Dear Alan,

SUBMISSION - EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IFRS 3 BUSINESS COMBINATIONS AND IAS 27 CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Please find attached Treasury’s submission in relation to the above exposure drafts.

Treasury supports the broad intent of the changes, in particular the entity approach adopted.

Should you wish to discuss any of the matters raised in the submission please contact either myself (ken.warren@treasury.govt.nz) or Alan Vandermolen (alan.vandermolen@treasury.govt.nz).

Yours sincerely,

Ken Warren
Chief accounting adviser
for Secretary to the Treasury
RESPONSES TO ED IFRS 3 QUESTIONS

Question 1—Objective, definition and scope

The proposed objective of the Exposure Draft is:

... that all business combinations be accounted for by applying the acquisition method. A business combination is a transaction or other event in which an acquirer obtains control of one or more businesses (the acquiree). In accordance with the acquisition method, the acquirer measures and recognises the acquiree, as a whole, and the assets acquired and liabilities assumed at their fair values as of the acquisition date. (paragraph 1)

The objective provides the basic elements of the acquisition method of accounting for a business combination (formerly called the purchase method) by describing:

(a) what is to be measured and recognised. An acquiring entity would measure and recognise the acquired business at its fair value, regardless of the percentage of the equity interests of the acquiree it holds at the acquisition date. That objective also provides the foundation for determining whether specific assets acquired or liabilities assumed are part of an acquiree and would be accounted for as part of the business combination.

(b) when to measure and recognise the acquiree. Recognition and measurement of a business combination would be as of the acquisition date, which is the date the acquirer obtains control of the acquiree.

(c) the measurement attribute as fair value, rather than as cost accumulation and allocation. The acquiree and the assets acquired and liabilities assumed would be measured at fair value as of the acquisition date, with limited exceptions. Consequently, the consideration transferred in exchange for the acquiree, including contingent consideration, would also be measured at fair value as of the acquisition date.

The objective and definition of a business combination would apply to all business combinations in the scope of the proposed IFRS, including business combinations:

(a) involving only mutual entities
(b) achieved by contract alone
(c) achieved in stages (commonly called step acquisitions)
(d) in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date.

(See paragraphs 52-58 and paragraphs BC42-BC46 of the Basis for Conclusions.)

Question 1—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 agree the objective and the definition of a business combination are generally appropriate for accounting for business combinations. We note that the standard has been narrowed from the previous definition “the bringing together of separate entities or businesses into one reporting entity” and support this change. We also agree with the concept of focussing upon a “transaction or other event”.

By transaction, we understand this to constitute a business agreement or exchange. We are a little less sure about what is meant by an “other event” - the basis of conclusions states the background to having this part of the definition is to ensure an “economic event” has taken place rather than businesses being brought into one entity. However, on the basis of the public sector examples below, the inclusion of the words “other event” still get us to what we think is the right accounting treatment:

1. The government decides to include the Historical Places Trust as a Crown Entity via legislation, with the government then able to appoint a majority of the Board. We agree this should fit within the concept of “other event” in the sense that the government now has control of assets it previously did not have.
2. The government disestablishes by Order in Council a College of Education which is in financial distress, and places the assets, students and staff into a University. Again, the University (assuming no common control) now has control of assets and activities it previously did not have.

3. The government merges by legislation two local councils into one new local council in order to improve decision taking over asset networks that are shared by the councils (eg. roads). Is this sufficient to constitute an “event”? Arguably given that the structure of the new Council board would change, there is something in substance taking place here. One could argue the motivation for the transaction is analogous to the IASB’s reasoning around mutual entities (BC179-BC199).

4. An incoming government legislates to require consolidated financial statements of local councils to be published. In this situation, one could argue that an “other event” has occurred (the passing of legislation) albeit that there is no economic substance to it (only the basis of conclusions attaches “economic” to event). However, there is no acquirer obtaining control, and therefore IFRS 3 would (appropriately) not apply. The financial statements instead would reflect a combination of separate businesses rather than a consolidation.

In relation to example 3, a separate issue then arises as to which council would have to revalue their assets as the “acquiree,” when neither council could be considered an acquiree. The argument for revaluation is equally applicable to both councils in any case. This situation appears to fall outside the scope of the standard. Of course, the new council could be considered to be the “acquirer” meaning that both councils would have to revalue, however this would result in the new council having to book the acquisitions through revenue (via the bargain purchase provisions) which to us seems inappropriate.

Question 2—Definition of a business
The Exposure Draft proposes to define a business as follows:
A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing either:
(1) a return to investors, or
(2) dividends, lower costs, or other economic benefits directly and proportionately to owners, members, or participants. (paragraph 3(d))

Paragraphs A2-A7 of Appendix A provide additional guidance for applying this definition. The proposed IFRS would amend the definition of a business in IFRS 3. (See paragraphs BC34-BC41.)

Question 2—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 that the definition of business is appropriate (albeit that in New Zealand the definition may need to be amended to include potential for non economic benefits such as social benefits).

In relation to guidance, we would appreciate more guidance on distinguishing between an asset and a business. Examples would be very useful here, particularly when the business involves leasing out an asset. For example, would the purchase of a carpark building along with a few staff, and the receipting system be an asset or a business, when any inputs and processes are minor in relation to the carpark building itself. One example that we have struggled with is the government’s purchase of the railway
network asset (which has been subsequently leased back to its previous owner for 70 years) – whereby the government has also acquired the staff and processes required for the maintenance of the asset. Again, the staff and processes are minor in relation to the asset itself (a few floors of staff compared to what some consider to be a $7 billion asset), yet have still formed part of a new entity within the Crown (Trackco).

Questions 3-7—Measuring the fair value of the acquiree

The Exposure Draft proposes that in a business combination that is an exchange of equal values, the acquirer should measure and recognise 100 per cent of the fair value of the acquiree as of the acquisition date. This applies even in business combinations in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at that date. In those business combinations, the acquirer would measure and recognise the non-controlling interest as the sum of the non-controlling interest's proportional interest in the acquisition-date values of the identifiable assets acquired and liabilities assumed plus the goodwill attributable to the non-controlling interest. (See paragraphs 19, 58 and BC52-BC54.)

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 recognise 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?

We agree taking this approach to goodwill is more conceptually sound than the current approach. If goodwill is considered to be an asset associated with the business, then minority interest must also own some, and therefore it makes sense to consolidate the full amount of goodwill similar to any other asset being consolidated. The opposing argument would be that goodwill holds little meaning as an asset and is really just a soft way of expensing the excess portion of consideration that can't be linked to an identifiable asset. If this view was valid, there would be an equally strong argument for not recognising goodwill in the first place and expensing any excess immediately.

The Exposure Draft proposes that a business combination is usually an arm's length transaction in which knowledgeable, unrelated willing parties are presumed to exchange equal values. In such transactions, the fair value of the consideration transferred by the acquirer on the acquisition date is the best evidence of the fair value of the acquirer's interest in the acquiree, in the absence of evidence to the contrary. Accordingly, in most business combinations, the fair value of the consideration transferred by the acquirer would be used as the basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. However, in some business combinations, either no consideration is transferred on the acquisition date or the evidence indicates that the consideration transferred is not the best basis for measuring the acquisition-date fair value of the acquirer's interest in the acquiree. In those business combinations, the acquirer would measure the acquisition-date fair value of its interest in the acquiree and the acquisition-date fair value of the acquiree using other valuation techniques. (See paragraphs 19, 20 and A8-A26, Appendix E and paragraphs BC52-BC69.)

Question 4—Do paragraphs A9-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?

We believe there is sufficient guidance for measuring the fair value of an acquiree.

The Exposure Draft proposes a presumption that the best evidence of the fair value of the acquirer's interest in the acquiree would be the fair values of all items of consideration transferred by the acquirer in exchange for that interest measured as of the acquisition date, including:

(a) contingent consideration;
(b) equity interests issued by the acquirer; and
(c) any non-controlling equity investment in the acquiree that the acquirer owned immediately before the acquisition date.
(See paragraphs 20-25 and BC55-BC58.)

**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 agree that acquisition date fair value is the best evidence of determining fair value. We do not support looking past the acquisition date for any aspects of the consideration, for example contingent consideration. Firms are always going to get a better idea later on down the track of whether the price they paid at day 1 was too high or too low. Shifting the valuation of some, but not other, aspects of the consideration out to get the benefit of hindsight would create an inconsistent anomaly. Any aspects of consideration that turn out differently to that expected at acquisition date should be left to an examination of goodwill impairment later down the track.

The Exposure Draft proposes that after initial recognition, contingent consideration classified as:
(a) equity would not be remeasured.
(b) liabilities would be remeasured with changes in fair value recognised in profit or loss unless those liabilities are in the scope of IAS 39 Financial Instruments: Recognition and Measurement or [draft] IAS 37 Non-financial Liabilities. Those liabilities would be accounted for after the acquisition date in accordance with those IFRSs. (See paragraphs 26 and BC64-BC89.)

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

We agree the accounting for contingent consideration after the acquisition date is appropriate.

The Exposure Draft proposes that the costs that the acquirer incurs in connection with a business combination (also called acquisition-related costs) should be excluded from the measurement of the consideration transferred for the acquiree because those costs are not part of the fair value of the acquiree and are not assets. Such costs include finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; the cost of issuing debt and equity instruments; and general administrative costs, including the costs of maintaining an internal acquisitions department. The acquirer would account for those costs separately from the business combination accounting. (See paragraphs 27 and BC84-BC89.)

**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?

While we agree that costs incurred in connection with a business combination should be expensed, we note this position is inconsistent with the treatment of costs under other IFRSs in relation to acquiring other assets. Given the number of standards that the treatment of acquisition costs affects, our view is that any change in the treatment should be undertaken as a project in itself to ensure the continued consistency across standards.

**Questions 8 and 9**—Measuring and recognising the assets acquired and the liabilities assumed

The Exposure Draft proposes that an acquirer measure and recognise as of the acquisition date the fair value of the assets acquired and liabilities assumed as part of the business combination, with limited exceptions. (See paragraphs 28-41 and BC111-BC116.) That requirement would result in the following significant changes to accounting for business combinations:
(a) Receivables (including loans) acquired in a business combination would be measured at fair value. Therefore, the acquirer would not recognise a separate valuation allowance for uncollectible amounts as of the acquisition date.

(b) An identifiable asset or liability (contingency) would be measured and recognised at fair value at the acquisition date even if the amount of the future economic benefits embodied in the asset or required to settle the liability are contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. After initial recognition, such an asset would be accounted for in accordance with IAS 38 Intangible Assets or IAS 39 Financial Instruments: Recognition and Measurement, as appropriate, and such a liability would be accounted for in accordance with [draft] IAS 37 or other IFRSs as appropriate.

Question 6—Do you believe that these proposed changes to the accounting for business combinations are appropriate? If not, which changes do you believe are inappropriate, why, and what alternatives do you propose?

Whether the fair value of receivables and loans incorporates the valuation allowance or the allowance is shown separately does not have any significant impact in terms of showing the value of the business. At the same time from a user perspective, users of public entity statements are interested to see the level of uncollectible debts as it is an indication of the entity's management (we believe there are similar considerations in the private sector). Therefore we believe an acquirer should have a choice over whether it recognises as separate valuation allowance if considered more appropriate.

The Exposure Draft proposes limited exceptions to the fair value measurement principle. Therefore, some assets acquired and liabilities assumed (for example, those related to deferred taxes, assets held for sale, or employee benefits) would continue to be measured and recognised in accordance with other IFRSs rather than at fair value. (See paragraphs 42-51 and BC117-BC150.)

Question 9—Do you believe that these exceptions to the fair value measurement principle are appropriate? Are there any exceptions you would eliminate or add? If so, which ones and why?

We believe that these exceptions to the fair value measurement principle are appropriate.

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

The Exposure Draft proposes that, for the purposes of applying the acquisition method, the fair value of the consideration transferred by the acquirer would include the fair value of the acquirer's non-controlling equity investment in the acquiree at acquisition date that the acquirer owned immediately before the acquisition date. Accordingly, in a business combination achieved in stages (step acquisition) the acquirer would remeasure its non-controlling equity investment in the acquiree at fair value as of the acquisition date and recognise any gain or loss in profit or loss. If, before the business combination, the acquirer recognised changes in the value of its non-controlling equity investment directly in equity (for example, the investment was designated as available for sale), the amount that was recognised directly in equity would be reclassified and included in the calculation of any gain or loss as of the acquisition date. (See paragraphs 55, 56 and BC151-BC153.)

Question 10—Is it appropriate for the acquirer to recognise 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?

We agree that it is appropriate for the acquirer to recognise in profit or loss any gain or loss on previously acquired non-controlling equity investments on the date it obtains control of the acquiree.

The Exposure Draft proposes that in a business combination in which the consideration transferred for the acquirer's interest in the acquiree is less than the fair value of that interest (referred to as a bargain purchase) any excess of the fair value of the acquirer's interest in the acquiree over the fair value of the consideration transferred for that interest would reduce goodwill until the goodwill related to that business
combination is reduced to zero, and any remaining excess would be recognised in profit or loss on the acquisition date. (See paragraphs 59-61 and paragraphs BC164-BC177.) However, the proposed IFRS would not permit the acquirer to recognise a loss at the acquisition date if the acquirer is able to determine that a portion of the consideration transferred represents an overpayment for the acquiree. The boards acknowledge that an acquirer might overpay to acquire a business, but they concluded that it is not possible to measure such an overpayment reliably at the acquisition date. (See paragraph BC178.)

**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 that when the consideration transferred for the acquirer’s interest in the acquiree is less than the fair value of that interest, the excess should be recognised as a gain through profit or loss.

**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?

In our view the obvious answer here is that if one can conceive instances of underpayment, then similar factors operating upon the purchaser can also result in overpayment.

Acquirers may from time to time make mistakes in their calculations which become apparent on acquisition date (eg. Assets that are found not to exist), and some of these are likely to be reliably measurable.

Thinking more widely, a government may overpay for shares in an airline or the purchase of a railway network which on the one hand may effectively be a bail out to the entity concerned in order to ensure the continuance of a business which may be slightly uneconomic but also fulfils some social objectives (eg. public transport infrastructure). In these examples the government’s objectives differ from the fair value of the business in anyone else’s hands. There are similar parallels here to an entity purchasing a business solely for the sake of closing it down to eliminate competition. The value to the acquirer is not reflected in the arms length value of the business per se (which is the basis everyone else is valuing it on), but the way in which it’s non existence enhances the existing aspects of its business. There may well be a case for allowing expensing of overpayments in these circumstances at the time of acquisition (rather than later via impairment testing) in order to be transparent about what is happening with the transaction.

**Question 13—Measurement period**

The Exposure Draft proposes that an acquirer should recognise adjustments made during the measurement period to the provisional values of the assets acquired and liabilities assumed as if the accounting for the business combination had been completed at the acquisition date. Thus, comparative information for prior periods presented in financial statements would be adjusted, including any change in depreciation, amortisation or other profit or loss effect recognised as a result of completing the initial accounting. (See paragraphs 62-68 and BC161-BC163.)

**Question 13**—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 think there is a case for adjusting prior year comparatives for the effects of measurement period adjustments. However, similar to the issue of expensing acquisition costs, it again would create an inconsistency issue. If the predominant philosophy is to not make retrospective adjustments, we do not support making a change for this one standard but not others. We therefore suggest taking the IAS 8 approach to this issue.

**Question 14—Assessing what is part of the exchange for the acquiree**
The Exposure Draft proposes that an acquirer assess whether any portion of the transaction price (payments or other arrangements) and any assets acquired or liabilities assumed or incurred are not part of the exchange for the acquiree. Only the consideration transferred by the acquirer and the assets acquired or liabilities assumed or incurred that are part of the exchange for the acquiree would be included in the business combination accounting. (See paragraphs 69, 70, A87-A109 and BC154-BC160.)

**Question 14—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 existing guidance is sufficient.

**Question 15—Disclosures**
The Exposure Draft proposes broad disclosure objectives that are intended to ensure that users of financial statements are provided with adequate information to enable them to evaluate the nature and financial effects of business combinations. Those objectives are supplemented by specific minimum disclosure requirements. In most instances, the objectives would be met by the minimum disclosure requirements that follow each of the broad objectives. However, in some circumstances, an acquirer might be required to disclose additional information necessary to meet the disclosure objectives. (See paragraphs 71-81 and BC200-BC203.)

**Question 15—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?**

As with a number of IFRS's we have submitted upon, we believe the disclosure requirements of this exposure draft are excessive. Our financial statements have already been criticised in the past for excessive disclosures, and these requirements would add to the issue. Disclosures that could be considered for deletion include 74(d), 72(h), 72(l), 74(b) and 76.

**Questions 16-18—The IASB's and the FASB's convergence decisions**
The Exposure Draft is the result of the boards' projects to improve the accounting for business combinations. The first phase of those projects led to the issue of IFRS 3 and FASB Statement No. 141. In 2002, the FASB and the IASB agreed to reconsider jointly their guidance for applying the purchase method of accounting, which the Exposure Draft calls the acquisition method, for business combinations. An objective of the joint effort is to develop a common and comprehensive standard for the accounting for business combinations that could be used for both domestic and cross-border financial reporting. Although the boards reached the same conclusions on the fundamental issues addressed in the Exposure Draft, they reached different conclusions on a few limited matters. Therefore, the IASB's version and the FASB's version of the Exposure Draft provide different guidance on those limited matters. A comparison, by paragraph, of the different guidance provided by each board accompanies the draft IFRS. Most of the differences arise because each board decided to provide business combinations guidance that is consistent with its other standards. Even though those differences are candidates for future convergence projects, the boards do not plan to eliminate those differences before final standards on business combinations are issued.
The joint Exposure Draft proposes to resolve a difference between IFRS 3 and SFAS 141 relating to the criteria for recognising an intangible asset separately from goodwill. Both boards concluded that an intangible asset must be identifiable (arising from contractual-legal rights or separable) to be recognised separately from goodwill. In its deliberations that led to SFAS 141, the FASB concluded that, when acquired in a business combination, all intangible assets (except for an assembled workforce) that are identifiable can be measured with sufficient reliability to warrant recognition separately from goodwill.

In addition to the identifiability criterion, IFRS 3 and IAS 38 required that an intangible asset acquired in a business combination be reliably measurable to be recognised separately from goodwill. Paragraphs 35-41 of IAS 38 provide guidance for determining whether an intangible asset acquired in a business combination is reliably measurable. IAS 38 presumes that the fair value of an intangible asset with a finite useful life can be measured reliably. Therefore, a difference between IFRS 3 and SFAS 141 would arise only if the intangible asset has an indefinite life. The IASB decided to converge with the FASB in the Exposure Draft by:

(a) eliminating the requirement that an intangible asset be reliably measurable to be recognised separately from goodwill; and
(b) precluding the recognition of an assembled workforce acquired in a business combination as an intangible asset separately from goodwill.

Question 16—Do you believe that an intangible asset that is identifiable can always be measured with sufficient reliability to be recognised 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?

For the joint Exposure Draft, the boards considered the provisions of IAS 12 Income Taxes and FASB Statement No. 109 Accounting for Income Taxes, relating to an acquirer's deferred tax benefits that become recognisable because of a business combination. IAS 12 requires the acquirer to recognise separately from the business combination accounting any changes in its deferred tax assets that become recognisable because of the business combination. Such changes are recognised in post-combination profit or loss, or equity. On the other hand, SFAS 109 requires any recognition of an acquirer’s deferred tax benefits (through the reduction of the acquirer’s valuation allowance) that results from a business combination to be accounted for as part of the business combination, generally as a reduction of goodwill. The FASB decided to amend SFAS 109 to require the recognition of any changes in the acquirer's deferred tax benefits (through a change in the acquirer’s previously recognised valuation allowance) as a transaction separately from the business combination. As amended, SFAS 109 would require such changes in deferred tax benefits to be recognised either in income from continuing operations in the period of the combination or directly to contributed capital, depending on the circumstances. Both boards decided to require disclosure of the amount of such acquisition-date changes in the acquirer’s deferred tax benefits in the notes to the financial statements.

We agree with the approach taken in relation to intangible assets to achieve convergence.

Question 17—Do you agree that any changes in an acquirer’s deferred tax benefits that become recognisable 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 that any changes in an acquirer’s deferred tax benefits that become recognisable 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.

The boards reconsidered disclosure requirements in IFRS 3 and SFAS 141 for the purposes of convergence. For some of the disclosures, the boards decided to converge. However, divergence continues to exist for some disclosures as described in the accompanying note Differences between the Exposure Drafts published by the IASB and the FASB. The boards concluded that some of this divergence stems from differences that are broader than the Business Combinations project.
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?

We don’t have a view on this issue.

Question 19—Style of the Exposure Draft
The Exposure Draft was prepared in a style similar to the style used by the IASB in its standards in which paragraphs in bold type state the main principles. All paragraphs have equal authority.

Question 19—Do you find the bold type-plain 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 find it a useful way of skimming through the standard to identify the main parts.
RESPONSES TO ED IAS 27 QUESTIONS

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 recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).
Do you agree? If not, why not and what alternative would you propose?
Agree.

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?
Agree.

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?
Agree.

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 recognised in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised 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?
Agree.

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?
Agree.
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?

Agree.