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IFRS 1 First Time adoption of international financial reporting standards

We appreciate the opportunity to comment on the International Accounting Standards Board's exposure draft Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Cost of an Investment in a Subsidiary. This letter represents the views of the Swedish Financial Accounting Standards Council (SFASC). In our response we give some general comments after which we answer the specific questions.

We appreciate the initiative to try to facilitate the conversion of parent financial statements to IFRS and the SFASC agrees that the proposals will be helpful in that respect. However we are of the opinion that some of the choices made are somewhat arbitrary without good reasoning.

Question 1

IAS 27 requires a parent, in its separate financial statements, to account for an investment in a subsidiary either at cost or at fair value.

The exposure draft proposes to allow a parent, at its date of transition to IFRSs, to use a deemed cost of investment in a subsidiary. The deemed cost would be determined using either the carrying amount of the net asset of the subsidiary, or its fair value, at that date.

Is this appropriate? If not, why?

We share the view that the possible alternatives should be restricted and understand why the Board has chosen the restrictions to use fair value or the net assets as determined by IFRS as deemed cost. The main rational we find is that:

a) It is consistent with other parts of IFRS 1, e.g. IAS 16 which allows fair value as deemed cost or recalculations based on IAS 16.
b) Too many alternatives makes it difficult to compare between entities

However, one valid second choice which the SFASC believe should be seriously considered again by the Board, which would achieve the aim of facilitating a transition to IFRSs, would be to allow the use of deemed cost based on previous GAAP combined with impairment testing.

Only when *it is clear with little or no analysis*[1] that there will be large differences between using previous GAAP and IFRS the deemed cost should be determined as proposed in the

[1] Extracted from IAS 39, Financial Instruments: Recognition and Measurement paragraph 11A (b) © IASC Foundation.

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exposure draft. In other situations we believe that deemed cost could be based on previous GAAP. The chosen methodology to determine deemed cost should be disclosed.

The main arguments for this alternative view are:

1. To facilitate. Using previous GAAP will be much easier for prepares.
2. Deemed cost will not be comparable within and between entities anyway since it will be possible to mix the two and different entities will make different choices.

Using IFRS will still mean partly using the old GAAP, e.g. IFRS 1 already makes it possible to use values based on the business combination principles of the entities´ previously used GAAP. We do not believe that the proposed rules will enhance quality to an extent that justifies the efforts needed to apply the proposed rules.

Question 2

The cost method in IAS27 requires a parent to recognise distributions from a subsidiary as a reduction in the cost of investment to the extent they are received from the subsidiary's pre-acquisition profits. This may require a parent to restate the subsidiary's pre-acquisition accumulated profits in accordance with IFRSs.

Such a restatement would be synonymous to restating the original business combination, requiring judgment by management about past conditions after the outcome of the transaction is known.

The exposure draft proposes a simplified approach to determining the per-acquisition accumulated profits of a subsidiary for the purpose of the cost method in IAS27.

Is this appropriate? If not, why?

We share the opinions expressed in the Exposure Draft that a simplified approach should be available when determining the pre-acquisition accumulated profits of a subsidiary.

However we fail to see the differences in risk that pre-acquisition profits may be distributed as dividends in the two alternatives discussed in BC8 and BC9. The risk of recognising pre-acquisition dividends as income ought to be of similar proportions in both the alternatives.

Our experience from the Swedish market is that there are no large differences between IAS and local GAAP. Furthermore, the financial reporting in legal entities is of less relevance wherefore there should higher preferences for simplifying standards in the separate financial statements.

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Yours faithfully,
THE SWEDISH FINANCIAL ACCOUNTING STANDARDS COUNCIL

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