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Stig Enevoldsen
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Dear Stig

Exposure Draft of proposed amendment to IFRS 1 'First time adopting of International Financial Reporting Standard' and IAS 27 'Consolidated and Separate Financial Statements': ***Cost of an investment in a subsidiary, jointly controlled entity or associate***

Thank you for allowing us the opportunity to comment in the draft comment letter to the IASB regarding the above exposure draft. I attached to this letter a copy of the response that the ASB has sent to the IASB.

The ASB, in general, agrees with the comments made by EFRAG in the draft comment letter. We also welcome the proposed amendments. Our detailed comments are set out in appendix to this letter.

Should you have any questions regarding the proposals please do not hesitate to contact Michelle Crisp or myself.

Yours sincerely

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Appendix: Response to questions for EFRAG's constituents:

Mandatory impairment test of the investment at each payment of dividend

It is proposed in paragraph 37B in the ED that, if an investor accounts for its investments in the subsidiary, jointly controlled entity or associate at cost in accordance with IAS 27, the receipt of a dividend from such investments is an event that requires the investor to test the related investment for impairment in accordance with IAS 36 *Impairment of Assets*. The required test of impairment is independent of whether there is any indication of impairment. This would mean an impairment test would have to be carried out every time a dividend is received from such an investment, even if the entity paying the dividend has substantial accumulated reserves relative to the dividend being paid. Furthermore, because the amendment is being made to IAS 27 rather than in IFRS 1, this would apply not only related to entities transitioning to IFRSs but to all entities applying IFRSs that have such investments. This imposes a new requirement on entities already applying IFRSs because, although investments in subsidiaries, jointly controlled entities and associates are already in the scope of IAS 36 *Impairment of Assets*, currently they are required to perform an impairment test only if there is an indication that there might have been an impairment; under the proposals they would need to perform the test every time a dividend is received from such investments.

EFRAG has discussed whether this 'mandatory impairment test' for all entities receiving dividends from an investment in subsidiaries, jointly controlled entities and associates will be unduly burdensome. One view is that it will not be very burdensome because, when there has not been an impairment, there will often be plenty of easily obtainable evidence indicating that that is the case. Paragraph 23 of IAS 36 allows estimates, averages and computational short cuts as reasonable approximations of the detailed computations illustrated in IAS 36 for determining fair value less costs to sell or value in use. Another view is that it will often be necessary to carry out a full computation to comply with IAS 36 requirements and that will often be burdensome. Those EFRAG members who believe that mandatory impairment testing of the investments on each dividend payment will be burdensome note that paragraph 9 of IAS 36 already requires entities to assess at each reporting date whether there is any indication that an asset may have been impaired; they think that, rather than require a mandatory impairment test, it should be sufficient to enhance the existing test in paragraph 9, perhaps by stating that the payment of significant dividends relative to the accumulated reserves should be an indicator for the purposes of paragraph 9 or by incorporating an objective evidence that the asset has been impaired' test similar to that set out in paragraph 58 of IAS 39.

1 Do you believe mandatory impairment test of the investment of each payment of dividend as currently drafted will be unduly burdensome or will it in practice not be a problem?

The ASB is in agreement with the proposal for an investor to recognise as income dividend received from a subsidiary, jointly controlled entity or associate and the consequential requirement to test the related investment for impairment. The ASB considers that the proposal to perform an impairment test if the entity receives a dividend during the reporting period is very stringent.

2 If you think a mandatory impairment test will be unduly burdensome, how do you suggest that the IASB restricts the possibility that dividends are not recognised as income when they are returns of the investment (rather than on the investment)?

In its letter to the IASB the ASB has proposed an alternative to a mandatory impairment test. The ASB suggests an alternative approach, would be to extend the list of indicators in paragraph 12 of IAS 36 to include the receipt of a dividend from a subsidiary, jointly controlled entity or associate where;

(i) the most recent recoverable amount calculation resulted in the investments carrying amount exceeding its recoverable amount by a narrow margin; and/or

(ii) the likelihood that a current recoverable amount determination could be less than the investments carrying amount. This would be based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation.

Prospective or retrospective application of the proposed amendments to IAS 27

It is proposed in paragraph 43B in the ED that the proposed amendments to IAS 27 (ie the deletion of the cost method definition, the new requirement to treat all dividends from subsidiaries etc as income, and the paragraph dealing with group reorganisations) shall be applied prospectively. That means, for example, that entities already applying IFRSs at the effective date of the proposed amendments will thus until this date, if applying the present cost method in IAS 27, recognise dividends from, say, subsidiaries as income only to the extent that the investor receives distributions from retained earnings after the date of acquisition. (Distributions received in excess of such profits would be regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.) Then, from the effective date, all the dividends from the subsidiary will be treated as income but will trigger an impairment test.

It follows that entities that are identical in all respects except that they transition at different dates to IFRS could recognise different amounts of the dividends they receive as income and could have different amounts of distributable reserves. Some think this is unfair. Others argue that there is nothing unique about these proposed amendments; transitioning at different dates often results in different accounting numbers.

On the other hand, allowing retrospective application would not prevent this being the case. And requiring retrospective application would mean that all entities applying the present cost method in IAS 27 would be required to restate the prior year numbers so that all dividends from subsidiaries etc are accounted for as income and mandatory impairment tests are carried out in respect of the dividends received in the periods presented. (Impairment tests do not need to be carried out for earlier periods because earlier impairment losses can be reversed in accordance to IAS 36 if the investment is no longer impaired.) The IASB has to date tried to ensure that impairment tests are not affected by hindsight.

3 Bearing the above arguments in mind, do you believe that that the proposed changes to IAS 27 should be applied prospectively (as proposed in the ED) or retrospectively or should a choice be allowed?

The ASB is in agreement that the proposed changes to IAS 27 should be applied prospectively.