ED 160 sub 4

The Institute of Chartered Accountants in Australia

13 February 2008

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007

E-mail: standard@aasb.com.au

Dear David

ED 160 Exposure Draft of Proposed Amendments to AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards and AASB 127 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to submit these comments on the proposed amendments contained in ED 160.

In this letter we address the specific matters raised by the AASB. We also enclose our submission to the IASB for your information. Overall we support the proposed amendments, although we do have some significant concerns with the detail of some of the amendments. Our submission is based on feedback from our members in commerce and in the accounting profession, in relation to a range of entities.

Specific matters for comment:

(a) We are not aware of any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals.
(b) In general our view is that the proposals would result in financial reports that would be useful to users, although subject to our detailed comments in our submission to the IASB.
(c) We do not anticipate the proposals will have a significant impact on the Australian economy.

If you require any further information on any of our views please contact Kerry Hicks on (02) 9290 5703.

Yours sincerely

Bill Palmer
General Manager Standards and Public Affairs

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The Institute of Chartered Accountants in Australia

13 February 2008

Sir David Tweedie
The International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Via 'Open to Comment' page on www.iasb.org

Dear Sir David

Exposure Draft of Proposed Amendments to IFRS 1 First Time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The Institute of Chartered Accountants in Australia (the Institute) welcomes the opportunity to submit these comments on the proposed amendments to IFRS 1 and IAS 27.

The Institute is the professional body representing some 44,000 Chartered Accountants in Australia. Our members work in diverse roles across commerce and industry, academia, government and public practice throughout Australia and in 107 countries throughout the world.

Overall we support the proposed amendments, although we do have some significant concerns with the detail of some of the amendments. Our submission is based on feedback from our members in commerce and in the accounting profession, in relation to a range of entities.

Our detailed comments can be found in the appendix to this letter. If you require any further information on any of our views please contact Kerry Hicks CA by email kerry.hicks@charteredaccountants.com.au.

Yours sincerely

Bill Palmer
General Manager Standards and Public Affairs

Cc: David Boymal; Chairman, Australian Accounting Standards Board
Stephen Harrison, Chief Executive Officer, Global Accounting Alliance

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Appendix

Question 1
Do you agree with the two deemed cost options as they are described in this exposure draft? If not, why?

We agree the two deemed cost options are reasonable. We suggest the net asset deemed cost option also be included.

We consider that the net asset deemed cost option provides relevant information, as indicated in BC9. Although in some instances it may undervalue the subsidiary, we believe it should be included as an option as it often provides more relevant and comparable information than the previous GAAP deemed cost option.

Question 2
Do you agree with the proposal to allow the deemed cost option for investments in jointly controlled entities and associates? If not, why?

We agree with this proposal.

Question 3
Do you agree with the proposal to delete the definition of the cost method from IAS 27? If not, why?

We agree as this is more consistent with the fair value basis of accounting. However we do note this could be interpreted as a change in principle, and urge the IASB to highlight such changes so they are subject to due process.

Question 4
Do you agree with the proposed requirement for an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate and the consequential requirement to test the related investment for impairment? If not, why?

1. We agree with the proposed requirement for an investor to recognise as income dividends received, as this aligns with the fair value basis of measurement for the investment. There are also practical benefits as it avoids the difficult and at times arbitrary process of allocating retained earnings between pre and post acquisition reserves, and also avoids the dividend trap whereby dividends paid by a subsidiary are deemed pre-acquisition and therefore not available to be passed up a group to the ultimate shareholders.

2. We agree that the payment of a dividend is potentially a reason to test for impairment, especially when paid close to acquisition date. However we do not agree that an impairment test is automatically required. We suggest IAS 36 be amended to explicitly state that the payment of a dividend by a subsidiary requires consideration of impairment, but does not necessarily require an impairment test to be performed, for example where previous calculations show the investment's recoverable amount is significantly more than the investment's carrying amount and this assessment will not change after taking account of the dividend.

We agree the payment of a dividend can trigger the recoverable amount of an investment falling below the carrying amount, but in our view this is not common enough to require the burden of the impairment test to be automatically applied. Requiring an impairment test for every dividend will be onerous for large groups where dividends may be passed all the way up the group and therefore an impairment test would be required for every subsidiary. We are also concerned with the impact on non-listed entities, many of which apply IFRS in Australia, as the recoverable amount is not easily calculated for these entities.

We acknowledge in some instances recoverable amounts of investments will be already be calculated as part of the annual goodwill impairment test, but in many cases the cash generating units for goodwill testing purposes are not the same as the legal entities paying a dividend.

Should the Board decide to proceed with a mandatory impairment test, we suggest IAS 27 clarify this is an annual test, rather than a test being required each time a dividend is paid.

3. We are also concerned that the proposed amendment to IAS 27 paragraph 37B does not differentiate between investments held at cost and those held at fair value in accordance with IAS 39. The latter investments should apply any impairment test in accordance with IAS 39.

Question 5
Do you agree with the proposed requirement that, in applying paragraph 37(a) of IAS 27, a new parent should measure cost using the carrying amounts of the existing entity? If not, why?

We agree with this proposal, as it will facilitate internal reconstructions within groups. However, we are concerned that the proposed requirement applies only to wholly owned subsidiaries. We suggest the wording of proposed paragraph 37A be amended to delete reference to 'wholly-owned subsidiary'. Instead, the requirement should be based on the substance of the transaction, namely that there be no transfer of resources outside the group and the relative ownership interests of the owners of the existing entity do not change.

We also note that proposed paragraph 37A does not clarify whether it can be applied only in the case of a new ultimate parent, or also where a new intermediate parent is formed. We suggest this be clarified in the final amendment.

Question 6
Do you agree that prospective application of the proposed amendments to IFRS 1 and IAS 27 is appropriate? If not, why?

We agree this often the only practicable approach in this situation and support this proposal. We suggest an option also be included to allow entities to apply retrospectively, in full or from a particular date, where practicable. This would be similar to the options allowed in IFRS 1 for the application of IFRS 3.