Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
Der Standardisierungsrat

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Stig Enevoldsen
Chairman
European Financial Reporting Advisory Group
41, Avenue des Arts
B-1040 Brussels

Berlin, 26. February 2008

Dear Stig,

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 EFRAG's Draft Comment Letter to the International Accounting Standards Board's Exposure Draft of Proposed Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standard and IAS 27 Consolidated and Separated Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate. This letter represents the view of the German Accounting Standards Board (GASB).

Regarding your questions on pages 5 and 6 of your draft comment letter we have the following comments:

Your questions on page 5:

1. *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?*
2. *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)?*

We have concerns regarding the mandatory impairment test. In GASB's view the mandatory impairment test is more costly and burdensome than differentiation of dividends under the previous requirements. Requiring a mandatory impairment test would result in extensive work for the reporting entity regardless of whether, an impairment as the result of the dividend distribution is likely or not. The simplification proposed by deleting the definition of the cost method would be outbalanced by the amount of work required by a mandatory impairment test. Therefore, we recommend an indication based impairment test. Using an indicator approach will balance the work required to ensure that impaired investments triggered by dividend distributions are revealed and appropriately accounted for.

Your question on page 6:

Prospective or retrospective application of the proposed amendments to IAS 27?

The GASB supports that the proposed amendments to IAS 27 should be applied prospectively.

For the detailed comments we refer to our Comment Letter to the International Accounting Standards Board's Exposure Draft of Proposed Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standard and IAS 27 Consolidated and Separated Financial Statements - Cost of Investment in a Subsidiary, Jointly Controlled Entity or Associate, which is attached to the letter.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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United Kingdom

Berlin, 26. February 2008

Dear Sir David,

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 International Accounting Standards Board's "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". This letter represents the view of the German Accounting Standards Board (GASB).

The GASB supports the efforts of the IASB to grant some relief from the requirements in IAS 27 *Consolidated and Separated Financial Statements* for first-time adopters upon the initial determination of the cost of an investment in a subsidiary, jointly controlled entity or associate. We believe that the proposal, by allowing an entity to use the previous GAAP carrying amount of these investments, addresses fully the concerns we expressed in our comment letter dated 19 April 2007.

In addition, the GASB supports the efforts of the IASB to simplify the accounting for dividends. Therefore, we agree with the proposal to delete the definition of the cost method and recognise all dividends received from these investments as income.

However, we have concerns regarding the requirement to perform a mandatory impairment test upon receipt of dividends. In GASB's view the mandatory impairment test is more costly and burdensome than differentiation of dividends under the previous requirements.

For detailed comments we refer to the appendix to this comment letter.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

APPENDIX

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).

Question 1: Do you agree with the two deemed cost options as they are described in this exposure draft? If not, why?

1 We agree with the IASB that the existing provisions are burdensome and costly for any first-time adopter. Therefore, we support the efforts and believe that the proposed amendments will simplify accounting. The proposed deemed cost option would also be consistent with the requirements of the current IFRS 1 in respect of business combinations.

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).

Question 2: Do you agree with the proposal to allow the deemed cost option for investments in jointly controlled entities and associates? If not, why?

2 We support the proposal to extend the deemed cost option in the ED to investments in a jointly controlled entity or associate as already noted in our previous comment letter dated 19 April 2007. According to IAS 27.37 these requirements are also applicable to these investments. We do not see any justification not to include jointly controlled entities and associates in this revision.

Questions 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?

3 In general, we support the proposal to delete the definition of the cost method. However, we have concerns regarding the mandatory impairment test. Requiring an impairment test would result in extensive work for the reporting entity regardless of whether, as the result of the dividend distribution, impairment is likely or not. The simplification proposed by deleting the definition of the cost method would be outbalanced by the amount of work required by a mandatory impairment test. Therefore, we recommend an indication-based impairment test. Using an indicator approach will balance the work required to ensure that impaired investments triggered by dividend distributions are revealed and appropriately accounted for.

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?

4 The GASB agrees with the proposal to recognise all dividends received from a subsidiary, jointly controlled entity or associate as income. However, we have concerns regarding the mandatory impairment test. Therefore, we refer to the comments made in response to question three.

Question 5 – Formation of a new parent

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).

Question 5: 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?

5 The GASB welcomes the amendment to IAS 27 to measure cost using the carrying amounts of the existing entity.

6 Furthermore, we note that the Board took common control issues onto its agenda. We assume that the solution proposed in this ED will not preclude the results of the project mentioned.

Question 6 – Transition

The exposure draft proposes that the amendments to IFRS 1 and IAS 27 shall be applied prospectively.

Question 6: Do you agree that prospective application of the proposed amendments to IFRS 1 and IAS 27 is appropriate? If not, why?

7 Taking into account the nature of the proposed amendments to IFRS 1 and IAS 27 the GASB agrees that prospective application is appropriate.