for transactions with an existing joint venture or associate or also apply for transactions with *new* joint ventures or associates (i.e., when the transfer forms a new joint venture or associate). Paragraph BC190I appears to suggest that it is the former because it scopes out 'transactions with third parties'.

The key question is whether a loss of control over a non-business (retaining joint control or significant influence) should result in a gain in respect of the interests sold (and no more) in all cases or only in some narrow cases or structures – i.e., when sold to an existing joint venture or associate. If the latter applies then the same dilution of interest in a non-business will achieve different accounting outcomes depending on structure.

We believe that it is important to clarify the scope in the near term as, in our experience, transfers in the formation of a joint venture are more common than transfers of assets with existing joint ventures. We can provide further commentary on this if that would help you.

Partial recognition of remeasurement gains

We believe that the requirement under paragraph B99A of IFRS 10 in the amendments for a partial 'step-up' of retained interests (and per bullet (b) in Example 17), which was not exposed for comment, is difficult to justify, because it books a gain on the strength of a third party interest that does not exist, and produces counter-intuitive results. In the appendix to this letter we explain our difficulty. Therefore, we believe that this issue needs some attention.

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

Yours faithfully

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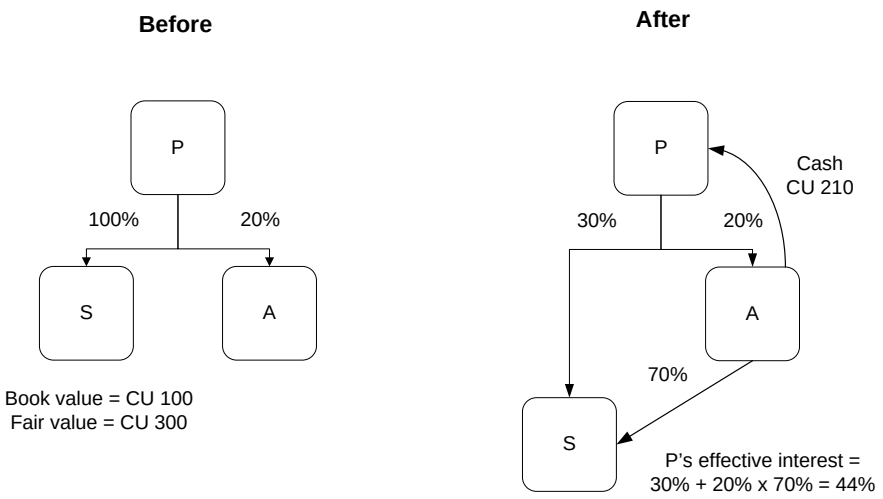
Appendix

The following diagrams illustrate the transaction in Example 17 (following IFRS 10.B99A).



There is a difference between the expected gain and the required gains, as follows.

Expected

There a latent gain of CU 200 (fair value of CU 300 - book value of CU 100).

P has disposed of 56% (100% - 44% retained effective interest).

Therefore, the expected gain is CU 112 (CU 200 x 56%).

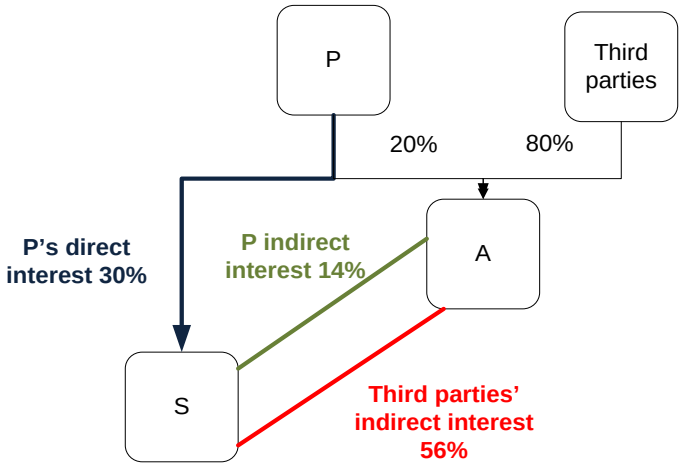
Required

On sale of 70% interest to a 20% associate: CU 210 received, less 70% of book value of CU 100 = CU 140; but eliminate 20% thereof gives CU 140 x 80% = CU 112.

On partial step-up of retained 30%: full step-up is the 30% of fair value of CU 300, less 30% of book value of 100 = 60; P recognises 56% of this – i.e. 56% x CU 60 = CU 34.

The total gain is therefore CU 146.

Why is there a difference of CU 34?

The difference above is the additional CU 34 step-up on P's retained, direct 30% interest.

This is the latent gain (60) on P's direct 30% interest (the blue line below), multiplied by the third parties' indirect interest in S (the red line below). Yet, as shown by the diagram below, the third parties have no interest at all in the P's 30% direct interest in S.