



Secretariat: A.J. Ernststraat 55  
Postbox 7984  
1008 AD Amsterdam  
The Netherlands

T +31 (0)20 301 03 91  
F +31 (0)20 301 02 79  
rj@rjnet.nl  
www.rjnet.nl

EFRAG  
Attn. EFRAG Technical Expert Group  
41, Avenue des Arts  
B-1040 Brussels  
Belgique

Our ref : AdK  
Date : Amsterdam, 26 February 2008  
Re : Your draft comment letter on Exposure Draft of Proposed Amendments to IFRS 1 'First-time Adoption of IFRS - Cost of an Investment in a Subsidiary'

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond to your draft comment letter regarding Exposure Draft of Proposed Amendments to IFRS 1 'First-time Adoption of IFRS - Cost of an Investment in a Subsidiary'.

We agree with the proposed amendments to IFRS 1 and are of the opinion that the proposed amendments possibly will significantly reduce the cost of adopting IFRSs.

However, we strongly object to the proposed amendment to IAS 36 that the receipt of dividends requires the investor to test the related investment for impairment whether or not there is an indication that there might have been an impairment, because such impairment test will be unduly burdensome.

In addition, we do not agree with the proposed amendment to IAS 27 paragraph 37A, because issue of the creation of a new parent within an existing group is related to the discussion on common control transactions and we believe that this problem cannot be solved before a conclusion have been reached on the treatment of common control transactions.

Please find enclosed our response to the questions within your Draft comment letter.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans de Munnik', written over a horizontal line.

Hans de Munnik  
Chairman Dutch Accounting Standards Board

## Appendix

### Questions 1 and 2

#### **Mandatory impairment test of the investment at each payment of dividend**

*It is proposed in paragraph 37B in the ED that, if an investor accounts for its investments in the subsidiary, jointly controlled entity or associate at cost in accordance with IAS 27, the receipt of a dividend from such investments is an event that requires the investor to test the related investment for impairment in accordance with IAS 36 Impairment of Assets. The required test of impairment is independent of whether there is any indication of impairment. This would mean an impairment test would have to be carried out every time a dividend is received from such an investment, even if the entity paying the dividend has substantial accumulated reserves relative to the dividend being paid. Furthermore, because the amendment is being made to IAS 27 rather than in IFRS 1, this would apply not only related to entities transitioning to IFRSs but to all entities applying IFRSs that have such investments. This imposes a new requirement on entities already applying IFRSs because, although investments in subsidiaries, jointly controlled entities and associates are already in the scope of IAS 36 Impairment of Assets, currently they are required to perform an impairment test only if there is an indication that there might have been an impairment; under the proposals they would need to perform the test every time a dividend is received from such investments. Draft comment letter on Proposed Amendment to IFRS 1 and IAS 27 Page 5. EFRAG has discussed whether this 'mandatory impairment test' for all entities receiving dividends from an investment in subsidiaries, jointly controlled entities and associates will be unduly burdensome. One view is that it will not be very burdensome because, when there has not been an impairment, there will often be plenty of easily obtainable evidence indicating that that is the case. Paragraph 23 of IAS 36 allows estimates, averages and computational short cuts as reasonable approximations of the detailed computations illustrated in IAS 36 for determining fair value less costs to sell or value in use. Another view is that it will often be necessary to carry out a full computation to comply with IAS 36 requirements and that will often be burdensome. Those EFRAG members who believe that mandatory impairment testing of the investments on each dividend payment will be burdensome note that paragraph 9 of IAS 36 already requires entities to assess at each reporting date whether there is any indication that an asset may have been impaired; they think that, rather than require a mandatory impairment test, it should be sufficient to enhance the existing test in paragraph 9, perhaps by stating that the payment of significant dividends relative to the accumulated reserves should be an indicator for the purposes of paragraph 9 or by incorporating an objective evidence that the asset has been impaired' test similar to that set out in paragraph 58 of IAS 39.*

*Q1: Do you believe mandatory impairment test of the investment of each payment of dividend as currently drafted will be unduly burdensome or will it in practice not be a problem?*

*Q2: If you think a mandatory impairment test will be unduly burdensome, how do you suggest that the IASB restricts the possibility that dividends are not recognised as income when they are returns of the investment (rather than on the investment)?*

#### **Answer DASB**

Q1: We are of the opinion that in these instances a mandatory impairment test of the investment will be unduly burdensome.

Q2: We suggest restricting the requirement to carry out an impairment test when there is an indication that an asset may have been impaired. We believe that the impairment indicators in IAS 36 paragraph 12 (and 13) are sufficient, but you could recommend adding in paragraph 12 of IAS 36 that an indication for impairment of an investment could be the relative size and nature of dividends received.

### Question 3

#### **Prospective or retrospective application of the proposed amendments to IAS 27**

*It is proposed in paragraph 43B in the ED that the proposed amendments to IAS 27 (ie the deletion of the cost method definition, the new requirement to treat all dividends from subsidiaries etc as income, and the paragraph dealing with group reorganisations) shall be applied prospectively. That means, for example, that entities already applying IFRSs at the effective date of the proposed amendments will thus until this date, if applying the present cost method in IAS 27, recognise dividends from, say, subsidiaries as income only to the extent that the investor receives distributions from retained earnings after the date of acquisition. (Distributions received in excess of such profits would be regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.) Then, from the effective date, all the dividends from the subsidiary will be treated as income but will trigger an impairment test. It follows that entities that are identical in all respects except that they transition at different dates to IFRS could recognise different amounts of the dividends they receive as income and could have different amounts of distributable reserves. Some think this is unfair. Others argue that there is nothing unique about these proposed amendments; transitioning at different dates often results in different accounting numbers. On the other hand, allowing retrospective application would not prevent this being the case. And requiring retrospective application would mean that all entities applying the present cost method in IAS 27 would be required to restate the prior year numbers so that all dividends from subsidiaries etc are accounted for as income and mandatory impairment tests are carried out in respect of the dividends received in the periods presented. (Impairment tests do not need to be carried out for earlier periods because earlier impairment losses can be reversed in accordance to IAS 36 if the investment is no longer impaired.) The IASB has to date tried to ensure that impairment tests are not affected by hindsight.*

Q3: *Bearing the above arguments in mind, do you believe that that the proposed changes to IAS 27 should be applied prospectively (as proposed in the ED) or retrospectively or should a choice be allowed?*

#### **Answer DASB**

Q3: Assuming that the mandatory impairment test at each dividend receipt will be amended to a test for impairment when there is an indication of impairment, we have no principle arguments not to allow retrospective application.