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The Project Manager
International Accounting Standards Board (IASB)
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

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

Dear Sir / Madam

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

Thank you for the opportunity to comment on the 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. CPA Australia is pleased to comment on the questions raised in the exposure draft. The comments requested by the IASB are provided in an appendix to this letter. CPA Australia is generally supportive of the proposals in this exposure draft, but some proposed requirements and amendments are of concern. Specific matters for comment requested by the Australian Accounting Standards Board (AASB) are provided in an attachment to this letter.

CPA Australia's comments have been prepared in consultation with members through its Asia Pacific Financial Reporting Advisory Group (APFRAG) which is a Board Committee representing a regional perspective from South-East Asia, China and Oceania, and its Financial Reporting and Governance Centre of Excellence.

If you have any queries on our comments, please contact Dr Mark Shying, CPA Australia's Financial Reporting and Governance Senior Policy Adviser via email at mark.shying@cpaaustralia.com.au or John Ngiam, CPA Australia's Financial Reporting and Governance Policy Adviser via email at john.ngiam@cpaaustralia.com.au.

Yours sincerely

Geoff Rankin FCPA
Chief Executive Officer

cc D Boymal (AASB)
M Shying
D Pratt
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Chan Lai Koon
A Danasamy
D Leung

Question 1

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

Yes, CPA Australia agrees with the proposed two deemed cost options including either the fair value or the previous GAAP carrying amount of the investment.

Nonetheless, CPA Australia also accepts the previously proposed 'net asset deemed cost' method to determine deemed cost as a reasonable option. Net assets represent the underlying acquired interests or the investment, hence the information is relevant and comparable. This measure is commonly used by analysts and auditors to determine an entity's fundamentals. The carrying amount of the net assets measured at amounts that IFRSs would require is consistent with the other elements of financial statements reported under IFRSs. This option is also more comparable for subsequent reporting periods reported based on IFRSs. Consequently, the 'net asset deemed cost' method would be consistent with the objective of adopting IFRSs, and the provision of high quality financial information.

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, CPA Australia agrees with the proposal.

Question 3

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

Yes, CPA Australia agrees with the proposal.

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?

Yes, CPA Australia agrees with the proposed requirement for an investor to recognise all dividends received from a subsidiary, jointly controlled entity or associate as income.

However, the proposed amendment to IAS 36 *Impairment of Assets*, paragraph 10, in the exposure draft's Appendix paragraph A3 may be too onerous for most large groups of entities. CPA Australia questions the cost-effectiveness and practicality of impairment testing for each dividend distribution from a subsidiary, jointly controlled entity or associate. Nonetheless, CPA Australia supports the inclusion of dividend payments as an indication of potential impairment in IAS 36, paragraph 12, which requires the user to determine the impact of the dividend payment on the investment.

If the board should decide to proceed with the consequential impairment test (as prescribed by IAS 36, paragraph 10) for the subsidiary, jointly controlled entity or associate distributing dividends, it is suggested that be limited to those entities accounted for at cost. It is also suggested that the investment which is accounted for at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* shall not apply the impairment test unless prescribed by 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?

Yes, CPA Australia agrees with the proposal.

However, CPA Australia questions the need to specify in the first sentence of the proposed paragraph 37A to IAS 27, a reference to '... a wholly-owned subsidiary of the new parent'. It may be inferred that paragraph 37A applies only to wholly-owned subsidiaries.

Question 6

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

Yes, CPA Australia agrees with the proposal. However, there are concerns that the transitional provisions proposed in the exposure draft do not clarify the following questions:

1. Do the transitional provisions apply to all subsidiaries, jointly controlled entities or associates prospectively or do they apply only to the new investments arising after the application date?
2. Where early application is adopted, is it limited or constrained by the issue date of the exposure draft?

Specific Matters for Comment requested by the AASB

CPA Australia also provides comments on specific matters requested by the AASB as follows:

(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:

(i) not-for-profit entities;
(ii) public sector entities;

a) CPA Australia does not expect significant issues that are unique to the public and not-for-profit sectors to arise with the implementation of the proposals in Australia;

(b) whether, overall, the proposals would result in financial reports that would be useful to users; and

b) CPA Australia questions the merits of some proposals but remains generally supportive of the proposed amendments;

(c) whether the proposals are in the best interests of the Australian economy.

CPA Australia does not envisage the proposals will have a significant impact on the Australian economy.