

# AUSTRALASIAN COUNCIL OF AUDITORS- GENERAL

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14 May 2007

The Chairman  
Australian Accounting Standards Board  
PO Box 204  
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AUSTRALIA  
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Dear Sir/Madam

**EXPOSURE DRAFT PROPOSED AMENDMENTS TO AASB 1 FIRST-TIME  
ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL  
FINANCIAL REPORTING STANDARDS – COST OF AN INVESTMENT IN  
A SUBSIDIARY**

Members of the Australasian Council of Auditors-General (ACAG) have been canvassed and submit the attachment in response to proposed revised and redrafted AASB 1, First-time adoption of Australian equivalents to International Financial Reporting Standards (the Exposure Draft).

The views expressed in this submission represent those of all Australian and New Zealand members of ACAG with the exception of the Auditor-General for South Australia, who reserves his right to respond separately to auditing and accounting Exposure Drafts, where he deems it appropriate, rather than as a member of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Frank McGuinness  
Chairman  
ACAG Financial Reporting and Auditing Committee

**Exposure draft proposed amendments to AASB 1 First-time Adoption of Australian equivalents to international financial reporting standards – cost of an investment in a subsidiary**

ACAG has reviewed the Exposure Draft and provides responses to the questions indicated. We have also included other comments on the Exposure Draft below.

**Question 1**

**Respondents are asked to comment on the appropriateness of allowing a parent, at the date of transition to IFRSs, to use a deemed cost (carrying amount of net asset or fair value) for an investment in a subsidiary rather than follow the IAS 27 requirements.**

We agree that, where difficulty exists in measuring the cost in accordance with IAS 27, the cost may well exceed the benefits of the requirement, if, indeed, it is at all possible to identify those costs.

In our experience in measuring administered investments in government, it is often impracticable to obtain cost information. For example, a subsidiary may have been created out of an operation that previously was part of the activities of a government department and that separation may have taken place before accrual reporting by departments.

We believe that the proposal using AIFRS-based net assets as deemed cost would still provide relevant information to users about the subsidiary's financial position, whilst being easier to determine.

**Question 2**

**Respondents are asked to comment on the appropriateness of a simplified approach to determine the pre-acquisition accumulated profits of a subsidiary.**

We agree that a simplified approach is appropriate during the transition period, given the practical difficulties that entities might face.

**Specific Comment:**

- a) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
  - a. not for profit entities**
  - b. public sector entities****

We note that the proposal parallels the use of net asset values for certain public sector administered investments (albeit as a proxy for fair value in some cases) on transition to AIFRS.

**b) whether the proposals are in the best interest of the Australian economy**

We do not foresee any adverse impacts for the economy as a whole.