

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, 26 February 2008

542/520

Dear Sir David,

Re.: Exposure Draft 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

We appreciate the opportunity to comment on the exposure draft mentioned above. In general, we appreciate the Board's modified proposals to grant some relief from the requirements of IAS 27 for first-time adopters of IFRS concerning the accounting for investments in a subsidiary, jointly controlled entity or associate in their first separate financial statements. We also support the proposed changes in IAS 27 in principle. However, we do not support the mandatory impairment test according to ED IAS 36.10(c), because, in our view, it is unduly burdensome. This is especially true given the fact that the mandatory impairment test would apply to all entities, not only first-time adopters who will benefit from the relief granted by this exposure draft. In this context, we refer to our answer to question 4. Furthermore, we would appreciate the Board addressing the accounting for the formation of a new parent in context with the Board's project on common control transactions (cp. question 5).

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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?

We agree with the two deemed cost options as they are described in the exposure draft. In our view, the Board's proposals will increase practicability and help to reduce the cost of adopting IFRSs for the first time in separate financial statements (cp. BC13).

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?

We agree with the proposed scope extension, because similar issues arise in practice in relation to investments in associates, jointly controlled entities and subsidiaries (cp. BC14).

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Question 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?

We accept the removal of the definition of the cost method from IAS 27, on the grounds set out in paragraphs 15-18 of the Basis for Conclusions. In fact, there are conceptual reasons supporting the cost method, especially in case of distributions stemming from a recently acquired subsidiary, jointly controlled entity or associate. In view of the difficulties arising from the use of the cost method of current IAS 27.4, especially in the context of restating pre-acquisition retained earnings in accordance with IFRS for first-time adopters and multi-level group structures and group restructurings, the removal of the definition of the cost method from IAS 27 is acceptable for pragmatic reasons. Furthermore, the risk that investments in subsidiaries, jointly controlled entities and associates could be systematically overstated in the financial statements of the investor is reduced by impairment testing.

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 believe that the proposed requirement for an investor to recognise as income dividends received from a subsidiary, jointly controlled entity or associate can be accepted, provided the definition of the cost method is deleted from IAS 27.4 (we refer to our answer to question 3). However, in our opinion, a

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mandatory impairment test according to ED IAS 36.10(c) which has to be carried out each time the entity receives a dividend from that investment during the reporting period is too burdensome, in particular, as it would apply to all entities, not only to first-time adopters who will benefit from the relief granted by this exposure draft.

In our opinion, this impairment test is unnecessary in most cases, for example, when previous calculations have shown that an investment's recoverable amount is significantly greater than its carrying amount (comparable to current IAS 36.15) or when the entity can demonstrate that the dividend received does not exceed the retained earnings of the investee arising after the date of acquisition. We believe that estimates and computational short cuts may often suffice to rebut a suspected impairment (cp. IAS 36.23).

Finally, we would like to point to the fact that the proposed wording of IAS 36.10(c) does not refer to the use of the cost method as a precondition for the impairment test, as is the case in ED IAS 27.37B. We suggest aligning IAS 36.10(c) in this respect.

Question 5

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?

In our opinion, the Board should refrain from dealing with the accounting for the formation of a new parent in the context of this exposure draft. Instead, this case should be addressed within the Board's project on common control transactions.

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Question 6

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 1 and IAS 27 is appropriate? If not, why?

We agree with prospective application of the proposed amendments to IFRS 1 and IAS 27.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

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