



Organización Internacional de Comisiones de Valores  
International Organisation of Securities Commissions  
Organisation internationale des commissions de valeurs  
Organizaçào Internacional das Comissões de Valore

April 10, 2007

Jeff Singleton  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

**RE: Exposure Draft of Proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards: Cost of an Investment in a Subsidiary***

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Standing Committee No. 1 on Multinational Disclosure and Accounting (Standing Committee No. 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft of Proposed Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards: Cost of an Investment in a Subsidiary*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Standing Committee No. 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Standing Committee No. 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

**Specific Comments**

**Question 1 – Use of Deemed Cost**

*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 benefits to users.*

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*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?*

**Response:**

We understand that the Board is proposing to permit use of a “deemed cost” because of practical difficulties encountered by entities in determining cost in accordance with IAS 27 upon first-time adoption of IFRSs and therefore we do not object to the Board’s proposal. However, for proposed paragraph B4 (b) of IFRS 1, we suggest that the words “at fair value” be removed for consistency with IAS 27. In addition, we believe proposed paragraph B5 (b) should be clarified to indicate how fair value should be measured (e.g. in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*).

**Question 2 – Subsidiary’s pre-acquisition accumulated profits**

*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 judgments 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?*

**Response:**

Similar to our response to Question 1 above, we understand the Board’s motivations for offering an alternative for first-time adopters of IFRSs in applying IAS 27. We note that the Board has stated in the last sentence of paragraph BC9 that using previous GAAP accumulated profits would, in most circumstances, not result in a different treatment of distributions received by the parent after its transition to IFRSs. We suggest that the Board further expand the discussion in the Basis for Conclusions to better support the Board’s basis for its decision. We believe it may also be useful to expand the fact pattern in IG Example 9B to support the above assertion. Alternatively, it may be useful to remove the information in (f) of IG Example 9B regarding the 1,000 accumulated profits, in accordance with IFRSs, of Subsidiary Z, as that information is not used in the follow-on calculations and may cause some readers to believe, incorrectly, that the 1,000 is pre-acquisition accumulated profits that could be compared to the 300 of pre-acquisition accumulated profits for Subsidiary Z under previous GAAP.

**Other Comments**

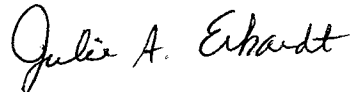
**Disclosures**

We believe the Board should consider requiring disclosure of an entity’s accounting under IAS 27 in its separate financial statements upon first time adoption of IFRSs, given the choices permitted under proposed paragraphs B5 and B6 of IFRS 1.

\* \* \* \*

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,

A handwritten signature in cursive script that reads "Julie A. Erhardt".

Julie A. Erhardt

Chairman

IOSCO Standing Committee No. 1