НАЦИОНАЛЬНАЯ ОРГАНИЗАЦИЯ ПО СТАНДАРТАМ ФИНАНСОВОГО УЧЕТА И ОТЧЕТНОСТИ

COMMENT LETTER

By electronic submission to IASB website- iasb.org

March 4, 2008

Re: ***ED 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***

Dear Sirs,

National Accounting Standards Board of Russia (NASB) appreciates the opportunity to submit comments on the ***ED 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*** (hereinafter "the Draft").

In the comment letter on a first exposure draft published in January 2007 the members of the National Accounting Standards Board of Russia (NASB) supported amendments proposed therein as in their view it reduces costs of adopting IFRSs in the separate financial statements of a parent. Having considered second exposure draft the members of the NASB find out that it provides additional simplification and costs reduction for first-time adopting of IFRSs in the parent's separate financial statements and therefore should be supported. We also agree that similar simplifications

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should be provided for reporting entities that presents in their separate financial statements information of investments in associates or jointly controlled entities. We believe that other amendments proposed in the Draft are appropriate with exception of requirement to test investments on impairment in accordance with IAS 36 every time when dividends from subsidiary, jointly controlled entity or associate have been received by the parent entity. In relation to latter NASB members are of the view that investment should be specifically tested on impairment only once when it first time presented in the separate financial statement after the entity's transition to IFRS since it would make carrying amount presented in the statements more reliable and relevant. Please find our detailed answers to the questions stated in the Invitation to comment below.

Question 1—Deemed cost

The exposure draft proposes to allow an entity, at its date of transition to IFRSs in its separate financial statements, to use a deemed cost to account for an investment in a subsidiary, jointly controlled entity or associate. The exposure draft proposes that an entity may choose as the deemed cost of such investments either the fair value or the previous GAAP carrying amount of the investment at the entity's date of transition to IFRSs (see paragraphs 23A and 23B of the draft amendments to IFRS 1 and paragraphs BC8–BC13 of the Basis for Conclusions). Do you agree with the two deemed cost options as they are described in this exposure draft? If not, why?

Although NASB members believe that proposed in the first exposure draft net asset deemed cost option provide more useful information for the users of the separate financial statements than previous GAAP deemed cost option they agree with the proposals in the Draft. Saying that NASB members agree with those IASB constituents who believe that when an entity had chosen not to apply IFRS retrospectively to a past business combination, it would be logical not to require it to restate the cost of the related investment in their separate financial statements. Moreover, undoubtedly previous GAAP deemed cost option is much easier and less expensive to implement than the net assets deemed cost option. In any case users of the parent's financial statements are greatly interested in its consolidated reports rather than separate statements and therefore it will be acceptable to use less expensive option in latter type of financial statements.

Question 2—Change in scope

The exposure draft proposes that the deemed cost option should be available for the initial measurement of investments in jointly controlled entities and associates when an entity adopts IFRSs in

its separate financial statements (see paragraph BC14 of the Basis for Conclusions). Do you agree with the proposal to allow the deemed cost option for investments in jointly controlled entities and associates? If not, why?

NASB supports this proposal as it believes that it would be logical that investments in jointly controlled entities and associates be accounted in the separate financial statements of the parent in the same way as investments in subsidiaries. Such approach would be consistent with the current IFRS intention not to differentiate accounting for those types of investments in the parent's separate financial statements.

Questions 3 and 4—Cost method

The exposure draft proposes to delete the definition of the 'cost method' from IAS 27. Additionally, the exposure draft proposes to amend IAS 27 to require an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate in its separate financial statements. The receipt of this dividend requires the investor to test its related investment for impairment in accordance with IAS 36 Impairment of Assets (see paragraphs 4 and 37B of the draft amendments to IAS 27 and paragraphs BC15–BC20 of the Basis for Conclusions).

Question 3 - Do you agree with the proposal to delete the definition of the cost method from IAS 27? If not, why?

NASB members support the deleting of the definition of the cost method because they believe that cost method stipulated in IAS 27 for accounting for investment in subsidiary is inappropriate conceptually. NASB members note that investment transaction involves exchange of cash or other consideration on subsidiary's equity instruments that represents share of an investor in the fair value of investee's net assets. Cost of related investment is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an investment *at the time of its acquisition*. This cost may be changed only in the case of future divestment of all or part of such investment. However, only those transactions that will result in decreasing of investor's share in the fair value of the investee's net assets should be considered as divestment (return of investment) and will consequently require reduction of the cost of initial investment. Transactions that do not result in decreasing of investor's share in the fair value of the investee's net assets such as payment of divi-

dends by investee to investor are not divestment transaction and therefore should not lead to reduction in initial investment's cost.

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?

As was mentioned above NASB members are of the view that in any case payment of dividends by investee to investor should be considered by latter as return on investment and not as return of investment. Therefore, NASB supports the proposed requirement for an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate. However, NASB members believe that no consequential testing of the related investment for impairment is necessary. They are of the view that payment of dividends by subsidiary, jointly controlled entity or associate to parent entity, venturer or investor should not be treated by latter as a trigger of related investment's impairment. They question, if a payment of dividends is a trigger for impairment in that case, why it is not the same in other cases when investee pays dividends to investor, on investments carried out in investor's balance sheet at cost in accordance with paragraph 46 (c) of IAS 39? They believe that instead of introduction of requirement to implement impairment testing of investments under consideration every time when dividends distributed by investee to investor it would be more appropriate to test on impairment this investment only once in first separate financial statements of investor prepared after investment is initially recognized at the previous GAAP deemed cost. Taking in account that Board's initial amendments relate not only to first-time adopters of IFRS but also to existing parent entities (venturers in jointly-controlled entity or investors in associates) our revised proposals in contrast to them will not lead to unduly burdensome accounting treatment for both of these categories of parent entities.

In order to realize our proposals we recommend to amend Board's proposal as follows:

(a) in paragraph 37B of IAS 27 *Consolidated and Separate Financial Statements* (deleted is struck through):

‘37B An investor shall recognise as income in its separate financial statements dividends received from a subsidiary, jointly controlled entity or associate. ~~If the investor accounts for its investment in the subsidiary, jointly controlled entity or associate at cost in accordance with paragraph 37, the receipt of such a dividend is an event that requires the investor to test the related investment for impairment in accordance with IAS 36 *Impairment of Assets*~~;`

(b) in paragraph 10 of IAS 36 *Impairment of assets* as follows (new text is underlined, deleted is struck through):

‘ 10 Irrespective of whether there is any indication of impairment, an entity shall also:
(a) …

(c) test <u>for impairment</u> an investment in a subsidiary, jointly controlled entity or associate in its <u>first after adoption of IFRS</u> separate financial statements ~~for impairment~~ if the entity has elected to use previous GAAP carrying amount as a deemed cost of such an investment ~~received a dividend from that investment during the reporting period~~.’

Question 5—Formation of a new parent

The exposure draft proposes that in applying paragraph 37(a) of IAS 27 to the formation of a new parent, the new parent should measure cost using the carrying amounts in the separate financial statements of the existing entity at the date of the formation (see paragraph 37A of the draft amendments to IAS 27 and paragraphs BC21 and BC22 of the Basis for Conclusions).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?

NASB supports proposed requirement taking in account that the Board restricted its application to unique circumstances when an entity decide to reorganize its operating structure by forming a new parent entity so that existing entity becomes a wholly owned subsidiary of a new parent and provided that the new parent formed in a manner that does not change the relative ownership interests of the owners of the existing entity or the equity, assets and liabilities of the group. NASB members believe that this requirement is appropriate as it prevents unfair opportunity, which contradicts to

the requirements of existing IFRS, to increase group's net assets by recognition of internally generated goodwill.

Question 6—Transition

The exposure draft proposes that the amendments to IFRS 1 and IAS 27 shall be applied prospectively. Do you agree that prospective application of the proposed amendments to IFRS 1and IAS 27 is appropriate? If not, why?

NASB agrees with the proposal to apply introduced amendments to IFRS 1and IAS 27 prospectively.

Thank you for the opportunity to present our views.

Yours sincerely,

Mikhail Kiselev
Chairman
National Accounting Standards Board