

STAFF PAPER

IFRS Interpretations Committee
Meeting

January 2013

Project

IAS 28 *Investments in Associates*—Impairment of investments in associates in separate financial statementsCONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in *IFRIC Update*. The approval of a final Interpretation by the Board is reported in *IASB Update*.

Introduction

1. In the July 2012 meeting, the IFRS Interpretations Committee (the Interpretations Committee) received an update on the issues that have been referred to the IASB and that have not yet been addressed. The Interpretations Committee asked the staff to update the analysis and perform further outreach on an issue regarding the impairment of investments in associates in separate financial statements.
2. More specifically, the issue is whether, in its separate financial statements, an 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.
3. The Interpretations Committee discussed the issue in its September¹ meeting.
4. In the September meeting, the Interpretations Committee tentatively decided not to add this issue to its agenda, because the existing IFRS requirements provide sufficient guidance. According to paragraphs 4 and 5 of IAS 36 and paragraph 2(a) of IAS 39, investments in subsidiaries, joint ventures, and associates accounted for at cost are within the scope of IAS 36, while investments in

¹ See Agenda Papers 12 <http://www.ifrs.org/Meetings/Pages/IFRSInterSept12.aspx>

subsidiaries, joint ventures, and associates accounted for in accordance with IAS 39 are within the scope of that Standard. Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test its investments in subsidiaries, joint ventures, and associates that are carried at cost for impairment.

5. We received two comment letters on the tentative agenda decision. We analyse the comment letters in the following paragraphs.

Comment analysis

6. Both of the respondents agree with the decision not to add this issue to the Interpretations Committee's agenda and with the conclusion that investments in subsidiaries, joint ventures and associates accounted for at cost in accordance with paragraph 10² of IAS 27 *Separate Financial Statements* are subject to the requirements of IAS 36.

7. However, one of the respondents³ noted that an investment in a subsidiary, joint venture or associated accounted for in accordance with IAS 39 can be measured at cost in an entity's separate financial statements. Indeed, paragraph 46(c) of IAS 39 states that:

46 After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets:

...

- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

8. Consequently, the respondent suggests that the tentative agenda decision should be amended as follows (new text is underlined):

² Or in accordance with paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* (2008).

³ Deloitte

Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment its investments in subsidiaries, joint ventures, and associates that are carried at cost in accordance with IAS 27 (2011) paragraph 10 or IAS 27 (2008) paragraph 38(a).

9. We agree with the proposed clarification.

Staff recommendation

10. Having considered the comment received on the tentative agenda decision, we recommend that the Interpretations Committee should finalise its decision not to add this issue to its agenda. However, on the basis of the comment analysis above, we propose changes to the wording of the tentative agenda decision as illustrated in Appendix A to this paper.

Questions for the Interpretations Committee

1. Does the Interpretations Committee agree with the staff's recommendation that the Interpretations Committee should finalise its decision not to add this issue to its agenda?
2. Does the Interpretations Committee have any comments on the proposed wording in Appendix A for the final agenda decision?

Appendix A—Proposed wording for final agenda decision

A1 The proposed wording for the final agenda decision is presented below (new text is underlined and deleted text is struck through):

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

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

The Interpretations Committee noted that according to paragraph 38 of IAS 27 *Consolidated and Separate Financial Statements* an entity, in its separate financial statements, shall account for investments in subsidiaries, joint ventures and associates either at cost or in accordance with IAS 39.

The Interpretations Committee also noted that according to paragraphs 4 and 5 of IAS 36 and paragraph 2(a) of IAS 39 investments in subsidiaries, joint ventures, and associates accounted for at cost are within the scope of IAS 36, while investments in subsidiaries, joint ventures, and associates accounted for in accordance with IAS 39 are within the scope of that Standard. Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment its investments in subsidiaries, joint ventures, and associates that are carried at cost in accordance with paragraph 38(a) of IAS 27 (2008) or paragraph 10(a) of IAS 27 *Separate Financial Statements* (2011).

The Interpretations Committee concluded that in the light of the existing IFRS requirements an interpretation or an amendment to IFRSs was not necessary and consequently {decided} not to add this issue to its agenda.

October 23, 2012

(via email to ifric@ifrs.org)

IFRS Interpretations Committee
30 Cannon Street, 1st Floor
London EC4M 6XH
United Kingdom

Dear Sirs:

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

This letter is the response of the staff of the Canadian Accounting Standards Board (AcSB) to the IFRS Interpretations Committee's tentative agenda decision on the impairment of investments in associates in separate financial statements published in the September 2012 IFRIC Update.

The views expressed in this letter take into account comments from individual members of the AcSB staff but do not necessarily represent a common view of the AcSB or its staff. Views of the AcSB are developed only through due process.

We agree with the Committee's decision not to add this item to its agenda for the reasons provided in the tentative agenda decision.

If you require further information, please contact me at +1 416 204-3276 (email peter.martin@cica.ca) or Mark Walsh, Principal, Accounting Standards at +1 416 204-3453 (email mark.walsh@cica.ca).

Yours truly,



Peter Martin, CA
Director, Accounting Standards

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
EC4M 6XH

Email: ifric@ifrs.org

28 November 2012

Dear Mr Upton,

Tentative agenda decision: IAS 28 Investment in Associates – Impairment of investments in associates in separate financial statements

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretation Committee's publication in the September 2012 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for interpretation of whether, in its separate financial statements, an entity should apply the provisions of IAS 36 *Impairment of Assets* or IAS 39 *Financial Instruments: Recognition and Measurement* to test for impairment its investments in subsidiaries, joint ventures and associates carried at cost.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda and with the conclusion that investments in subsidiaries, joint ventures and associates accounted for at cost in an entity's separate financial statements in accordance with an accounting policy adopted under paragraph 38 of IAS 27(2008) or paragraph 10 of IAS 27(2011) are subject to the requirements of IAS 36 (although this conclusion differs from the Committee's previous conclusion noted in the July 2009 *IFRIC Update*).

However, it is possible for an investment in a subsidiary, joint venture or associate accounted for under IAS 39 (although not under IFRS 9) to be measured at cost in an entity's separate financial statements in accordance with the requirements of paragraph 46(c) of that standard. Paragraph 66 clearly requires that such an investment is tested for impairment under the requirements of IAS 39.

We believe that the agenda decision should be amended to acknowledge this possibility by stating:

“Consequently, in its separate financial statements, an entity should apply the provisions of IAS 36 to test for impairment its investments in subsidiaries, joint ventures and associates that are carried at cost in accordance with IAS 27(2011) paragraph 10 or IAS 27(2008) paragraph 38(a)”.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0)20 7007 0884.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'V. Poole', written in a cursive style.

Veronica Poole
Global IFRS Leader
Technical