

STAFF PAPER

IFRS Interpretations Committee
Meeting

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Project

IAS 28 *Investments in Associates*—Impairment of investments in associates in separate financial statements

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Introduction

1. In the July 2012 meeting, the IFRS Interpretations Committee (the Committee) received a report on the issues that have been referred to the IASB over the last several years and that have not yet been addressed. The Committee asked the staff to update the analysis and outreach on six issues so that they can discuss whether or not the Committee should add these to its agenda.
2. One of these issues is whether an investor, in its separate financial statements, should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, joint ventures, and associates ('investments') for impairment.
3. The Committee discussed this issue in its May¹ 2009 and July² 2009 meetings, with the July 2009 *IFRIC Update* reporting that:

The IFRIC noted that IAS 36 *Impairment of Assets* provides clear guidance that its requirements apply to impairment losses of investments in associates when the

¹ http://www.ifrs.org/NR/rdonlyres/594F8EC0-6938-4A77-BC20-053139866149/0/0905ap8obIAS_28Impairment.pdf

² <http://www.ifrs.org/NR/rdonlyres/420E21AF-0D75-4ABE-835B-507BF2D57CF8/0/0907ap2GIAS28Impairmentinseparatefinlstmts.pdf>

associate is accounted for using the equity method. However, in its separate financial statements, the investor may account for its investment in an associate at cost. The IFRIC concluded that it is not clear whether in its separate financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39 *Financial Instruments: Recognition and Measurement*.

In view of the existing guidance in IFRSs, the IFRIC concluded that significant diversity is likely to exist in practice on this issue. The IFRIC decided that it could be best resolved by referring it to the IASB. Therefore, the IFRIC decided not to add this issue to its agenda.

4. In the Exposure Draft of proposed *Improvement to IFRSs* (issued in August 2009), the IASB proposed that in its separate financial statements the investor shall apply the provisions of IAS 39 to test its investments in subsidiaries, jointly controlled entities and associates for impairment. The respondents to this Exposure Draft that commented directly on this issue were split evenly between responses in favour of the use of IAS 39 and responses in favour of the use of IAS 36 (the main comments are reproduced in Appendix C to this paper).
5. However, in February 2010, the IASB decided to remove from the annual improvements project, without finalisation, the proposed amendment on the grounds that this issue should be reconsidered taking into account the broad replacement project for IAS 39 (IASB *Update 2* and 10 February 2010).
6. We performed outreach with national standard-setters and regulators on this topic in order to find out whether the issue is widespread and whether significant diversity in practice exists. The results of this outreach are included as part of the staff's analysis of this issue.
7. The submission is reproduced in full in Appendix B to this paper.

Objective

8. The objective of this paper is to:
 - (a) provide background information on the issue;
 - (b) provide an updated analysis of the issue, including a summary of the outreach responses received from national standard-setters and regulators;

- (c) present an assessment of the issue against the Committee’s agenda criteria and the annual improvements criteria;
- (d) make a recommendation that the Committee should not take this issue onto its agenda; and
- (e) ask the Committee whether they agree with the staff recommendation.

Background information

9. Paragraphs 40-42 of IAS 28 *Investments in Associates and Joint Ventures* (2011³) provide guidance on the impairment of investments in associates and joint ventures in consolidated financial statements (ie associates and joint ventures accounted for using the equity method). That guidance states that IAS 39 is used to determine whether it is necessary to recognise any impairment loss, while IAS 36 is used to calculate the amount of any impairment loss. These paragraphs state that:
- (a) *the entity applies IAS 39 Financial Instruments: Recognition and Measurement to determine whether it is necessary to recognise any additional impairment loss with respect to its net investment in the associate or joint venture (IAS 28.40);*
 - (b) *the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired (IAS 28.42).*
10. Paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* (2008⁴) permits an entity that prepares separate financial statements to account for investments in subsidiaries, jointly controlled entities and associates either at cost or in accordance with IAS 39. However, IAS 27 is silent on whether testing for

³ Paragraphs 40-42 of IAS 28 *Investments in Associates* (2008) provided the same guidance on impairment of investments in associates.

⁴ Paragraph 10 of IAS 27 *Separate Financial Statements* (2011) provided practically the same guidance.

impairment of those investments should apply the requirements of IAS 36 or IAS 39.

11. In accordance with the requirements of IAS 36, the amount of the impairment loss is measured as the difference between the carrying amount of an asset and its recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use⁵.
12. In accordance with the requirements of IAS 39 on the impairment of financial assets carried at cost, *the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed (IAS 39.66).*
13. Consequently, the two different impairment models summarised above (IAS 36 model and IAS 39 model) could be used in testing for impairment investments carried at cost in separate financial statements.

Staff analysis

Description of the issue

14. The issue is how impairment of investments in subsidiaries, joint ventures and associates should be determined in the separate financial statements of the investor.

⁵ We note that the value in use can be different from the fair value of an asset, because the market participants' assumptions used in determining the fair value of an asset can be different from the entity-specific assumptions used in determining the value in use of an asset. Indeed:

- according to IFRS 13.22: *An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.*
- On the contrary, according to IAS 36.30: *The following elements shall be reflected in the calculation of an asset's value in use: an estimate of the future cash flows the entity expects to derive from the asset.*

We also note that the concept of “highest and best use” does not apply to financial assets (and liabilities) because financial assets do not have alternative uses. A financial asset has specific contractual terms and can have a different use only if the characteristics of the financial asset (ie the contractual terms) are changed. However, a change in characteristics causes that particular asset to become a different asset (BC63 of IFRS 13)

15. If an investor, in its separate financial statements, elects to account for its investments in subsidiaries, joint ventures and associates at fair value, the impairment test does not apply.
16. If an investor, in its separate financial statements, elects to account for its investments in subsidiaries, joint ventures and associates at cost, two views exist in practice:
 - (a) View 1—IAS 39 impairment model: the investor should apply the requirements of IAS 39 for impairment testing purposes.
 - (b) View 2—IAS 36 impairment model: the investor should apply the requirements of IAS 36 to test its investments for impairment.
17. We will analyse these views in the following paragraphs.

View 1—IAS 39 impairment model

18. Proponents of this view note that paragraph BC66 of IAS 27 (2008⁶) states that: *Although the equity method would provide users with some profit or loss information similar to that obtained from consolidation, the Board noted that such information is reflected in the investor's consolidated or individual financial statements and does not need to be provided to the users of its separate financial statements. For separate financial statements, the focus is upon the performance of the assets as investments. The Board concluded that separate financial statements prepared using either the fair value method in accordance with IAS 39 or the cost method would be relevant. Using the fair value method in accordance with IAS 39 would provide a measure of the economic value of the investments. Using the cost method can result in relevant information, depending on the purpose of preparing the separate financial statements. For example, they may be needed only by particular parties to determine the dividend income from subsidiaries.*
19. They think that, the above paragraph of IAS 27 clearly explains the IASB's intention that, in the separate financial statements of the investor, investments

⁶ Paragraph BC10 of IAS 27 (2011) is the same.

should be accounted for as financial instruments. The two allowable accounting models for investments are either the cost method or fair value. Both models are detailed in IAS 39, which is the applicable standard for financial instruments.

20. They also think that given the different purposes of consolidated financial statements and separate financial statements (as detailed by the IASB in BC66 of IAS 27 above), different impairment models are appropriate (ie the IAS 36 impairment model for consolidated financial statements and the IAS 39 impairment model for separate financial statements).

Consequently, in their view, if an entity, in its separate financial statements, accounts for its investments at cost, the entity should apply paragraph 66 of IAS 39 to calculate the amount of any impairment loss.

View 2—IAS 36 impairment model

21. Proponents of View 2 think that investments that are not measured in accordance with IAS 39 (ie investments carried at cost) are precluded from applying IAS 39 and are clearly within the scope of IAS 36, because paragraphs 4 and 5 of IAS 36 state that:

- 4 This Standard applies to financial assets classified as:
- (a) subsidiaries, as defined in IFRS 10 Consolidated Financial Statements;
 - (b) associates, as defined in IAS 28 Investments in Associates and Joint Ventures; and
 - (c) joint ventures, as defined in IFRS 11 Joint Arrangements.

For impairment of other financial assets, refer to IAS 39.

- 5 This Standard does not apply to financial assets within the scope of IAS 39...

22. They think that investments carried at cost are outside the scope of IAS 39 because paragraph 2 of IAS 39 states that

- 2 This Standard shall be applied by all entities to all types of financial instruments except:
- (a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* or IAS 28 *Investments in Associates and Joint Ventures*. However, entities shall apply this Standard to an interest in a subsidiary, associate or joint venture that according to IAS 27 or IAS 28 is accounted for under this Standard.

23. They also think that if an entity chooses to account for investments at cost in its separate financial statements, it thereby chooses not to apply IAS 39, in which case IAS 36 applies.

Staff analysis and view

24. We note that:
- (a) the Committee discussed this issue in May and July 2009 meetings;
 - (b) in August 2009, the IASB proposed to amend IAS 27 in order to clarify that in its separate financial statements the investor shall apply the provisions of IAS 39 to test its investments for impairment;
 - (c) in February 2010, the IASB decided to remove the proposed amendment because the issue should be reconsidered taking into account the broad replacement project for IAS 39;
 - (d) in October 2010, the IASB issued IFRS 9 *Financial Instruments*. IFRS 9 deleted paragraphs 66-70 of IAS 39; and
 - (e) in November 2011, the IASB decided to consider making limited modifications to IFRS 9.
25. In our view, to be consistent with the latest thinking of the Board, an entity should apply IAS 36 in testing investments accounted for at cost for impairment, because IFRS 9 deleted the IAS 39 impairment model for financial assets accounted for at cost. Indeed:
- (a) as explained in paragraphs BC5.13-BC5.19 of IFRS 9, the IASB decided to delete the exception contained in IAS 39 from fair value measurement for investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured. Those equity investments that were required to be measured at cost less impairment are now required to be measured at fair value; and
 - (b) as pointed out in paragraph BC5.14 of IFRS 9: *removing the exception would reduce complexity because the classification model for financial assets would not have a third measurement attribute and would not require an additional impairment methodology.*

26. We also think that the IASB does not intend to reconsider the decision that all investments in equity instruments shall be measured at fair value (the IASB decided to publish educational guidance on how to measure the fair value of unquoted equities that will assist those that need to make those measurements).

The January 2012 IASB *Update* reports that:

The boards decided to jointly redeliberate selected aspects of their classification and measurement models to seek to reduce key differences. The boards decided to discuss the following differences:

- (a) the contractual cash flow characteristics of an instrument;
- (b) the need for bifurcation of financial assets and if pursued, the basis for bifurcation;
- (c) the basis for and scope of a possible third classification category (debt instruments measured at fair value through other comprehensive income); and
- (d) any knock-on effects from the above (for example, disclosures or the model for financial liabilities in the light of the financial asset decisions).

Outreach request to national standard-setters and regulators

27. We asked IOSCO, ESMA and national standard-setters to provide us with feedback on whether the issue raised in the submission:

- (a) is widespread and has practical relevance; and
- (b) indicates that there are significant divergent interpretations (either emerging or existing in practice).

28. We asked regulators and national standard-setters the following two questions:

- (a) *In your jurisdiction, how common is this issue? Could you provide us with information that the Committee could use to assess how widespread the issue is?*
- (b) *In your view, is there diversity in practice in testing for impairment investments in associates, subsidiaries and joint ventures that are measured at cost?*

Please describe the predominant approach that you observe in your jurisdiction.

29. We received seventeen responses from the following jurisdictions: Europe (5⁷), Americas (5), Asia (3), Oceania (2), Africa (1) and worldwide (1⁸).
30. Five respondents considered the issue to be prevalent in their jurisdictions. All these respondents have not observed diversity in practice; in their jurisdictions, it is clear that investments carried at cost are tested for impairment in accordance with IAS 36. One respondent also noted that the results of impairment test in consolidated financial statements are usually used for testing investments for impairment in separate financial statements, especially when the cash generating units in consolidated financial statements coincide with the individual entities.
31. Twelve respondents did not consider the issue to be common in their jurisdiction; consequently, they have not observed diversity in practice.

Agenda criteria assessment

32. The staff's preliminary assessment of the agenda criteria is as follows:

(a) *The issue is widespread and has practical relevance.*

No. On the basis of our outreach, we understand that the issue is not widespread.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

No. On the basis of our outreach, we do not expect significant diversity in practice.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Not applicable. We are not aware of different reporting methods.

⁷ One of these responses summarises feedbacks received from 7 jurisdictions.

⁸ This response summarises feedbacks received from 8 jurisdictions.

- (d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

Yes, the issue could be solved within the confines of existing IFRSs.

- (e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

Yes, the Committee could reach a consensus on the issue on a timely basis.

- (f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.*

Not applicable. The issue does not relate to a current or planned IASB project.

Assessment against the annual improvements criteria

33. The staff's preliminary assessment of the issue against the annual improvements criteria is as follows:

In planning whether an issue should be addressed by amending IFRSs within the annual improvements project, the IASB assesses the issue against the following criteria. All criteria (a)–(d) must be met to qualify for inclusion in annual improvements.

- (a) *The proposed amendment has one or both of the following characteristics:*
- (i) *clarifying—the proposed amendment would improve IFRSs by:*
- *clarifying unclear wording in existing IFRSs, or providing guidance where an absence of guidance is causing concern.*
 - *A clarifying amendment maintains consistency with the existing principles within the applicable IFRSs. It does not propose a new principle, or a change to an existing principle.*

(ii) *correcting—the proposed amendment would improve IFRSs by:*

- *resolving a conflict between existing requirements of IFRSs and providing a straightforward rationale for which existing requirement should be applied, or*
- *addressing an oversight or relatively minor unintended consequence of the existing requirements of IFRSs.*

A correcting amendment does not propose a new principle or a change to an existing principle.

No. We think that IFRS 9 solved the conflict between the IAS 36 impairment model and the IAS 39 impairment model.

(b) *The proposed amendment is well-defined and sufficiently narrow in scope such that the consequences of the proposed change have been considered.*

Yes, the issue is narrow in scope.

(c) *It is probable that the IASB will reach a conclusion on the issue on a timely basis. Inability to reach a conclusion on a timely basis may indicate that the cause of the issue is more fundamental than can be resolved within annual improvements.*

Yes, we think that the IASB would be able to reach a conclusion on the issue on a timely basis.

(d) *If the proposed amendment would amend IFRSs that are the subject of a current or planned IASB project, there must be a need to make the amendment sooner than the project would.*

Not applicable. The issue does not relate to a current or planned IASB project.

Staff recommendation

34. On the basis of our technical analysis, we think that an entity in its separate financial statements should apply the provisions of IAS 36 to test its investments carried at cost for impairment.

35. On the basis of our assessment of the Committee's agenda criteria and the annual improvements criteria, we recommend that the Committee should not take this issue onto its agenda, because the issue is not widespread and we think that there is sufficient guidance in IAS 36.
36. Our proposed tentative agenda decision is included in Appendix A of this paper.

Questions for the Committee

1. Does the Committee agree that an entity in its separate financial statements should apply the provisions of IAS 36 to test its investments in subsidiaries, joint ventures, and associates for impairment?
2. Does the Committee agree with the staff's recommendation that the Committee should not take this issue onto its agenda?
3. Does the Committee have any comments on the proposed wording in Appendix A for the tentative agenda decision?

Appendix A—Proposed wording for tentative agenda decision

A1 The proposed wording for the tentative agenda decision is presented below.

IAS 28 *Investment in Associates*—Impairment of investments in associates in separate financial statements

In the July 2012 meeting, the Interpretations Committee received an updated report on the issues that have been referred to the IASB and that have not yet been addressed. The Committee asked the staff to update the analysis and outreach on an issue regarding the impairment of investments in associates in separate financial statements. More specifically, the issue is whether in its separate financial statements the entity should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test its investments in subsidiaries, joint ventures, and associates carried at cost for impairment.

The Committee noted that IFRS 9 deleted the exception contained in paragraph 66 of IAS 39 from fair value measurement for investments in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured. Those equity investments, which had been required to be measured at cost less impairment, are now required to be measured at fair value.

The Committee observed that this issue is not widespread and so did not expect there to be diversity in practice. The Committee noted that IAS 36 provides sufficient guidance to address the issue submitted.

Consequently, the Committee [decided] not to add this issue to its agenda.

Appendix B—Original Request

B1 In March 2009, the staff received the following request. All information has been copied without modification, except for details that would identify the submitter of the request and details that are subject to confidentiality.

Submission summary/ cover note

With regard to issue pertaining to IAS 28 as you share the same view that the existence of two standards dealing with impairment would produce different impairment numbers in consolidated and separate financial statements. I don't agree that if an entity carries an investment in associate in its separate financial statements at cost has to look at IAS 39 for impairment; rather they should follow the IAS 36 for potential impairment. Further its my view and depends whether IFRIC share the same that IAS 39 should only be consulted, as in case of equity accounted impairment, only for assessment of impairment indicator both for separate (either at cost or IAS 39) and consolidated and follow the requirement of IAS 36 for detailed calculation of impairment so as to ensure consistency of results in both consolidated as well as separate financial statements.

Submission

The issue

IAS 28- Investment in Associates allows an investor to account for such investment in its separate financial statements using cost or IAS 39 (i.e. Fair value) model. The issue is, if an entity account for such an investments using IAS 39 in its separate financial statements then how entity should assess the impairment in such investments. IAS 28 only provide guidance on impairment related to equity accounted associates and not provide explicit requirement with regard to assessment of impairment of associates accounted for in its separate financial statements using IAS 39 model. This would create different in assessment criteria whereby associates in separate financial statements assessed for impairment using IAS 39 principles and when it comes for consolidated financial statements it assess under IAS 36 for potential impairment.

Since both standards have different testing criteria for impairment, it would result in different impairment number result in reporting inconsistency. As per IAS 39 if there is significant or prolonged decline in fair value below cost an equity investment is considered to be impaired whereas IAS 36 compare carrying amount of entire investments to its recoverable amount (i.e. higher of fair value less cost to sell and value in use). Since IAS 39 follow one measure most entities end up recording impairment in separate financial statements whereas it might not record any impairment in consolidated financial statements.

Current practice

Some entities following IAS 36 for both financial statements (i.e. for consolidated and separate) so as to produce consistent result and disclosing it as their policy, while other following IAS 36 for consolidated financial statements and IAS 39 for separate financial statements for investments carried at fair value as per the IAS 39 while entities carrying investments in associates at cost in separate financial statements were recognizing impairment as per IAS 36.

Reasons for the IFRIC to address the issue

Because of wider application of the standard across jurisdiction and apparent inconsistency created through application of both standards, I think IFRIC should establish clear guidance that will ensure consistency in application of the standard. The above issue is also equally prominent in IAS 27 so single guidance will serve the dual purpose i.e. for both associates and subsidiary.

While developing guidance I would appreciate if IFRIC provide any insight why Board has allowed alternative measurement in separate financial statements. I think Board should restrict the application of IAS 39 where the associates or subsidiary held for trading purpose rather as an strategic investment, that is how the inconsistency would best resolved.

Appendix C—Main comments⁹ on the proposed amendment to IAS 27

C1 Respondents in favour of the proposed amendment (and therefore in favour of the use of IAS 39 impairment model) had comments that include:

- A We agree that this is an issue that needs to be clarified, and that the Annual Improvements Project is an appropriate place in which to provide that clarification. We also support the proposal that IAS 39's impairment test shall be applied, and we support the proposed insertion into IAS 27 of paragraph 38D to achieve that end. That is because we believe that, in the separate financial statements of the investor, investments in subsidiaries, jointly controlled entities and associates should be tested for impairment as "stand-alone" investments in the same way as other equity instruments. This means the impairment provisions in IAS 39 should be applied to such investments, regardless of whether they are carried at cost or at fair value (as permitted by IAS 27).

We recognize that one implication of this is that the impairment model used in the separate financial statements will not be the same as the impairment model used in the consolidated financial statements. However, we do not believe that this need be a concern because the purpose of the two sets of financial statements is different.

- B We agree with the ED's proposal to clarify that the investor shall apply the provisions of IAS 39...to determine the impairment of its investments in subsidiaries, jointly controlled entities and associates for impairment in its separate financial statements.

However, IFRS 9 eliminates the provisions of IAS 39 about measurement at cost of (paragraph 46(c)) and impairment on (paragraph 58 and 66) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. We note that as a result of the elimination of these provisions the ED's proposal will be inconsistent with IAS 39 as amended by IFRS 9 and therefore the proposal need to be modified, accordingly.

- C We support the proposed amendment, which will clarify that IAS 39 (rather than IAS 36) should be used for impairment tests of investments in subsidiaries, jointly controlled entities and associates in separate financial statements. We believe that IAS 39 provides more specific guidance than IAS 36 on impairment testing of equity investments... We note however that, in an investor's normal (i.e. not separate) financial statements, investments in associates (and equity accounted jointly

⁹ We report in this appendix the comments provided at the January 2010 Interpretations Committee meeting (<http://www.ifrs.org/Meetings/Documents/IFRICJan10/1001ap6obsAIPIAS27ImpairmentinSFS.pdf>).

controlled entities) are assessed for impairment based on IAS 39's guidance but tested in accordance with IAS 36 (IAS 28 paragraphs 31 to 34). We question whether it is appropriate and necessary to require different bases for impairment assessment and testing for the same investment in the investor's consolidated and separate financial statements.

- D While we agree with the proposal to require application of IAS 39 for the impairment testing of investments in subsidiaries, associates and joint ventures carried at cost, we believe that the wording in the current standards is clear in that IAS 36 should be applied. Paragraph 4 of IAS 36 requires IAS 36 to be applied for impairment testing of these investments. Therefore, we do not support the proposal on the basis that it clarifies the current requirements, but rather on the basis that these investments are financial instruments by nature, and therefore IAS 39 is more appropriate.

C2 Respondents against the proposed amendment (and therefore in favour of the use of IAS 36 impairment model) had comments that include:

- A We disagree with the proposed amendment that impairment testing of investments in subsidiaries, jointly controlled entities and associates accounted for at cost in separate financial statements should be performed in accordance with the provisions of IAS 39...as such investments do not have similar characteristics as other type of investments. Instead, we agree with the first view in the Basis for Conclusion that such investments should be accounted for in accordance with the provisions of IAS 36....
- B We strongly disagree with the Board's proposal to apply IAS 39 for impairment testing for all investments in subsidiaries, jointly controlled entities and associates. We believe the appropriate Standard to be applied for impairment testing of subsidiaries; jointly controlled entities and associates in the separate financial statements of the investor should be driven by their measurement. In other words, IAS 36 Impairment of Assets applies to those investments that are measured at cost (in accordance with IAS 27), whereas IAS 39 applies to those investments that are measured in accordance with IAS 39. Many investments in subsidiaries are currently measured using a value in use model (as permitted by IAS 36). We therefore recommend that the Board amends the scope of IAS 36 to clarify that IAS 36 applies to investments in subsidiaries, jointly controlled entities and associates in the separate financial statements of the investor measured at cost.

Should the IASB proceed as proposed, amendment should be made to delete IAS 36 paragraph 4. IAS 36 paragraph 4 states: "This Standard applies to financial assets classified as subsidiaries, associates and joint ventures."

- C We disagree with the Board's proposal that the impairment assessment should be conducted in accordance with IAS 39. We believe that IAS 36 is more appropriate for the impairment assessment of these investments in the parents' separate financial statements, for the following reasons:
- An impairment assessment would already have been conducted in the consolidated financial statements in accordance with IAS 36. While the investments are presented as an investment, and performance of the investment is assessed in that capacity, the relationship between the parent and the subsidiary or the investee is not the same as any other investment, due to the control or significant influence that the parent has over the actions of the subsidiary/investee. The option to allow cost as a measurement method reflects this, therefore this cannot be ignored for the impairment test.
 - We also note an additional issue due to the replacement for IAS 39 (i.e., IFRS 9) which has eliminated the cost option (and therefore the impairment testing approach for assets at cost). Therefore, if the Board does require IFRS 9 / IAS 39 to apply, additional impairment requirements will need to be determined for these investments.
- D We do not agree with the proposed amendment as we consider it is inconsistent with the new IFRS 9 Financial Instruments. We understand that under IFRS 9, all equity investments are carried at fair value and there will be no concept of impairment of the equity instruments as there will be no recycling from other comprehensive income to profit or loss. We are concerned that the proposed amendment may introduce a special measurement category for some equity instruments.