Rådet för finansiell rapportering

The Swedish Financial Reporting Board

RFR-rs 2008:4

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

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 respond to the International Accounting Standards Board's Exposure Draft, of Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards and IAS 27 Consolidated and Separate Financial Statements. This letter represents the views of the Swedish Financial Reporting Board.

General remarks

The Swedish Financial Reporting Board generally agrees with the draft's proposed amendments. Introducing the amendments will solve some practical issues relating to accounting for investments in subsidiary, jointly controlled entities or associates. In particular the amendments will reduce costs relating to first time adoption of IFRS, without impairing the financial reporting, which we welcome.

As further described below we do not support the proposal to require a test of the investment for impairment every time a dividend has been recognized. These requirements would unduly increase cost.

Answers to the questions asked by the IASB in the ED:

We have no deviating comments on your first three questions.

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?

Yes, we agree with the proposed requirement, for an investor to recognise dividend as income. However, the proposed requirement to test the investment for impairment,

The Swedish Financial Reporting Board
Box 7680 SE-103 95 STOCKHOLM Sweden
Tel: +46-8-50 88 22 79 Fax: +46-8-32 12 50
www.radetforfinansiellrapportering.se

each time a dividend has been recognized, we do believe is an unwarranted requirement. We see no need for any special impairment test requirements, only triggered by a dividend. The basic impairment test requirements, based on indication of impairment, are quite sufficient. The requirement proposed would unduly increase cost.

Possibly, the receipt of a dividend from a subsidiary could be included in the indicators for impairment to be evaluated.
The proposed changes include an amendment to IAS 21, according to which the sentence ´The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits.´ should be deleted. This will result in translation differences related to returns of investments being left in equity, rather than recycled to the income statement, despite the translation differences having been realized as a result of the interest being disposed of in the form of a dividend. This is an unfortunate effect of the simplification proposed, which we believe the IASB should look into.

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?

We believe that this concerns an issue that the Board should defer and include in the common control project.

In case the IASB, still wants to pursue the proposed amendment, we believe that it should be made clear, that this amendment, does not apply to situations where a new parent is inserted in a group, below the top level parent of the group. Furthermore we do not believe that, in this specific situation, the standard should require using predecessor values, rather it should be presented as an alternative to Cost.

We also think the current wording how the new parent should measure its cost of investment, is hard to understand. We would suggest that an illustrative example be incorporated in the standard to clarify the Board's conclusion.

Question 6

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

Yes, we agree with only requiring prospective application, but the requirement should be clearly expressed.

The IASB has only allowed for a comment period of two and a half months for this draft. It should be in the interest of the IASB to extend comment periods to allow for its drafts to be subject to a thorough process before any comment letters are issued and we therefore recommend that in the future more time is provided for.

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If you have any questions concerning our comments please address our Executive member
Carl-Eric Bohlin by e-mail to: carl-eric.bohlin@radetforfinansiellrapportering.se

Stockholm, February 29, 2008
Yours faithfully,

THE SWEDISH FINANCIAL REPORTING BOARD

Anders Ullberg
Chairman

The Swedish Financial Reporting Board
Box 7680 SE-103 95 STOCKHOLM Sweden
Tel: +46-8-50 88 22 79 Fax: +46-8-32 12 50
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