



# Grant Thornton

International Accounting Standards Board  
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Submitted electronically through the IASB Internet site ([www.iasb.org](http://www.iasb.org))

**Exposure Draft 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**

Grant Thornton International is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft of 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* (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

In our response of 23 April 2007 to the previous Exposure Draft, we supported the Board's earlier proposals while noting that the proposed amendment to the treatment of the subsidiary's accumulated profits at the date of transition to IFRS might disturb dividend distribution policies in some jurisdictions.

Although we recognise that the Board cannot be expected to deal with jurisdictional legal issues, we also believe that dividend distribution concerns have been a major factor in dissuading companies from adopting IFRS in their separate financial statements. We therefore welcome the Board's decision to revise and re-expose its proposals.

We agree with most of the proposals in the current ED. In particular, we believe that the two IFRS 1 deemed cost options proposed offer a pragmatic solution that will encourage more entities to use IFRS in their separate financial statements. The proposed exemption can be criticised on conceptual and consistency grounds. However, we regard this approach as justifiable based on the objectives of IFRS 1 (which necessarily includes compromise solutions intended to strike an appropriate balance between the costs of first-time adoption and the benefits to users). We believe the proposed approach will remove a current obstacle to the adoption of IFRS in separate financial statements for many entities.

We do not however support the proposal to impose a mandatory impairment test of an investment in a subsidiary, jointly-controlled entity or associate on the receipt of a dividend from such an investment. We believe this represents a departure from the basic principle of IAS 36 *Impairment of Assets* that the recoverable amount of an asset should be measured whenever there is an indication that the asset **may** be impaired (emphasis added). We believe this proposal will impose unnecessary cost burdens and that receipt of

a dividend should be regarded as a possible indicator of impairment rather than a trigger for a mandatory impairment test.

Our responses to the questions in the ED's Invitation to Comment are set out below.

### **Question 1**

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

We agree with the two deemed cost options being proposed, believing that they represent a pragmatic solution to an obstacle which has deterred many companies from adopting IFRS in their separate financial statements.

### **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 that similar issues arise in relation to investments in jointly controlled entities and associates, and we therefore support the proposed extension of the scope of the ED.

### **Question 3**

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

We agree with the proposal to delete this definition in paragraph 4 of IAS 27 *Consolidated and Separate Financial Statements*.

### **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 disagree with the requirement to automatically test the investment for impairment on receipt of such a dividend. We believe this represents a departure from the principle of IAS 36 that the recoverable amount of an asset should be measured whenever there is an indication that the asset may be impaired, and while that Standard already departs from that principle by requiring mandatory impairment testing for several specific types of asset, we do not wish to see that list of assets extended unnecessarily.

Requiring mandatory impairment testing means that entities will be required to carry out calculations according to the specific procedures detailed in IAS 36. This will inevitably lead to increased costs for such entities (here we note that the requirement for mandatory impairment testing is not just on first-time adoption but continues indefinitely). We do not see a convincing rationale for requiring such an approach; in many cases it will be obvious that the investment is not impaired but the specific calculations required by IAS 36 will have to be prepared in order to comply with that Standard. By instead including the example of the receipt of a dividend from an investment in a subsidiary, jointly controlled entity or associate in paragraphs 12 or 14 of IAS 36 as an indicator of possible impairment, unnecessary costs could be avoided while at the same time adhering

to the principle upon which that Standard is based.

We also have a minor suggestion on the proposed wording of paragraph 37(b) of the ED. We believe the reference to "dividends received" in the first sentence of this paragraph should be changed so that the sentence reads "An investor shall recognise as income in its separate financial statements dividends **receivable** from a subsidiary, jointly controlled entity or associate". This sentence will then be consistent with the requirements of IAS 18 *Revenue* which requires dividends to be recognised when the shareholder's right to receive payment is established.

#### **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 find it somewhat curious that this amendment (which we believe addresses only a narrow category of transaction) is being proposed at the present time given that the Board has recently added a project on common control transactions to its active agenda. We are concerned that the proposal pre-judges the outcome of that wider project and might need to be revised in the relatively near future if the common control project takes a different approach. Our preference is therefore that this amendment is omitted at this time.

Should the Board decide to proceed, however, we would prefer to see paragraph 37(a) allow entities an alternative option of using fair value (possibly conditional on fair value being reliably estimable). Restricting the initial measurement of the investment to a predecessor amount has appeal as a pragmatic alternative but prohibiting the use of fair value seems hard to justify on conceptual grounds.

#### **Question 6**

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

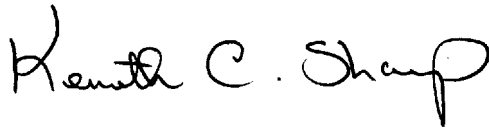
We agree with the proposal. Retrospective application would impose an extra cost on those entities that have already adopted IFRS.

Having said this, we note that the proposed paragraph 43B of IAS 27 does not refer to prospective application. This is presumably a drafting omission that will be rectified in finalising the amendment. We do not perceive any need to refer specifically to prospective application in the applicable paragraphs of IFRS 1, given that this Standard normally is applied only once by each first-time adopter. However, this is not the case for IAS 27.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Director of International Financial Reporting, Andrew Watchman (andrew.watchman@gtuk.com or telephone + 44 207 391 9510).

Yours sincerely,

A handwritten signature in black ink that reads "Kenneth C. Sharp". The signature is written in a cursive style with a large initial 'K' and a distinct 'S'.

Kenneth C Sharp  
Global Leader - Assurance Services  
Grant Thornton International