



Tasmania

ED 152 sub 2

DEPARTMENT of
TREASURY and FINANCE

Contact: Sakura Oddie
Phone: 03 6233 2402
Our Ref: D/001621 SO/CJ

Mr David Boymal
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

Dear Mr Boymal

**INVITATION TO COMMENT: EXPOSURE DRAFT 152 –
PROPOSED AMENDMENTS TO AASB 1 *FIRST-TIME ADOPTION OF
INTERNATIONAL FINANCIAL REPORTING STANDARDS* – COST OF AN
INVESTMENT IN A SUBSIDIARY**

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to provide comments on the Exposure Draft, ED 152 Proposed Amendments to AASB 1 *First-time Adoption of International Financial Reporting Standards* – Cost of an Investment in a Subsidiary.

HoTARAC considers that it is appropriate to have targeted transitional relief for entities on first-time adoption of International Financial Reporting Standards, and therefore supports the proposed changes. HoTARAC's comments in relation to the specific questions posed by the Board can be found in Attachment A.

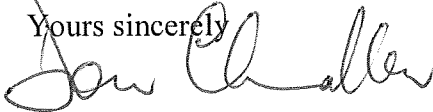
General Comments

HoTARAC considers that the proposed amendments do not address other issues related to not having the cost record of a subsidiary and would therefore welcome the expansion of the proposed relief. HoTARAC notes that this would also be an issue for associates and joint ventures. HoTARAC therefore requests that the AASB extends the principle in the proposed amendment to allow the fair value on transition to be the cost base of a subsidiary, associate or joint venture for derecognition purposes.

HoTARAC notes that some of its constituents who did not have cost records for subsidiaries were obliged to adopt the option of accounting for these bodies at fair value under AASB 139 *Financial Instruments: Recognition and Measurement*, in their separate financial statements. While these entities do not wish to revert to the cost basis, they still experience issues associated with not having a cost or deemed cost base for these subsidiaries. Under AASB 139 these subsidiaries are usually treated as available for sale financial assets, which require changes in fair value to be taken to equity. Upon derecognition, an entity is required to recognise the cumulative gain or loss taken to equity in its profit or loss. As the cumulative gain or loss is generally equivalent to the current carrying value less the cost of the subsidiary, some of HoTARAC's constituents are unable to establish the correct value and are therefore potentially exposed to audit verification issues.

If you have any queries regarding this submission, please contact Mr Peter Gibson, at the Commonwealth's Department of Finance and Administration, on (02) 6215 3551.

Yours sincerely



D W Challen

**CHAIR
HEADS OF TREASURIES ACCOUNTING AND
REPORTING ADVISORY COMMITTEE**

16 April 2007

Encl

SPECIFIC MATTERS REQUESTED FOR COMMENT**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 (in accordance with IAS 39 Financial Instruments: Recognition and Measurement). However, the Board believes that in some cases, on first-time adoption of IFRSs, the difficulties in determining cost in accordance with IAS 27 exceed the benefit to users.

This Exposure Draft proposes to allow a parent, at its date of transition to IFRSs, to use a deemed cost for an investment in a subsidiary. The deemed cost would be determined using either the carrying amount of the net assets of the subsidiary, or its fair value, at that date. Is this appropriate? If not, why?

HoTARAC supports the proposed change.

Question 2

The cost method in IAS 27 requires a parent to recognise distributions from a subsidiary as a reduction in the cost of the investment to the extent they are received from the subsidiary's pre-acquisition profits. This may require a parent, in some cases, to restate the subsidiary's pre-acquisition accumulated profits in accordance with IFRSs.

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

This Exposure Draft proposes a simplified approach to determining the pre-acquisition accumulated profits of a subsidiary for the purpose of the cost method in IAS 27. Is this appropriate? If not, why?

HoTARAC supports the proposed change.

SPECIFIC AUSTRALIAN MATTERS REQUESTED FOR COMMENT, regarding:

- (a) any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
- (i) not-for-profit entities;
 - (ii) public sector entities; and

HoTARAC is not aware of any regulatory issues.

- (b) whether the proposals are in the best interests of the Australian economy.

HoTARAC has no comment.