



Tel: +44 (0)20 7486 5888
Fax: +44 (0)20 7487 3686
DX 9025 West End W1
www.bdo.co.uk

55 Baker Street
London
W1U 7EU

Private and Confidential

The Directors
Ofcom
Riverside House
2a Southwark Bridge Road
London
SE1 9HA

25 July 2016

Dear Sirs

Strategic review of digital communications ("The Review")

We have prepared a confidential letter dated 13 July 2016 ("the Letter") in connection with the Review.

We understand that as part of a public consultation on the Review that you are conducting, you wish to publish the Letter alongside other material. Having regard to the confidential nature of the Letter and agreed disclosure restrictions, you have asked us to consent to this. We are writing to confirm our consent and to clarify the basis on which it is given.

Without affecting in any way or on any basis our duties and responsibilities owed to you alone, we consent to publication by you of the Letter, as part of the public consultation on the Review. Our consent is given, in response to your request, to facilitate demonstration by you to participants in the consultation that a letter including the matters stated in the Letter has been commissioned by you and issued by us, and for no other purpose. It is a condition of our consent that this letter of consent is published with the Letter. A copy of the Letter is enclosed.

Yours faithfully

BDO LLP





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13 July 2016

Dear Sirs,

Strategic review of digital communications (“the Review”)

In connection with the Review you have asked us to set out the broad considerations that an investor company should take into account when deciding whether to include a business in its consolidated financial statements and how restrictions placed on the activities of that business, whether by regulation, voluntary agreement or otherwise, might affect that decision. This letter and its contents form part of our engagement with you in connection with the Review, as set out in the letter of appointment dated 25 May 2016.

A UK-incorporated company that is listed on the main market of the London Stock Exchange must prepare its consolidated financial statements under International Financial Reporting Standards (IFRSs). Within that body of standards, IFRS 10 ‘Consolidated Financial Statements’ (IFRS 10) establishes principles for the presentation and preparation of consolidated financial statements. IFRS 10 establishes control (as defined) as the basis for determining whether an entity is consolidated into consolidated financial statements, rather than included through some other means (eg as an investment in shares). Ultimately, the assessment of control is a judgmental matter which will depend to a large extent on the specific facts and circumstances of the arrangement in question.

If a business is a division of a company, the question of the consolidation or omission of that business in the financial statements of its ‘host’ company is unlikely to arise solely as a result of restrictions placed on its activities. This is because IFRS 10 applies to groups of assets and liabilities within a single company only when specified assets and liabilities are legally ‘ring-fenced’, as seen most often in finance, real estate and insurance industry arrangements (sometimes known as ‘silos’). However, it is possible that restrictions that fall short of those that might give rise to a silo may still have an effect on the recognition, measurement and/or classification of individual assets and liabilities within that division in the company’s financial statements. On this basis, for the purpose of this letter, we assume that the question is in respect of a business that is held in a company which is wholly owned by an investor, but which has restrictions placed on its activities by a third party.

Under IFRS 10, an investor controls an investee if and only if, the investor has all of the following:

- a) Power over the investee ('power');
- b) Exposure, or rights, to variable returns from its involvement with the investee ('variable returns'); and
- c) The ability to use its power over the investee to affect the amount of the investor's returns ('linkage').

An investor is required to reassess whether it controls an investee if facts and circumstances indicate there are changes to any of these elements of control.

In circumstances where an investor has rights over and exposure to 100% of the returns generated by a company, it is likely to meet the 'variable returns' condition. The 'linkage' condition can also be assumed to have been met as it is principally concerned with identifying and excluding from the definition of control situations where an entity can exercise power over another entity and is exposed to variable returns but is acting as an agent for another party (as may be the case for the General Partner in some fund structures). In consequence, whether an investor can be considered to control a business when it is incorporated in a wholly owned company will depend on the extent to which that investor's power over the investee is affected by any restrictions placed on its control of the investee's activities.

To have power over an investee, an investor must have existing rights that give it a current ability to direct the 'relevant activities' of the investee, even if those relevant activities only arise in the future. IFRS 10 defines relevant activities as the activities of the investee that significantly affect its returns. What constitutes a relevant activity will differ from entity to entity but examples that might be more relevant in the context of a trading company might include:

- a) Selling and purchasing of goods or services;
- b) Selecting, acquiring or disposing of assets;
- c) Researching and developing new products or processes; and
- d) Determining a funding structure or obtaining funding.

Examples of decisions about relevant activities might include:

- a) Establishing operating and capital decisions of the investee, including budgets; and
- b) Appointing and remunerating the investee's key management personnel or service providers and terminating their services or employment.

In determining the investor's ability to direct the investee's relevant activities, one considers only substantive rights. In this context, substantive rights are those that the rights holder has the practical ability to exercise. Substantive or other rights that are merely protective in nature are ignored for the purposes of establishing power; these are rights that are designed to protect the interests of their holder without giving that party power over the investee to which those rights relate. A party that holds only protective rights cannot have power or prevent another party from having power over an investee.

Clearly identifying a company's relevant activities and determining the extent to which rights over them are substantive and which are protective is judgemental. Factors such as regulatory requirements that prevent the investor from exercising certain rights or requiring agreement from third parties, such as a regulator, prior to exercising rights will have a bearing on that judgement.

In practice it is normally the responsibility of the board of directors to direct the activities of a company. Consequently, if an investor can appoint or remove a majority of the members of an investee company's board of directors, then it is likely to have control unless regulatory or other factors inhibit the directors' ability to make decisions in respect of the company's relevant activities. In our view, an investor's ability to appoint or remove a majority of a company's directors and the powers of those directors does not have to be unfettered in order for control to be achieved; it may be limited in some respects. For example, a restriction on employees or former employees of the investor, its competitors or the regulator, from being considered for appointment to the board might be considered to be protective in nature and therefore not preclude control. Similarly, restrictions placed on the company to prevent the sharing of confidential information with its investor regarding its direct competitors may also be considered protective rights. Ultimately, however, the judgement regarding the status of these restrictions as protective or substantive rights is a matter of their specific nature and degree.

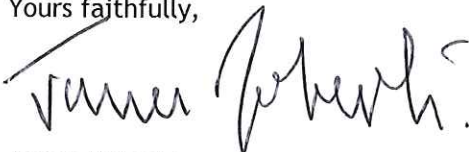
We would emphasise that judgements regarding whether an investor controls its investee are for the preparer of the relevant consolidated financial statements to make, albeit ones which their auditor will have to consider as part of the audit. These may be fine judgements and they will need to be considered in the context of the final outcome of the Review, taken as a whole.

Any person who is not an addressee of this letter or who has not signed and returned to BDO LLP either a "no-reliance" or an "assumption of duty" release letter is not authorised to have access to this letter. We do not accept or assume responsibility to any unauthorised person to whom this letter is shown or any other person who may otherwise gain access to it. If any unauthorised person chooses to rely on the contents of this letter, they do so entirely at their own risk.

This letter is not to be referred to or quoted, in whole or in part, in any other document or made available to any third party without our prior written consent.

We would be happy to discuss the contents of this letter with you, and any issues raised in it, in more detail. Should you wish please contact either Simon Michaels (simon.michaels@bdo.co.uk) or James Roberts (james.roberts@bdo.co.uk).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'James Roberts', with a stylized flourish at the end.

James Roberts
Partner
For and on behalf of BDO LLP