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Professor David Boymal
The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

3 March 2008

Dear David

Exposure Draft ED 160 *Proposed Amendments to AASB 1 and AASB 127, Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

I am enclosing a copy of the PricewaterhouseCoopers response to the International Accounting Standards Board's *Exposure Draft of Proposed Amendments to IFRS 1 and IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate.* The letter reflects the views of the PricewaterhouseCoopers network of firms and as such includes our own comments on the matters raised in the Exposure Draft.

We would welcome the opportunity to discuss our views at your convenience. Please contact me on (02) 8266 8099 or Paul Shepherd on (02) 8266 7104 if you would like to discuss this further.

Yours sincerely

Wayne Andrews

Wayne Andrews
Partner
Assurance

PricewaterhouseCoopers is committed to providing our clients with the very best service. We would appreciate your feedback or suggestions for improvement. You can provide this feedback by talking to your engagement partner, calling us within Australia on 1800 792 111 or visiting our website http://www.pwcfeedback.com.au/

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Jeff Singleton
International Accounting Standards Board
1st Floor
30 Cannon Street
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26 February 2008

Dear Mr Singleton

Exposure draft: Amendments to IFRS 1 and IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate

We are responding to your invitation to comment on the above exposure draft, published in September 2007, on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the draft interpretation. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We support the Board in its proposals to simplify the adoption of IFRS for the many entities that prepare separate financial statements. Applying the cost method in IAS 27 has been a significant barrier to adoption in some territories. The proposals to allow a previous GAAP amount or fair value as deemed cost and to change the cost method in IAS 27 together will remove this barrier.

We also note, and welcome, the fact that the Board's new proposals have been made as a result of constituents' responses to the original exposure draft.

We understand why the Board wishes to amend IAS 27 to require a previous carrying amount to be used when a new holding company is added to the top of a group. We believe that an entity should also be allowed to apply the default requirements of IAS 27 in such situations, i.e. it should be able to record the investment at the fair value of consideration issued.

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If you have any questions in relation to this letter please do not hesitate to contact Richard Keys (020 7212 4555) or Anne Simpson (020 7804 2093).

Yours sincerely

PricewaterhouseCoopers LLP

Appendix A

Detailed response to the questions posed within the IASB Exposure Draft: Amendments to IFRS 1 and IAS 27, Cost of an investment in a subsidiary, jointly controlled entity or associate

Question 1—Deemed cost

The exposure draft proposes to allow an entity, at its date of transition to IFRSs in its separate financial statements, to use a deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The exposure draft proposes that an entity may choose as the deemed cost of such investments either the fair value or the previous GAAP carrying amount of the investment at the entity's date of transition to IFRSs (see paragraphs 23A and 23B of the draft amendments to IFRS 1 and paragraphs BC8–BC13 of the Basis for Conclusions).

Question 1

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

Yes, we agree with the two deemed cost options.

Question 2—Change in scope

The exposure draft proposes that the deemed cost option should be available for the initial measurement of investments in jointly controlled entities and associates when an entity adopts IFRSs in its separate financial statements (see paragraph BC14 of the Basis for Conclusions).

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?

Yes, we agree with the proposal.

Questions 3 and 4—Cost method

The exposure draft proposes to delete the definition of the 'cost method' from IAS 27. Additionally, the exposure draft proposes to amend IAS 27 to require an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate in its separate financial statements. The receipt of this dividend requires the investor to test its related investment for impairment in accordance with IAS 36 *Impairment*

***of Assets* (see paragraphs 4 and 37B of the draft amendments to IAS 27 and paragraphs BC15–BC20 of the Basis for Conclusions).**

Question 3

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

Yes, we agree with the proposal. Applying the cost method, for both existing preparers and first-time adopters, is a significant burden, particularly when entities are moved around groups or are purchased from outside groups.

The Board should also remove the cost method from the glossary.

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?

We agree that an investor should recognise as income dividends received from a subsidiary, jointly controlled entity or associate. We do not agree with the consequential requirement to test the related investment for impairment. Such a requirement introduces a potentially costly test which in many cases is not needed. We suggest that the Board includes in IAS 27 paragraph 37B that an investor should consider the need for an impairment test after the receipt of a dividend from a subsidiary. The indicators and requirements of IAS 36 should then be applied as normal.

Question 5—Formation of a new parent

The exposure draft proposes that in applying paragraph 37(a) of IAS 27 to the formation of a new parent, the new parent should measure cost using the carrying amounts in the separate financial statements of the existing entity at the date of the formation (see paragraph 37A of the draft amendments to IAS 27 and paragraphs BC21 and BC22 of the Basis for Conclusions).

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 support the intent of the proposed amendment and the justification provided in the basis for conclusion. We also recommend that the current requirement to record the investment and equity based on IAS 27 cost (i.e. fair value consideration given or of the assets received) is retained until the Board deals with accounting in separate financial statements, intragroup transactions and common control transactions (refer below). We support an option for allowing IAS 27 cost to be used as we understand that the ED's proposal could cause problems for European public companies. These companies are subject to a net assets test for distributions that is set out in Article 15(1)(a) of the Second Directive and translated, for example, into Section 264 of the UK Companies Act. Under this rule if an investment is stated at an amount that is lower when compared to the fair value of the shares issued this significantly restricts a company's ability to carry out a capital restructuring in accordance with statute, the effect of which would be to create distributable profits. This could prevent European public companies adopting IFRS in their separate financial statements.

Para 37A requires that 'the existing entity becomes a wholly-owned subsidiary'. Our understanding is that there are differing interpretations in major jurisdictions around the world as to what a wholly-owned subsidiary means, especially in relation to whether the existence of non-voting preference shares is critical to this assessment. We would delete the references to wholly-owned and depend on the principles discussed in BC 21-22, specifically that the new parent 'does not change the relative ownership interests of the owners' and that it 'does not involve the transfer of resources outside the group'.

The proposed amendment is designed to deal with a new company being added to the top of a group. The words may equally be read as a applying to new company inserted between two existing entities in a group. We do not believe that the Board intended to include such intermediate parent transactions, which are common control transactions, within the amendment's scope. If this is the case the Board should amend the drafting of proposed paragraph 37A and strengthen proposed paragraph BC22 of IAS 27. If the Board did intend to include intermediate parents it may need to carry out research to ascertain the implications of this in relation to other common control transactions. If this research is to be undertaken, we would not wish to see the ED's proposals delayed.

This proposed amendment touches upon fundamental questions about separate financial statements, intragroup transactions and common control transactions. These issues are wider than the limited scope of the common control business combinations project and we believe that the project should be expanded to include all common control transactions and how they should be accounted for in separate (and sub-group) consolidated financial statements.

Question 6—Transition

The exposure draft proposes that the amendments to IFRS 1 and IAS 27 shall be applied prospectively.

Question 6

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

We believe that entities should be permitted to apply the amendments retrospectively if they wish, to transactions occurring after a date of the entity's choosing (similar to the business combinations exemption in IFRS 1). Some entities may have introduced new top company structures before the amended standard is issued and they should be allowed to take advantage of the amendments.