Ref: 08-166

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Chairman
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Comments regarding IASB's Exposure Draft on amendments to IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate

Dear Mr. Enevoldsen,

The Committee of European Securities Regulators (CESR), through its standing committee on financial reporting (CESR-Fin), considered EFRAG's draft letter on Exposure Draft of proposed amendments to IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate.

We thank you for this opportunity to comment on your draft letter and we are therefore pleased to provide you with the following comments:

- In general, CESR is supportive on the comment letter prepared by EFRAG on this issue.

- However, CESR would like to point out a few issues regarding question 4 in the Exposure draft from IASB. This is the second exposure draft regarding this issue, and when comparing the first exposure draft to this second exposure draft, IASB has now included more items in the exposure draft compared to the first one. IASB has decided to include two new issues as an amendment to IAS 27, namely requiring that a dividend received should be recognized as income instead of as a reduction of the cost of the investment. Secondly, IASB is now requiring that an impairment test should be conducted on the related investment, whenever a dividend is received.

- Regarding the first issue on the change of recognition of a dividend received, that derives from the pre-acquisition retained earnings of an investment, from being recognized as a reduction of the cost of the investment to being recognized as income, the argument according to Basis for Conclusions in the exposure draft does not appear to be very clear. According to Basis for Conclusions the argument for the change of recognition appears to be that the current accounting principles might involve subjective use of hindsight, which would diminish the relevance and reliability of the information. EFRAG argues that this change will simplify accounting, and does not elaborate any further on the issue. In CESRs opinion, this change of accounting principle deserves to be investigated more, before it is decided that the current accounting principle is no longer a relevant accounting principle, when it comes to recognition of dividends received.

- Regarding the second issue on the new suggested impairment test that is to be conducted, whenever a dividend is received, CESR agrees with EFRAG that this new mandatory impairment test seems to be an undue burden for companies, as the mandatory requirement does not include any criteria for the test to be conducted, such as any indications that an impairment has occurred, similar to the requirement for impairment tests generally required in IAS 36. In CESRs opinion, an impairment test in connection with dividends received should only be required, if there is an indication that impairment has occurred, and an impairment test in this connection should therefore not be mandatory.

I should be happy to discuss all these issues further with you.

Yours sincerely,

(Signed)

Fernando Restoy
Chairman of CESR-Fin