LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA
MALAYSIAN ACCOUNTING STANDARDS BOARD

18 February 2008

The Chairman
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Dear Sir David,

IASB EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IFRS 1 *FIRST-TIME ADOPTION OF IFRS* AND IAS 27 *CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS – Cost of an Investment in a Subsidiary, Jointly Controlled Entities or Associates*

The Malaysian Accounting Standards Board (MASB) appreciates the opportunity to offer its views on the Exposure Draft of Proposed Amendments to IFRS 1 *First time Adoption of IFRS* and IAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entities or Associates* (ED).

Having reviewed the ED, we support the IASB's proposal to provide an alternative approach for determining the cost of an investment in a subsidiary in the parent separate financial statements on first time adoption of IFRS 1. We also support the effort to provide guidance on the application of IAS 27 in the separate financials statements of a newly formed parent entity.

We are in favour of the proposals but wish to put forth the following points for your consideration:

(i) Previous GAAP deemed cost

We support the use of previous GAAP as the deemed cost for the application of IAS 27.37(a). We agree with the Board's rationale in allowing the previous GAAP to reduce the cost of adopting IFRSs so that the benefit of using them for the preparation of the parent entity's separate financial statements can be realised.

Suites 5.01-5.03, Fifth Floor, 338 Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia.
Tel : (603) - 2715 9199 Fax : (603) - 2715 9212 E-mail : masb@masb.org.my

The Board should also emphasise that the use of the previous GAAP basis for transition would be subject to appropriate impairment tests.

(ii) Paragraph 37A - Formation of a new parent

We support the proposed paragraph 37A which explains that the cost of investment in a subsidiary - is the carrying amounts of the equity, assets and liabilities in the separate financial statements of the existing entity - in cases where a new parent is formed in a manner that does not change the relative ownership interests of the existing entity.

However, paragraph 37A seems to emphasise that the provision is only applicable in a situation where the existing entity becomes a wholly-owned subsidiary of the new parent. There could be cases where the new parent is formed in a manner that does not change the relative ownership interests in an internal group reorganisation involving a non wholly-owned subsidiary situation. In this regard, we believe the provision in paragraph 37A should be equally applicable to both situations involving wholly own subsidiary and those that do not result in wholly own subsidiary situation.

Paragraph 37A should not be prescriptive; rather, it should reflect the underlying principle to capture a broad based provision rather than limiting it to wholly-owned subsidiary situation. For example, the paragraph can explain that in situation where an internal reorganisation does not involve the transfer of resources outside the group, the cost of investment in the existing entity shall be measured using the carrying amounts of the equity, assets and liabilities in the separate financial statements of the existing entity at the date of the formation.

The following paragraph edits the paragraph 37A to reflect the suggestion we have for your consideration (deletion per struck through and addition as per underline):

> An entity (either a parent or a single entity) might decide to reorganise its operating structure by forming a new parent ~~entity so that the existing entity becomes a wholly-owned subsidiary of the new parent.~~ The new parent is 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 <u>and does not involve a transfer of resources outside of the group</u>. In applying paragraph 37(a) to

such formations, the new parent shall measure the cost of its investment in the existing entity using the carrying amounts of the equity, assets and liabilities in the separate financial statements of the existing entity at the date of the formation.

(iii) Transition provision (TP)

The wordings in the transitional provision in IFRS1.47I and IAS 27.43B are ambiguous. Question 6 in the Invitation to Comment suggests prospective application of the amendments but the explanations in IFRS 1.47I and IAS 27.43B do not indicate so.

We suggest that IFRS 1.47I and IAS 27.43B be redrafted to clarify how the amendments in IFRS 1 and IAS 27 should be applied. If the intention is prospective application, the two paragraphs could be drafted as follows:

IFRS 1.47I

> An entity shall apply [draft] paragraphs 13(ea), 23A, 23B and 44A prospectively for annual periods beginning on or after [date to be inserted after exposure]. Retrospective application is not permitted.
>
> Earlier application is permitted. If an entity applies [draft] paragraphs 13(ea), 23A, 23B and 44A for a period beginning before [date to be inserted after exposure], it shall disclose that fact.

IAS 27.43B

> An entity shall apply the [draft] deletion of the definition of the cost method from paragraph 4 and [draft] paragraphs 37A and 37B prospectively for annual periods beginning on or after [date to be inserted after exposure]. Retrospective application is not permitted.
>
> Earlier application is permitted. If an entity applies the [draft] deletion of the definition of the cost method from paragraph 4 and [draft] paragraphs 37A and 37B for a period beginning before [date to be inserted after exposure], it shall disclose that fact.

(iv) Other comment

The proposed IFRS 1.23A states that if separate financial statements are prepared, IAS 27 requires an entity to account for its investments in subsidiaries, jointly controlled entities and associates either (a) at cost or (b) at fair value in accordance with IAS 39.

However, IAS 27.37 does not specifically prescribe that such investments accounted for in accordance with IAS 39 should be measured at fair value. Although IAS 39 generally requires all financial assets to be measured at fair value, it does provide for certain exceptions. For example, IAS 39 paragraph 46 allows investments in equity instruments to be measured at cost if such equity instruments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

Therefore, to avoid confusion the wordings in the proposed IFRS 1.23A should be consistent with that of IAS 27.37.

If you need further clarification, please feel free to contact the undersigned at +603 2715 9199 or e-mail at nordin@masb.org.my.

Yours sincerely,

Nordin

Dr Nordin Mohd Zain
Executive Director