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Sir David Tweedie
International Accounting Standards Board
30 Cannon Street

Berlin, 1 March 2007

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Dear Sir David

Comments on the Board's decision not to perform any further research on step acquisition of an associate or the achievement of joint control

While the IASB decided to include guidance on a step down (i.e. the loss of significant influence or the loss of joint control) in IAS 28 and IAS 31 it agreed at its meeting in February 2007 that further research on the achievement of significant influence or joint control should not be done as part of the business combinations project. Furthermore, the IASB did not give any indication when it plans to resume its deliberations on this issue.

We regret the IASB's decision since we are convinced that the issue is of such widespread practical relevance that it warrants a timely solution. Our preferred approach would be amending IAS 28 and IAS 31. However, it would also be feasible to give the necessary guidance through the development of an Interpretation so that the IASB should consider to hand the issue over to the IFRIC.

For clarity, we would like to outline the issue and very briefly discuss the two alternatives how step acquisitions of an associate could possibly be accounted for. Our remarks have equivalent relevance for the achievement of joint control.

An investor may become an associate when the investor acquires an additional holding or there is a change in circumstances that results in significant influence being obtained. Often the investment previously will have been accounted for as an available-for-sale financial asset or a financial asset at fair value through profit or loss. The issue is if the guidance regarding business combinations achieved in stages in IFRS 3 applies also to these situations resulting in a retrospective application of the equity method.



If a business combination is achieved in stages IFRS 3.58 states that each exchange transaction shall be treated separately by the acquirer. This results in a step-by-step comparison of the cost of the individual investments with the acquirer's interest in the fair values of the acquiree's identifiable assets, liabilities and contingent liabilities at each step. If IFRS 3.58 is applied by analogy when the acquisition of an associate is achieved in stages the investments acquired at the previous stages would have to be accounted for as if the equity method had already been applied at the time of the previous stages. This retrospective application of the equity method would imply that the book value of the investments acquired at the previous stages would have to be increased proportionately by the earnings retained between the previous stages and the last stage of acquisition and by amounts that were recognised directly in equity. Accordingly, goodwill would be calculated based on the cost of the investment and the fair value of the net identifiable assets at the date of each exchange.

An alternative view is to reject the analogous application of IFRS 3.58 and, as a consequence, not to apply the equity method retrospectively. The fair value of the investment at the date when the investment becomes an associate would be taken as a surrogate for the historical cost of the investment at each of the stages of acquisition. Accordingly, goodwill would be calculated based on the fair value of the investment and the fair value of the net identifiable assets at the date when the investment becomes an associate.

IAS 28 is silent if step acquisitions of an associate should be accounted for in accordance with the guidance in IFRS 3. Furthermore, even if this view is taken, it is unclear how the accounting should be when some of the step acquisitions took place way in the past and the data necessary for applying IFRS 3.58 by analogy is not available.

Since the issue of step acquisitions of an associate is undoubtedly of widespread practical importance we would suggest to the IASB redeliberating the issue as soon as possible. If this cannot be realised we would suggest IFRIC taking this issue on its agenda.

If you would like further clarification of the issues set out in this letter, please do not hesitate to contact me.

With best regards

Stefan Schreiber
AIC, Chairman