December 23, 2015
DCF- 009/15 - 1/15

Embraer S.A.

Av. Brigadeiro Faria Lima, 2.170
12227-901 - S.J. dos Campos - SP
Brasil

Tel: (12) 3927-1225

Ref.: IFRIC tentative agenda decisions–July 2015 IFRIC meeting Agenda Paper 9 – Income taxes Complement to Letter DCF 007/2015 – Embraer S.A.

Dear IFRS Interpretations Committee members,

On October, 2015, we sent you a letter numbered by DCF 007/2015 with a series of arguments about how Embraer S.A. is affected by the Deferred Income Taxes arising due to the effect of exchange on rate changes on the tax bases of non-current assets and liabilities trough profit or loss, referred by us as "non-monetary deferred taxes" on the occasion, regulated by the paragraph 41 of IAS 12. For the sake of better understanding we will refer to this figure as "non-monetary deferred taxes" on this document as well.

On this letter, we will discuss the conceptual reasons why we understand that the standard shall be revised. In this, we are going to present some accounting concepts from the IFRS that we believe that justify our arguments about that.

To contextualize the discussion we will maintain our comments about the letter submitted to July, 2015 Agenda Paper 9 (paragraphs 1 to 7) and the Highlights of the July IFRIC paper (paragraphs 8 to 14).

1. The issue in question is the recognition of deferred taxes arising due to the effect of exchange rate changes on the tax bases of non-current assets through profit or loss (dealt with specifically in paragraph 41 of IAS 12). For the sake of trying to simplify the long description of these deferred taxes we will call them 'non-monetary deferred taxes' from now on.

2. The tentative agenda decision reads that the question asked by the submitter was if the deferred taxes in question should be recognised through profit or loss. [1]

3. We believe that this was not the question asked by the submitter and because of that we disagree with the decision to reject the agenda request and also with the arguments presented in Agenda Paper 9 of the July 2015 IFRIC meeting.

4. It is our understanding that the submitter was questioning the appropriateness of the accounting treatment that IAS 12 lends to this event instead of asking what that accounting treatment is.

5. Because we think the submitter's question was not addressed in the July 2015 IFRIC meeting we would like to kindly request the IFRIC to rediscuss this issue. In addition, we would like to add our letter to the request of the submitter because we share its views.

6. We agree when the submitter puts in question the appropriateness of the accounting treatment to recognise the non-monetary deferred taxes in profit or loss. We have the expectation that there are two courses of action for this issue from a technical perspective:

[1] Appendix A of Agenda Paper 9 of the 2015 July IFRIC meeting and also reflected in the IFRIC update for that meeting.

a. Don't do anything because the IFRIC understands that IAS 12 is appropriate —non-monetary deferred taxes should be recognised through profit or loss;
b. Change the accounting treatment because the IFRIC understands that it is not appropriate to recognise these effects in profit or loss and either:
    i. recognise the non-monetary deferred taxes in equity in OCI instead of profit or loss; or
    ii. do not recognise any non-monetary deferred taxes—this option is currently aligned with US GAAP as explained by the submitter.[2]

7. With this brief background, we then provide our analysis structured in the following format:
    a. Highlights of the July 2015 paper;
    b. Conceptual discussion of the issue
    c. Our expectations from complementing the consultation done on the Letter DCF 007/2015.
    d. Annex A - News regarding Embraer's results in 3rd Quarter, 2015

Highlights of the July 2015 IFRIC paper

8. The July 2015 IFRIC paper (the IFRIC paper) approached the issue by analysing the IFRS involved (IAS 12 and IAS 21) and also conducting an informal outreach to gather information.

9. While reading the summary of outreach responses section of that paper we were quite positive with the potential outcome because it demonstrated that some IFASS board members are of the opinion that conceptually the submitter is right and non-monetary deferred taxes should be recognised in equity (paragraph 23 of the IFRIC paper). This was, in our view, the only comment that is indeed related to the question raised by the submitter.

10. We thought that the other outreach responses were unrelated to the discussion in question and that is why we felt positive about the potential outcome of the paper. Arguments or responses that say that IAS 12 is clear (paragraph 21 of the IFRIC paper), that the predominant accounting treatment is to recognise the non-monetary deferred taxes in profit or loss (paragraph 22(c) of the IFRIC paper) or that there is no diversity in practice (paragraph 22(d) of the IFRIC paper) do not add, in our understanding, any information to the analysis of this topic.

11. Although we said on the Letter DCF 007/2015 that we agree the issue is not widespread in terms of global effect, we withdraw this statement after analyzing and research further, there are many multinational companies on emerging countries that carries the burden of this problem. We would like to highlight that this is not a matter of interpreting the Standards caused by differences in the application of judgment. In our view, this is an issue that will cause the effects that we will discuss

[2] ASC 740-10-25-3(f) prohibits "recognition of a deferred tax liability or asset for differences related to assets and liabilities that, under Subtopic 830- 10 are remeasured from the local currency into the functional currency using historical exchange rates and that result from changes in exchange rates or indexing for tax purposes."

EMBRAER

in this paper in *every* instance where a country has strong multinationals (thus concluding that its functional currency is not the local currency after applying judgment to analyse IAS 21) and a fluctuant currency.

12. Hence, for *every* entity that is located in a country with a fluctuating currency that has a functional currency which is different from the local currency, this topic will have an impact. The greater are its non-monetary assets the greater the impact will be (this is aligned with one of the feedbacks from the IFRIC paper in paragraph 22(b)).

13. We leave it to the judgement of the IFRIC and the IASB to determine if this issue is widespread or not, but we are now sure that from an emerging economic standing point this issue is.

14. We consider now that recognizing these deferred taxes is not appropriated for the reasons given in the next section. However, we leave the accounting treatment to the judgment of the IFRIC and the IASB. In the last section we note our expectations in regards to this consultation.

Conceptual discussion about the non-monetary deferred taxes

15. To discuss the issue, we propose the following example:

    Entity A is starting its business on January, 20X1. Entity A is located on Brazil[3] and the Local Currency is Brazilian Reais (BRL). On the assessment about whether the functional currency should be the same as the local currency, the Entity got to the conclusion that its Functional Currency should be the US Dollar (USD) because it is the currency "of the primary economic environment in which the entity operates" according to the primary and secondary indicators defined by IAS 21.

    Entity A's profit is taxable on BRL.

    At the end of 20X0, Entity A acquires the property, plant and equipment assets that are going to be used for the next five years operation, this is their useful life.

    The total of the purchased PP&E assets is USD 1,000,000.

    The exchange rate on the end of year X0 is BRL 2.00 = 1.00 USD.

    The Entity buys PP&E assets on the value of USD 250,000 on the last day of each year.

    The useful life for the PP&E assets is 5 years which is equal to 20% per year and it's the same for the tax purposes and for accounting purposes.

[3] We chose Brazil because it would be better to give names to the currencies, this is the same reason why we chose US Dollars as the functional currency.

We assume for this example that the cost of sales is not impacted by any non-monetary deferred tax (therefore, there is no inventory as part of the cost of sales), this is going to be done to simplify the understanding of the example.

For this example we assume that there are not non-current liabilities.

The Income Tax rate is 34%.

The current income tax is paid on the subsequent year of the calculation.

For this example we will consider two scenarios, one with the calculation of the non-monetary deferred tax and the other only with the calculation for the current income tax.

For both of them, follows the exchange rate for the year end and the average exchange rate for the year:

Year Ending	Year End Exchange Rate
X0	2.00
X1	1.62
X2	1.83
X3	2.24
X4	2.34
X5	2.93

Year Ending	Average Exchange Rate
X0	2.00
X1	1.81
X2	1.73
X3	2.04
X4	2.29
X5	2.64

EMBRAER

Scenario 1 – Recognition of non-monetary deferred taxes

Following is possible to see the calculation of the non-monetary deferred taxes:

Ref.	Date	Event	Accounting Base Functional Currency - USD	Rate	Accounting Base Taxable Currency - R$
(1)	December X0	Purchase of PP&E Assets	1,000,000.00	2.00	2,000,000.00
(2)	December X1	Year Closing	1,050,000.00	1.62	2,005,000.00
(3)	December X2	Year Closing	1,050,000.00	1.83	1,981,500.00
(4)	December X3	Year Closing	1,000,000.00	2.24	1,969,000.00
(5)	December X4	Year Closing	900,000.00	2.34	1,869,500.00
(6)	December X5	Year Closing	750,000.00	2.93	1,800,500.00

Ref.	Date	Calculation of deferred income tax			
		Corporate base - USD	Tax base - USD	Difference between bases	Deferred income tax
(1)	December X0	1,000,000.00	1,000,000.00	-	-
(2)	December X1	1,050,000.00	1,237,654.32	187,654.32	63,802.47
(3)	December X2	1,050,000.00	1,082,786.89	32,786.89	11,147.54
(4)	December X3	1,000,000.00	879,017.86	(120,982.14)	(41,133.93)
(5)	December X4	900,000.00	798,931.62	(101,068.38)	(34,363.25)
(6)	December X5	750,000.00	614,505.12	(135,494.88)	(46,068.26)

EMBRAER

The current Income Tax calculation, on the taxable currency will be:

Year Year Ending December 31. Average exchange rate	0 20X0 20X0	1 20X1 1.81	2 20X2 1.73	3 20X3 2.04	4 20X4 2.29	5 20X5 2.64
Taxable Statements of Income (in BRL)						
Revenue	-	687,800	786,600	1,113,552	1,503,706	2,076,296
Cost of Sales	-	(229,267)	(262,200)	(371,184)	(501,235)	(692,099)
Depreciation	-	(400,000)	(490,500)	(576,750)	(678,500)	(793,000)
Profit Before Tax	-	**58,533**	**33,900**	**165,618**	**323,970**	**591,197**
Current Tax Expense/Income	-	(19,901)	(11,526)	(56,310)	(110,150)	(201,007)
Total Tax Expense	-	**(19,901)**	**(11,526)**	**(56,310)**	**(110,150)**	**(201,007)**
Profit (Loss) after tax	-	**38,632**	**22,374**	**109,308**	**213,820**	**390,190**
Effective tax rate	-	**34%**	**34%**	**34%**	**34%**	**34%**

At the end of the periods, the Statement of Income and Statements of Financial Position (in Functional Currency USD) will be:

Year Year Ending December 31. Year Closing Exchange Rate	0 20X0 2.00	1 20X1 1.62	2 20X2 1.83	3 20X3 2.24	4 20X4 2.34	5 20X5 2.93
Statements of Income (in USD)						
Revenue	-	380,000	456,000	547,200	656,640	787,968
Cost of Sales	-	(126,667)	(152,000)	(182,400)	(218,880)	(262,656)
Depreciation	-	(200,000)	(250,000)	(300,000)	(350,000)	(400,000)
Profit Before Tax	-	**53,333**	**54,000**	**64,800**	**87,760**	**125,312**
Current Tax Expense/Income	-	(10,995)	(6,682)	(27,671)	(48,100)	(76,283)
Deferred Tax Expense/Income	-	63,802	(52,655)	(52,281)	6,771	(11,705)
Total Tax Expense	-	**52,807**	**(59,337)**	**(79,952)**	**(41,330)**	**(87,989)**
Profit (Loss) after tax	-	**106,141**	**(5,337)**	**(15,152)**	**46,430**	**37,323**
Effective tax rate	-	**-99%**	**110%**	**123%**	**47%**	**70%**
Statements of Financial Position (in USD)						
Assets						
Cash and Equivalents	-	3,333	46,338	154,456	314,546	541,757
Deferred Tax Asset	-	63,802	11,148	-	-	-
Property, Plant and Equipment (net value)	**1,000,000**	**1,050,000**	**1,050,000**	**1,000,000**	**900,000**	**750,000**
Acquisition Cost PP&E	1,000,000	1,250,000	1,500,000	1,750,000	2,000,000	2,250,000
Accumulated Depreciation	-	(200,000)	(450,000)	(750,000)	(1,100,000)	(1,500,000)
Total Assets	**1,000,000**	**1,117,136**	**1,107,486**	**1,154,456**	**1,214,546**	**1,291,757**
Liabilities						
Current Tax Liability	-	10,995	6,682	27,671	48,100	76,283
Deffered Tax Liability	-	-	-	41,134	34,363	46,068
Capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Income	-	106,141	100,804	85,652	132,082	169,405
Equity	**1,000,000**	**1,106,141**	**1,100,804**	**1,085,652**	**1,132,082**	**1,169,405**
Total Liabilities	**1,000,000**	**1,117,136**	**1,107,486**	**1,154,456**	**1,214,546**	**1,291,757**

As can be seen in years X2 and X3, the Entity A's results before tax were a profit, however after calculating and therefore recognizing the non-monetary deferred tax, Entity A demonstrated a Net loss after tax. This is a situation in which the calculation for the non-monetary deferred tax brings a relevant distortion on the financial statements for the Entity. The variation on the effective rate of the income tax go from -99% to 123% and the average effective income tax rate is 50%.

Scenario 2 – Recognition of only the Current Income Tax

The current Income Tax Calculation, on the taxable currency will be:

Year Year Ending December 31. Average exchange rate	0 20X0 2.00	1 20X1 1.81	2 20X2 1.73	3 20X3 2.04	4 20X4 2.29	5 20X5 2.64
Taxable Statements of Income (in BRL)						
Revenue	-	687,800	786,600	1,113,552	1,503,706	2,076,296
Cost of Sales	-	(229,267)	(262,200)	(371,184)	(501,235)	(692,099)
Depreciation	-	(400,000)	(490,500)	(576,750)	(678,500)	(793,000)
Profit Before Tax	-	**58,533**	**33,900**	**165,618**	**323,970**	**591,197**
Current Tax Expense/Income	-	(19,901)	(11,526)	(56,310)	(110,150)	(201,007)
Total Tax Expense	-	**(19,901)**	**(11,526)**	**(56,310)**	**(110,150)**	**(201,007)**
Profit (Loss) after tax	-	**38,632**	**22,374**	**109,308**	**213,820**	**390,190**
Effective tax rate	-	**34%**	**34%**	**34%**	**34%**	**34%**

At the end of the periods, the Statement of Income and Statements of Financial Position (in Functional Currency USD) will be:

EMBRAER

Year Year Ending December 31. Year Closing Exchange Rate	0 20X0 2.00	1 20X1 1.62	2 20X2 1.83	3 20X3 2.24	4 20X4 2.34	5 20X5 2.93
Statements of Income (in USD)						
Revenue	-	380,000	456,000	547,200	656,640	787,968
Cost of Sales	-	(126,667)	(152,000)	(182,400)	(218,880)	(262,656)
Depreciation	-	(200,000)	(250,000)	(300,000)	(350,000)	(400,000)
Profit Before Tax	-	**53,333**	**54,000**	**64,800**	**87,760**	**125,312**
Current Tax Expense/Income	-	(10,995)	(6,682)	(27,671)	(48,100)	(76,283)
Deferred Tax Expense/Income	-	-	-	-	-	-
Total Tax Expense	-	**(10,995)**	**(6,682)**	**(27,671)**	**(48,100)**	**(76,283)**
Profit (Loss) after tax	-	**42,338**	**47,318**	**37,129**	**39,660**	**49,029**
Effective tax rate	-	**21%**	**12%**	**43%**	**55%**	**61%**
Statements of Financial Position (in USD)						
Assets						
Cash and Equivalents	-	3,333	46,338	154,456	314,546	541,757
Current Tax Asset	-	-	-	-	-	-
Deferred Tax Asset	-	-	-	-	-	-
Property, Plant and Equipment (net value)	**1,000,000**	**1,050,000**	**1,050,000**	**1,000,000**	**900,000**	**750,000**
Acquisition Cost PP&E	1,000,000	1,250,000	1,500,000	1,750,000	2,000,000	2,250,000
Accumulated Depreciation	-	(200,000)	(450,000)	(750,000)	(1,100,000)	(1,500,000)
Total Assets	**1,000,000**	**1,053,333**	**1,096,338**	**1,154,456**	**1,214,546**	**1,291,757**
Liabilities						
Current Tax Liability	-	10,995	6,682	27,671	48,100	76,283
Deffered Tax Liability	-	-	-	-	-	-
Capital	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Net Income	-	42,338	89,656	126,786	166,445	215,474
Equity	**1,000,000**	**1,042,338**	**1,089,656**	**1,126,786**	**1,166,445**	**1,215,474**
Total Liabilities	**1,000,000**	**1,053,333**	**1,096,338**	**1,154,456**	**1,214,546**	**1,291,757**

As can be seen, in this example, where only the current income tax was recognized, the effective Income Tax rate variation was from 12% to 61% and the average effective income tax rate is 38%.

16. We can see that while for the Scenario 1 in which the non-monetary deferred assets is calculated, the variation between the lower effective tax rate (-99%) and the higher effective tax rate (123%) was by 222 percentage points. This means that in five years, the Entity had a variation of 222 percentage points on its income tax impacting its results.

17. For the Scenario 2, in which only the current income tax was calculated, the variation between the lower effective tax rate (12%) and the higher effective tax rate (61%) was by 49 percentage points. This means that the in five years, the Entity had a variation of 49 percentage points on its income tax impacting its results.

18. By analyzing Scenarios 1 and 2 together we see that the variability of the income tax effective rate is 4.5 times higher if the non-monetary deferred tax is calculated and recognized than if only the current income tax is calculated. This means that if only the current income tax is calculated and recognized, the Entity results would be less volatile, more comparable and represent more faithfully the Entity results. On the other hand, if the non-monetary deferred tax is calculated and

EMBRAER

recognized the Entity results will be more volatile, less comparable and not represent faithfully the Entity results. Also, because of the recognition of the non-monetary Deferred Taxes, the average effective rate for Income Tax will be 12% over the years higher than when only the current Income Tax is calculated.

19. As said on the Letter DCF 007/2015 sent to IFRIC in October, we are a public Brazilian entity applying IFRS (both in the São Paulo Stock Exchange and the New York Stock Exchange as foreign filers) since 2008 (year of adoption for some Brazilian entities). During our year of adoption we analysed our operations in light of IAS 21 and concluded that our functional currency should not be the Brazilian Real but the US Dollar.

20. We recognize the non-monetary income tax according to the IAS 12, and the numbers recognized on our Financial Statements have the same distortions showed on the example (and described on the Letter DCF 007/2015 sent to IFRIC in October) because of this calculation, in the third quarter of 2015 we had a YTD profit before taxes of US$ 270.5 million and a Net Loss of US$ (33.2) million, mostly because of the non-monetary deferred tax, without the impact of the non-monetary deferred tax, the Net Income would be US$ 242.4 million.

21. By analyzing the news on specialized media, we see that all the comments on that are regarding to the loss from the Entity, the biggest issue in this case is to explain to the market that the loss reported is not real and that the Income Tax recognized is deferred and does not have a cash effect. On Annex A, there is compilation of the news regarding Embraer's 3rd Quarter results (in English and Portuguese).

22. Although the analysts understand the effects and the Entity discloses that on its press releases, it's very clear the impacts on the interpretation done by the market over the Entity's numbers, on the third quarter, there was a situation in which the Entity was classified for investment in a position below the one it occupied before, because of the "loss result" provoked by the Deferred non-monetary tax.

23. In our opinion, at the moment the Deferred non-monetary tax misleads the media, the market, the analysts and other accounting users, the faithful representation required by the Conceptual Framework is not being met.

24. According to the Conceptual Framework the faithful representation "Financial reports represent economic phenomena in words and numbers. To be useful, financial information must not only represent relevant phenomena, but it must also faithfully represent the phenomena that it purports to represent. To be a perfectly faithful representation, a depiction would have three characteristics. It would be complete, neutral and free from error. Of course, perfection is seldom, if ever, achievable. The Board's objective is to maximize those qualities to the extent possible" (paragraph QC12).

25. When the Conceptual Framework says that financial information shall be useful, we believe that the board meant useful in all its characteristics.

26. As far as we see, the paragraph 41 of IAS 12 seeks uniformity on the effective tax rate, but it fails in doing so, because in the daily operation of a Entity, fixed assets are bought every day, also does inventory and, for that reason is almost impossible to realize the differences on the non-monetary items during the years, because they are maintained almost unaltered. Also, bringing uniformity to effective tax rate is not a prerogative for reliability and faithful representation, in fact when describing one of the qualitative characteristics of the financial statements, the comparability, the Conceptual Framework says that "Comparability is not uniformity. For information to be comparable, like things must look alike and different things must look different. Comparability of financial information is not enhanced by making unlike things look alike any more than it is enhanced by making like things look different" (paragraph QC23).

27. Also, sometimes it looks like that on discussion of this issue, it's not taken into account the fact that some Companies on emerging countries also have subsidiaries all over the world, and sometimes their Functional Currency is the Dollar or the Euro and their taxable currency is the same as the Local Currency, which is normally depreciated over the Dollar or the Euro. It's important to say that the analysis of what currency is the Functional Currency of a Entity is not an option, it's a requirement according to IAS 21 that says that "the Functional Currency is the currency of the primary economic environment in which the entity operates".

28. By saying that, it's clear that when a Entity based on an emerging country uses the Functional Currency Dollar or Euro, this Entity is doing that because it represents the currency of the primary environment, the IAS 21 paragraph 23b says that the non-monetary items shall be measured by its historical costs on the Entity's Functional Currency. Also, the same standard and other standards (IAS 16, IAS 2) say that the non-monetary items shall not be re-measured because of exchange rate variation. In this case, what is clear is that there is no effect on the results because of the non-monetary items themselves.

29. Considering the above, by calculating and recognizing the non-monetary Deferred Tax, the entity will be recognizing an impact on the Results (the income tax) over an impact that only exists formally, not being true on the Entity's functional currency. This is equivalent as saying that the Deferred Income Tax affects the results, the difference between the non-monetary items does not. The requirements of the IAS 12, paragraph 41 are inconsistent to the requirements on IAS 21 paragraph 23b.

30. It's known that some efforts were done in the past to converge the IAS 12 – Income Taxes with the FAS 109 – Accounting for Income Taxes, however, over the discussions one of the issues is the exception on the paragraph 9 (f) on FAS 109. IASB and FASB does not get to an agreement about that, however, some of the discussion brings some good arguments about this issue.

31. FAS 52 – Foreign Currency Translation have a requirement that is similar to the one described on paragraph 23b of IAS 21. By commenting the exception on paragraph 9 (f) from FAS 109, FASB says on its basis of conclusion that "under Statement 96, that difference between the foreign currency equivalent of the U.S. dollar cost and the foreign tax basis of nonmonetary assets is accounted for as a temporary difference. Although that difference technically meets the definition of a temporary difference, the Board concluded that the substance of accounting for it as such is

EMBRAER

to recognize deferred taxes on exchange gains and losses that are not recognized under Statement 52. The Board decided to resolve that conflict between the requirements of Statements 96 and 52 by prohibiting recognition of deferred taxes for those differences. The Board believes that decision will significantly reduce complexity by eliminating cross-currency (U.S. dollar cost versus foreign tax basis) computations of deferred taxes for those differences" (paragraph 119, FAS 109).

32. By discussing this subject on its meeting for Short Term Convergence, in December 30, 2004, the FASB Income Tax Team decided not follow with a convergence project between FAS 109 and IAS 12, however, some arguments from that meeting could be reproduced to corroborate ours.

33. One of the board members, Ms. Seidman stated that there was an inconsistency between the FAS 52 and FAS 109 and, for that reason she believed that the exception on FAS 109 paragraph 9 (f) should be maintained.

34. Mr. Schieneman stated that the major effects of eliminating the exception on FAS 109 paragraph 9 (f) would be on the fixed assets and that the principle impact that was being discussed by FASB was the tax consequences of depreciation, in his opinion depreciation based on the historical dollar would be different from the depreciation on the local currency and board would be adding another factor to the translation effect if the exception was not sustained.

35. We think that the same argument can be used when discussing the non-monetary Deferred Tax by considering the IAS 12 paragraph 41 and the IAS 21 paragraph 23b. The calculation of the non-monetary Deferred Tax required by paragraph 41 of IAS 12 is not consistent with the requirement for measurement described by paragraph 23b of IAS 21, because there is no real difference to be recognized on the P&L that supports the recognition of the non-monetary Deferred Tax. Also, as shown on the example on the beginning of this letter, the Income Tax effective rate variation that arises from the non-monetary Deferred Tax calculation when the fixed assets is constant brings an distortion and could mislead the users.

36. Also, by analogy with another standards, it's clear that the requirements from IAS 12 paragraph 41 are not consistent, IAS 37 says that a expense (provision) shall be recognized only when there is a present obligation originated from a past or present event, IAS 18 says that a revenue can only be recognized if there is certainty that the economic benefits will flow to the entity, however, on IAS 12 paragraph 41 case, what is being required is to recognized a future outflow based on a difference that does not affect the P&L.

37. Some person which see the argument above may argue that the requirement on paragraph 41 of IAS 12 is similar to the requirements on the IAS 19 – Employee Benefits related to the recognition of future expenses related to post-employment benefits, however this is not true, considering that the obligation in this case arise from the employee providing the services to the company, which means that this a past event that generates an entry, also, an actuarial calculation is necessary to define the value to be accounted for, which means that this is also based in past events from the Company and observable events from the market. We consider, therefore, that any argument in that way is not applicable.

EMBRAER

38. Still, by discussing if this issue is widespread or not, currently IFRS is being applied on 140 jurisdictions, 46% of it (65 jurisdictions) are on Africa, Middle East and the Americas. From these numbers, it's not difficult to imply that many of these countries are emerging or underdeveloped countries, that handles exchange rate fluctuation every day.

39. On the other hand, many Entities in these jurisdictions may have subsidiaries abroad and Global participation, and, many of them may have defined based on IAS 21 that their Functional Currency is the US Dollar or Euro or any other currency from the primary economic environment for the Entity.

40. We identified many Entities in South America with this issue related to the non-monetary deferred assets. As shown on the example in paragraph 15 of this letter a distortion is brought to the Entity's result because of the calculation of the non-monetary deferred tax, this kind of distortion does not bring a useful information to the users, au contraire, what happens here is that sometimes, depending on the exchange variation, a profitable company may show a net loss after tax, only because of this recognition.

41. The Financial Statements of companies with global actuation are normally compared between them, for several reasons and the non-monetary Deferred Taxes distortions prejudices comparability between similar entities, with the same kind of products and similar size, mostly on the net results line and on the earnings per share information, also, an investor may not invest in a Entity with Functional Currency different from the Local Currency because of this presenting a net loss related to the recognition of the non-monetary Deferred Taxes, because as it's known, the entities distribute profits to the shareholders over the net results.

42. To corroborate this point of view, we made a questionnaire to be answered by investors and analysts that handle this situation by analyzing Embraer's numbers, we believe that this can bring an example on how this recognition is prejudicial to an Entity based on a emerging country with volatile exchange rate fluctuation.

43. Many Entities in Europe, US and other developed countries that applies IFRS doesn't have to handle this problem, either because their functional currency is the same as local, or because the country in which they are based permit to calculate income tax on their functional currency, or yet because the exchange rate between their Functional Currency and the Local Currency is not volatile.

44. By comparing the Entities described in paragraphs 40-42 (Entities in emerging countries) and the ones described in paragraph 43 (Entities in developed countries) the distortion on the non-monetary Deferred Taxes affects the comparability, which goes against what is said on QC24 of the Conceptual Framework: "Some degree of comparability is likely to be attained by satisfying the fundamental qualitative characteristics. A faithful representation of a relevant economic phenomenon should naturally possess some degree of comparability with a faithful representation of a similar relevant economic phenomenon by another reporting entity".

EMBRAER

45. In our opinion, the calculation of the non-monetary Deferred Assets is a burden, and although we understand that the accounting treatment is clear on paragraph 41 of IAS 12, we believe that this accounting treatment should be revised.

46. In our opinion, the accounting treatment described on paragraph 41 of IAS 12 does not reflect the reality of an Entity, mainly if this Entity have to handle with volatile exchange rate variation, and that the recognition of the non-monetary Deferred Taxes do not meet the recognition criteria described on the Conceptual Framework regarding faithful representation, nor the recognition criteria described by another standards (such as IAS 16, IAS 21, IAS 18, IAS 2, IAS 37, etc.).

47. We also believe that the recognition of the non-monetary deferred taxes misleads the accounting user, prejudice comparability and impedes the Entities that have to handle volatile exchange rates and have a taxable Currency different from the Functional Currency of being competitive.

48. In resume, in our opinion, the recognition of the non-monetary Deferred Taxes is a recognition of an expense (the tax itself) based on a Balance Sheet difference that only exists outside the accounting, because of a formal issue. The Income Tax expense affects the accounting (on the P&L) the difference does not affect the accounting at all.

Our expectations by complementing the Letter DCF 007/2015 sent in October, 2015

49. We reaffirm all the solicitations we made on the Letter DCF 007/2015 sent in October, 2015 on the paragraphs 29-37.

50. We also expect the complement brought by this letter and the annexes A and B, to give the Board a conceptual point of view for our arguments on this subject and to help the Staff to decide to propose a narrow scope amendment to IAS 12, to correct the distortions commented here.

51. We put ourselves available for any from the Staff or the Board, to discuss how this issue affects the Entities and countries in emerging countries and to help the Board in eventual discussion with entities that have the same issue.

Yours faithfully,

Embraer S.A.

Tatiana Vanessa Renó
Accounting Manager

João Francisco Penzinger Arantes
Accountant

Annex A – News regarding Embraer's results in 3rd Quarter, 2015

"The sharp depreciation in Brazil's currency has increased the long-term profitability of the Brazilian aircraft maker Embraer's export-focused business, with revenue denominated in dollars and costs such as labor denominated in Real. However, in recent quarters, the short-term accounting impact of the weakening currency has been raising Embraer's deferred tax bill and consequently contracting the bottom line."

Read more: http://www.nasdaq.com/article/embraer-erj-beats-q3-earnings-estimates-maintains-view-cm535803#ixzz3v2va1AKm

"In recent quarters, however, the short-term accounting impact of the weakening currency has been to drive up Embraer's deferred tax bill and wipe out net income, an effect rarely reflected in analysts' models."

Read more: http://www.reuters.com/article/us-embraer-results-idUSKCN0SK2JI20151026

"The real devaluation of 28 per cent versus the US dollar during the quarter explains most of the income tax variation, due to non-cash deferred income taxes on non-monetary assets," Embraer said in a statement on Tuesday.

Read more: http://www.tradingroom.com.au/apps/view_article.ac?articleId=6964167

"Esperávamos prejuízo líquido para o terceiro trimestre já que a empresa, tradicionalmente, sofre impactos significativos no imposto diferido devido à variação cambial. No entanto, ele (o resultado) nos surpreendeu e o aumento intenso nos estoques, por sua vez, colocou uma pressão adicional sobre a rentabilidade da empresa e sua margem líquida", pontuam os analistas.

Read more: http://www.infomoney.com.br/onde-investir/acoes/noticia/4368847/investimentos-classifica-embraer-como-outperform-apesar-dos-resultados

Bottom line sofre contração no período com o efeito do imposto diferido. O lucro líquido e a margem líquida foram impactados negativamente pelas mudanças na taxa de câmbio, resultando num aumento de Despesas de Imposto de Renda sobre itens não monetários, que saíram de R$ -14,1 no 3T14 para R$ -372,5 em 3T15.

Read more: http://www.acionista.com.br/bb_investimentos/281015-embraer-3t15.pdf

O resultado da companhia foi afetado por um salto de 230% nas despesas com imposto de renda no período, para R$ 589,8 milhões. Segundo a empresa, o efeito da desvalorização do real frente ao dólar no trimestre aumentou a despesa de imposto e a contribuição social sobre itens não monetários.

Read more: http://www.valor.com.br/empresas/4288118/prejuizo-da-embraer-aumenta-quase-16-vezes-no-3-trimestre