



SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

November 23, 2011

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

RE: Agenda Consultation 2011

Dear Board Members,

The “Comitê de Pronunciamentos Contábeis” - CPC¹ welcomes the opportunity to comment on the Agenda Consultation 2011.

This response summarizes the views of our members, which may be supported by the opinions of external parties, sent to us for analysis and to enhance the discussion on the subject matter. We have also made efforts to encourage other external parties to send comments directly to the IASB.

If you have any questions about our comments, please contact Mr. Idésio da Silva Coelho Júnior (*Idesio.S.Coelho@br.ey.com*), coordinator of a working group constituted to study any proposal-stage literature issued by the IASB.

Yours sincerely,

Edison Arisa Pereira
Technical Coordinator
Comitê de Pronunciamentos Contábeis (CPC)

¹ The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).



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Question 1

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

In our understanding the Conceptual Framework, Standards-level projects and the Post-implementation review should be the IASB's strategic priorities. In our view it would not be efficient to deal with other issues before the completion of the Conceptual Framework. We suggest IASB conclude standards in development (ie lease, revenue, financial instrument and insurance) before all of IASB's strategic priorities.

Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

We agree with the two categories and five strategic areas.

Question 1(b)

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

Our priorities are listed in the response to the question 2(a) below.

Question 2

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

Please refer to the response to the question 2(a) below.

Question 2(a)

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

We suggest that Board should the following projects should be priority to IASB:

As highlighted in the answer to Question 1, the Conceptual Framework, in our perspective, should be the first urgent priority for the IASB.



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Urgent projects:

Equity method of accounting

Brazilian companies in general are required by the corporation law to present “individual financial statements” prepared in accordance Brazilian accounting practices where investments in subsidiaries, jointly controlled entities and associates must be accounted for under the equity method. In most cases, this would be the only difference between the separate financial statements in accordance IFRS and individual financial statements in accordance Brazilian accounting practice.

This current difference exists in practice to entities that have investments in associates and jointly controlled entities, as IFRS current guidance does not allow entities present “individual financial statements” where these investments would be accounted for under equity method.

We understand that an improvement project adding the option to entities present account for such investments in separate financial statements under the equity method would meet our expectation, and allow that both individual and consolidated financial statements may fully accomplish the requirements of the pronouncement IAS 27 in Brazil.

It is worth noting that generally the shareholders and investors have access to the financial statements of the subsidiary even not controlling it.

Inflation accounting (revisions to IAS 29 Financial Reporting in Hyperinflationary Economies)

We have observed a high level of inflation in recent years (decades) in many countries around the world. The current IFRS only deal with hyperinflation. Some industries, for example, that use high level of property, plant and equipments financed by loans indexed to inflation can have their financial results not adequately reflected in financial statements that comply with the IFRSs. Thus, we suggest that the Board revise IAS 29 in the sense of the definition of the accumulated inflation index, since the fixed percentage of 100% variance in a three-year period may not be appropriate anymore for the application of inflation accounting. We understand that inflation accounting should or could be applied when the impact of inflation become material for the enterprise. Past experience in our country revealed that inflation on a much lower level (ie 3%-5% per year) produces a significant impact on the return of investment, financial position and performance of an entity. We understand reflecting the impact of inflation, based on materiality and principle base (instead of based on a fixed and high percentage), would produce more relevant and meaningful financial statements for stakeholders.



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Based on our local experience with inflation, we really believe that the method of accounting for recognising the loss of purchase power of the functional currency needs improvements in order to better meet the qualitative characteristics stated on the Conceptual Framework. Acknowledging that fact and the MoU signed in January 2010, we are making our staff available for helping the IASB in the preparation of the Exposure Draft of the IFRS that will replace IAS 29.

In addition, we believe that more extensive preparation guidance, including practical examples, should be included in standards to facilitate consistent implementation of the standard.

Agriculture

Due to the significance of agriculture in many jurisdictions and complexity in practice to adopt its concepts we suggest IASB to consider IAS 41 as another priority in the post-implementation review strategy.

In the post-implementation review, we suggest IASB consider the complexity, for example, on certain agricultural activities like we have in the Brazilian market, such as forestry plantations for the production of paper and/or pulp and sugar-cane for the production of sugar and/or ethanol, are part of integrated production activities meaning that there is, in most of the cases, no active market for certain biological assets or for certain agricultural produce derived from them. For example, in many instances the paper and pulp producer raises its forestry instead of acquiring the wood from a third party. Such vertical production chain suppresses the existence of an active wood market, making the determination of fair value of wood very complex. Thus, we recommend that the Board consider a revision on IAS 41 allowing alternative measurement of certain biological assets, whenever there is no active market for certain assets.

Rate regulated activities

In some jurisdictions like Brazil, US and Canada rate regulated activities are very significant and in accordance with their previous and/or current GAAP related assets and liabilities are recognized, for example in the electrical power industry.

Considering that applicants and auditors have different interpretations in this issue, IASB's previous project was not completed, so we suggest that project to be finalized, being then included in the agenda as a priority issue. Considering the lack of orientation and complexity about this issue we understand that this would be a comprehensive project.



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IFRIC 12 Service Concession Contracts—Impact of the recognition of concession rights and related payable

Considering the extensive discussions held for this issue in Brazil, and the fact that the interpretation of this IFRIC leads to inconsistent application, mainly related to the significant impact of the subsequent measurement of long term obligation associated with the concession rights. Usually concession term include inflation adjustment [see also our comments above about Inflation accounting] to the outstanding obligation representing a significant and immediate impact in the statement of income and financial position, making financial statements meaningless. Given the relevance of the service concessions in our country, we suggest that the Board consider revising IFRIC 12 to incorporate concepts associated with the measurement of the related concession rights given the fact that, in certain industries, operators are allowed to adjust their prices to reflect inflation effects.

Not urgent projects, however not less relevant than items listed under “Urgent Projects”:

IFRIC 15 Agreements for the Construction of Real Estate—meaning of continuous transfer of control in real estate transactions.

Considering the extensive discussions held for this issue in several jurisdictions besides Brazil, and that application of such interpretation leads towards divergent positions between applicants and auditors, as demonstrated in the two versions of the IFRIC 15 questionnaire submitted to the Board by the CPC and IBRACON (Brazilian Institute of Independent Auditors) mainly related to the timing of transfer of risks and benefits to the real estate unit acquirer, we suggest that the IASB consider clarifying the meaning of transfer and continuous transfer as part of the project on revenue recognition. This a key project for Brazil, given the current development of its real estate market.

Business combination between entities under common control

Those transactions are relevant, occur frequently and sometimes are quite complex. Due to lack of orientation, considering that the current IFRS 3 pronouncement excludes this type of transaction from its scope, there is diversity in practice (i.e. business combination involving entities under common control are accounted for by applying the acquisition method or using pooling of interest). Therefore, we suggest that this issue should be included in the agenda as a priority issue in order to allow comparability of the financial statements amongst applicants, which we believe it is one of the Board’s goal. We understand that this subject itself would worth a comprehensive project.



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Extractive activities

Due to significance of those activities in many jurisdictions and lack of orientation we suggest a comprehensive project. It is important to mention that the CPC has not issued the pronouncement of extractive activities in Brazil in lieu of the revised version of IFRS 6.

Finance instruments with characteristics of equity

Due to complexity of some financial instruments in practice, the increasing number of new types of transactions being formulated by the financial institutions and investment entities recently, and broadly application we suggest the IASB continue the project that is suspended.

Intangible assets

Intangible assets are relevant class of assets for wide range of entities across many jurisdictions. The current standard must be improved to reflect broadly many practical situations and applications in certain industries, such research and development costs in the Oil & Gas industry.

Combined financial statements

There has been diversity in practice when it relates to (i) the approaches underlying the preparation of combined financials (common control, common management, common business); (ii) the conditions from which combined financials could be generated (carve-out of an entity; the concept of the reporting entity); (iii) the techniques underlying the preparation of combined financials; etc. Apart from the strict guidance provide in IFRS for SMEs, there is no IFRS guidance on this subject, thus we suggest this topic to be considered by the IASB.

IAS 1 - Presentation of Financial Statements

Considering the provision about classification of financial liability addressed in paragraphs 72 to 76 of IAS 1, we believe that in the cases when the entity does not meet a commitment under a long-term loan agreement until balance sheet date, with the effect of the liability to become due and payable by creditor's order, but when creditor has agreed, even after balance sheet date, but before the date of authorization to issue the financial statements, with not claiming accelerated payment as a consequence of covenant noncompliance, the liability should be maintained classified under the long term portion, for the financial statements to fairly present the financial position of the entity, since the formal noncompliance situation prevailing as of financial statements date was dealt with so that effectively before the authorization for disclosure of the financial statements the contractual noncompliance would not remain. The liability should be maintained as long term liability in order for the financial statements to provide a true view of the position as of the date of disclosure thereof, otherwise the presentation in assets would be incorrect, and thus impairing



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the analysis of accounting and financial indicators, calculated based on balance sheet balances. The disclosure of facts occurred; the noncompliance with contractual clauses and the remediation thereof should be adequately presented in the notes to the financial statements.

Question 2(b)

Which of the projects previously added to the IASB’s agenda but deferred would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB’s agenda but deferred do you think should be reactivated, and why?

In regard to the reactivation of deferred projects, we believe that our answer to Question 2(a) also answers to this question.

In regard to the removal of any deferred project, we prefer not to present any specific comment. However, we would like to see the IASB working on all 12 issues presented in our answer to Question 2(a) before working on any other project previously deferred or not.