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Shane Buggle
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Mr David Boymal
Chairman
Australian Accounting Standards Board
P.O. Box 204
Collins Street West VIC 8007

Dear David

Exposure Draft 160: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

Thank you for the opportunity to comment on this exposure draft.

As an overall comment, we support the measurement proposals relating to restructures involving the creation of a new parent, subject to specific clarifications being provided. However, we do not support the proposal in relation to the requirement that dividends received from a subsidiary, jointly controlled entity or associate should require entities to test such investments for impairment, irrespective of whether there is any indication of impairment. In our view, this proposal is not justified on cost-benefit grounds.

Our detailed comments on specific matters raised in the Exposure Draft are attached to this letter.

Should you have any queries on our comments, please contact Justin Lachal, Head of Financial Policy or justin.lachal@anz.com.

Yours sincerely

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Group General Manager Finance

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QUESTION 1 – Deemed Cost

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

In the interests of removing barriers to first-time adoption of IFRS, we support this proposal. Although many Australian entities are now applying IFRS, we recognise that the proposal may, for example, be relevant where a small proprietary company later becomes a large proprietary company and the large proprietary company must retrospectively account for its investment in subsidiaries etc on first-time adoption of IFRS.

We consider that deemed cost should also be permitted to be determined using "net asset deemed cost" on the basis that it may result in more relevant amounts than the "previous GAAP carrying amount" approach. Although the IASB consider that, in many instances, the net asset deemed cost approach and the previous GAAP carrying amount may not represent cost, and could be viewed as resulting in numbers that are equally arbitrary (per BC12), the "net asset deemed cost" approach could be argued to result in a more relevant number than a previous GAAP carrying amount. Accordingly, the net asset deemed cost approach should not be precluded from being used.

The proposed amendments should also clarify whether deemed cost can be used for special purpose entities identified under UIG Interpretation 112 *Consolidation – Special Purpose Entities*.

QUESTION 2 – Change in Scope

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

We support this proposal.

QUESTION 3 – Cost Method

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

We support this proposal.

The IASB should take the opportunity to clarify what is meant by "cost" in IAS 27. Whilst cost under certain IFRSs (such as IAS 16) is defined as the amount of cash or cash equivalents or the fair value of the purchase consideration given, in the absence of a specific definition of "cost" in IAS 27 some may consider that it can be determined by reference to the fair value of the investment received.

QUESTION 4 – Cost Method

Do you agree with the consequential requirement to test the related investment for impairment? If not, why?

While we support the proposed requirement that an investor recognise as income dividends received from a subsidiary, jointly controlled entity or associate, we do not support the proposal that the receipt of dividends should require entities to determine the recoverable amount of the investment in the separate financial statements of the investor. The receipt of a dividend does not necessarily mean that an impairment loss has occurred on an investment. For example, the quantum of a dividend may be small relative to the size of an investment and raise no concerns regarding the recoverable amount of an investment.

We believe that the proposed requirement to estimate the recoverable amount of an investment irrespective of whether there is any indication of impairment has not been fully justified in the exposure draft, including subject to appropriate cost-benefit considerations. We prefer instead that an appropriately worded impairment indicator test be determined for payment of dividend by subsidiaries etc.

We also see the following practical difficulties:

- Final dividends are normally declared and received after the reporting date whereas impairment testing for most assets is undertaken at reporting date. While it may be possible to test for impairment at any time during the annual period, in practice dividends may be received at different times during the annual period which would make it difficult to comply with the requirement (applicable to goodwill and certain intangible assets) that the impairment test be performed at the same time every year.
- Interim and final dividends may be received which would require the recoverable amount of the related investment to be determined at least twice each year - this may be regarded as particularly burdensome where there is no indication of impairment.
- It is unclear whether the proposed requirement applies to dividends in specie and capital reductions.

We also query whether any impairment recognised as a result of the above can be reversed. Our basis for this concern is that IAS 36 states that an indication that an asset may be impaired is "the carrying amount of the net assets of the entity is more than its market capitalisation" (IAS 36.12(d)). There is no similar indicator in IAS 36.111 that operates in the opposite direction to permit a reversal of a previous impairment loss. Therefore, there could be some uncertainty as to whether an impairment recognised as a result of a dividend payment can subsequently be reversed because of similarities with the aforementioned situation.

If any impairment loss arises, and the investment is written down to its recoverable amount, we consider that entities should be able to credit part of the dividend against the investment (to the extent of the write-down) with any remaining amount treated as income. This treatment would represent the substance of what has occurred.

QUESTION 5 – Formation of a new parent

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 requirement that a new parent should measure cost using the carrying amounts of the existing entity.

However, the proposed amendments require clarification in a number of areas including:

- Whether the proposals operate at any level within a group or only where a new ultimate parent is created.
- The reference to "wholly owned subsidiary" in paragraph 37(A) might be taken to mean that only restructures involving entities with ordinary shareholder interests can qualify for the treatment in paragraph 37(A) (i.e. measuring the cost of the investment using the existing carrying amounts). In practice, other classes of equity other than ordinary shareholders (e.g. preference shareholders with a capped equity claim) may exist in the existing parent that is not replicated in the new parent entity.

  Where the legal rights or economic benefits of these other equity interests with capped equity claims are not changed by the restructure, and the relative interests of shareholders is not changed, we consider that a restructure should still be able to avail of the proposed accounting treatment. Accordingly, we consider that the reference to "wholly owned subsidiary" should be removed from paragraph 37(A)

QUESTION 6 – Transition

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

We disagree with the proposal for prospective application. Past restructures involving the formation of a new parent may have given rise to associated dividend traps where such transactions have been undertaken at fair value. We therefore consider that entities should be permitted to apply the proposed amendments retrospectively to overcome such consequences.