IFRS

STAFF PAPER

January 2019

IFRS® Interpretations Committee meeting

Project	**Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27)**
Paper topic	Agenda decision to finalise

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Introduction

1. At its September 2018 meeting, the IFRS Interpretations Committee (Committee) discussed a submission about how an entity applies the requirements in IAS 27 *Separate Financial Statements* to a fact pattern involving an investment in a subsidiary. In the fact pattern described in the submission, the entity preparing separate financial statements:

   (a) elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.

   (b) holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest).

   (c) subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee—ie the investee becomes a subsidiary of the entity.

2. The submitter asked:

   (a) whether the entity determines the cost of its investment in the subsidiary as the sum of:

      (i) the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or

      (ii) the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).

   (b) how the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

3. For Question A, the Committee concluded that a reasonable reading of the requirements in IFRS Standards could result in the application of either the fair value as deemed cost approach or the accumulated cost approach. The Committee considered whether, but tentatively decided not, to undertake standard-setting to address Question A. Nonetheless, Committee members expressed their preference for the fair value as deemed cost approach because, in their view, the accumulated cost approach might not provide useful information to users of financial statements.

4. For Question B, the Committee concluded that:

   (a) an entity recognises any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration in profit or loss; and

   (b) the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

5. Consequently, the Committee tentatively decided not to add these matters to its standard-setting agenda and in September 2018, the Committee published a tentative agenda decision.

6. The purpose of this paper is to:

   (a) analyse the comments on the tentative agenda decision; and

   (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.

7. This paper has two appendices:

   (a) Appendix A—proposed wording of the agenda decision; and

   (b) Appendix B—comment letters.

Feedback summary and staff analysis

8. We received nine comment letters, reproduced in Appendix B to this paper.

9. Most respondents agree with the Committee's rationale and conclusion on Question A. However, KPMG and the Global Financial Reporting Collective (GFRC) disagree. In addition, respondents have mixed views on the Committee's decision not to undertake standard-setting to address Question A.

10. Regarding Question B, Deloitte and Petrobras agree with the Committee's decision not to add the matter to its agenda for the reasons set out in the tentative agenda decision. However, the ASBJ and Mazars express concerns about the Committee's conclusion on this question.

11. Some respondents also comment on other aspects of the tentative agenda decision. Respondents' comments, together with our analysis, are presented below.

Accumulated cost approach

Similar and related issues

Summary of feedback

12. KPMG and the GFRC disagree with the Committee's conclusion on Question A. In particular, those respondents think IFRS Standards do not permit the use of the accumulated cost approach—in their view, an entity must apply the fair value as deemed cost approach.

13. KPMG says, in the fact pattern described in the submission, an entity applies paragraphs 10-11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in developing and applying an accounting policy for the cost of its investment. Paragraph 11 of IAS 8 requires an entity to first consider requirements in IFRS Standards dealing with similar and related issues. KPMG says the requirements in some IFRS Standards (paragraph 42 of IFRS 3 *Business Combinations*[1], paragraph 11B of IAS 27[2] and paragraph 60 of IAS 40 *Investment Property*[3]) deal with similar and related issues, and support the application of the fair value as deemed cost approach. Similarly, the GFRC says paragraph 60 of IAS 40 provides a strong analogy to consider when applying the requirements in IAS 8.

Staff analysis and conclusion

14. We continue to agree with the Committee's conclusion that a reasonable reading of the requirements in IFRS Standards could result in the application of either the fair value as deemed cost approach or the accumulated cost approach. We think it would be necessary to amend IFRS Standards to prohibit the use of the accumulated cost approach.

15. Consistent with our analysis in paragraphs 23–56 of Agenda Paper 6B for the Committee's September 2018 meeting (September agenda paper), we agree that an

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[1] Paragraph 42 of IFRS 3 specifies requirements for business combinations achieved in stages and states: 'In a business combination achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate...'

[2] Paragraph 11B of IAS 27 specifies requirements applying to an investment in a subsidiary when an entity ceases to be, or becomes an investment entity. It states: 'When a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred, as follows:

(a) when an entity ceases to be an investment entity, the entity shall account for an investment in a subsidiary in accordance with paragraph 10. The date of the change of status shall be the deemed acquisition date. The fair value of the subsidiary at the deemed acquisition date shall represent the transferred deemed consideration when accounting for the investment in accordance with paragraph 10.

(b) when an entity becomes an investment entity, it shall account for an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9. The difference between the previous carrying amount of the subsidiary and its fair value at the date of the change of status of the investor shall be recognised as a gain or loss in profit or loss…'

[3] Paragraph 60 of IAS 40 specifies requirements for a transfer from investment property to property, plant and equipment or inventory. This paragraph states: 'For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16, IFRS 16 [*Leases*] or IAS 2 [*Inventories*] shall be its fair value at the date of change in use.'

entity would apply the requirements in paragraphs 10–11 of IAS 8 in developing and applying an accounting policy for the cost of its investment in the subsidiary. Paragraphs 33–39 of that staff paper discuss the accounting for the transactions that KPMG identifies as similar and related. As explained in paragraphs 47–55 of the September agenda paper, we continue to think that:

(a) the definition of cost in paragraphs 6 of IAS 16 *Property Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40—ie the 'amount of cash or cash equivalents paid or the fair value of the consideration given up…'—could also be considered as dealing with similar and related issues, and could support applying the accumulated cost approach.

(b) the requirements for similar and related transactions that KPMG references (see paragraph 13 of this paper) specify that fair value is used as the *deemed* cost of, or *deemed* consideration for, the related transaction. Appendix A to IFRS 1 *First-time Adoption of International Financial Reporting Standards* defines deemed cost as 'an amount used as a surrogate for cost…'.

16. Accordingly, although the fair value as deemed cost approach is *one* possible approach to developing and applying an accounting policy for the cost of the investment in a step-acquisition transaction, we think it is not the *only* approach.

17. Based on our analysis, we continue to agree with the Committee's conclusion on this matter in September 2018 and recommend no change to the tentative agenda decision in this respect.

Implications of applying the accumulated cost approach

Summary of feedback

Reversal of previous accounting treatment

18. The ASBJ, KPMG, Mazars and the GFRC raise concerns about the Committee's conclusion on Question B (see paragraph 4(a) of this paper). These respondents say applying the accumulated cost approach results in an entity in effect reversing the accounting it applied to the initial interest before the step-acquisition transaction.

19. KPMG says IFRS Standards do not generally permit an entity to reverse its previous accounting, except when correcting a prior-period error or changing an accounting policy. Because the fact pattern described in the submission is not the correction of an error or a change in accounting policy, KPMG sees no basis to apply the accumulated cost approach.

20. The ASBJ notes that the Committee's conclusion results from a view that any adjustment reflects a change in the measurement basis of the initial interest and, therefore, meets the definitions of income or expenses. However, the ASBJ says an alternative view is that an entity simply reverses the accounting previously applied to the initial interest. Mazars and the ASBJ say, applying this alternative view, an entity should recognise any 'reversal' in other comprehensive income (OCI) if it had previously elected to present changes in fair value of the initial interest in OCI.

Usefulness of information

21. The ASBJ, KPMG and Mazars question whether the accumulated cost approach results in financial information that is useful.

22. In particular, they say:

    (a) the resulting information is irrelevant and potentially misleading. An entity would recognise income or expenses in profit or loss when no 'performance' has occurred on the date of the step acquisition transaction. In their view, this fails to fairly present the economics of the step acquisition transaction and the performance of the entity. Mazars suggests that the Committee consider the relevance of the accounting consequences of its conclusion before finalising the agenda decision.

    (b) if the Committee continues to hold the view that any adjustment meets the definition of income or expenses, the Committee should clarify 'what kind of economic substance this accounting treatment and the resulting financial statements purport to represent' (ASBJ).

(c) the accumulated cost approach does not result in fair presentation as described in paragraph 15 of IAS 1 *Presentation of Financial Statements*[4] (KPMG).

Staff analysis and conclusion

Reversal of previous accounting treatment

23. We think the accumulated cost approach does not result in an entity 'reversing' the accounting it applied to the initial interest before the step acquisition transaction. This is because:

    (a) in applying the accumulated cost approach, the entity 'resets' the value of the initial interest from fair value to its original consideration. We agree that any resulting adjustment would be the same as the cumulative fair value changes previously recognised on the initial interest. However, that adjustment results from a change in measurement basis and not from a reversal of the accounting that was previously applied to the initial interest.

    (b) applying the Committee's conclusions, an entity recognises any adjustment as income or expenses in profit or loss—this is regardless of whether it had presented previous fair value changes in profit or loss or OCI. If an entity were to reverse the accounting previously applied to the initial interest, it would recognise the adjustment in a manner consistent with how it had recognised fair value changes before the step acquisition transaction. For example, it would recognise any adjustment in OCI if it had previously elected to present changes in fair value in OCI. However, consistent with our analysis in paragraphs 57–68 of the September agenda paper, we see no basis for recognising the adjustment in OCI.

24. Based on our analysis, we recommend no changes to the tentative agenda decision in this respect.

[4] Paragraph 15 of IAS 1 states: 'Financial statements shall present fairly the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Framework. The application of IFRSs, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation'.

Usefulness of information

25. As discussed in the next section, a number of Committee members expressed a preference for the fair value as deemed cost approach because the accumulated cost approach might not provide useful information.

26. Nonetheless, at its meeting in September 2018, the Committee agreed with our analysis that, applying the accumulated cost approach, any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration (a) meets the definitions of income or expenses and (b) is recognised in profit or loss. We think that an entity cannot ignore particular requirements in IFRS Standards simply because they might not be viewed by some as providing useful information in particular situations.

27. In addition, we note that in the fact pattern described in the submission, an entity can avoid the accounting that results from applying the accumulated cost approach by applying the fair value as deemed cost approach.

28. Based on our analysis, we recommend no changes to the tentative agenda decision in this respect.

Preference for the fair value as deemed cost approach

Summary of feedback

29. The tentative agenda decision states (emphasis added):

> On balance, the Committee [decided] not to undertake standard-setting to address Question A. *Nonetheless, Committee members expressed their preference for the fair value as deemed cost approach. This is because, in their view, the accumulated cost approach would not provide useful information to users of financial statements. Committee members' views will be reported to the Board at a future Board meeting*.

30. Deloitte, the GFRC and Mazars agree with the Committee's preference for the fair value as deemed cost approach. Nonetheless, the GFRC asks whether the Committee intends to outline a principle that would also apply to other fact patterns (such as

when an entity previously applied the equity method in accounting for the initial interest), or instead whether its preference for the fair value as deemed cost approach is linked to initial measurement at fair value.

31. In contrast, the OIC is concerned about stating Committee members' preference. The OIC says the statement could (a) create confusion, and (b) contradict the Committee's conclusion that a reasonable reading of the requirements in IFRS Standards could result in the application of either the fair value as deemed cost approach or the accumulated cost approach. Accordingly, the OIC suggests that the agenda decision not include this statement.

Staff analysis and conclusion

32. When the Committee decides not to add a matter to its standard-setting agenda but to report it to the Board, IFRIC® Update generally includes the matter in a separate paragraph that supplements, but does not form part of, the agenda decision itself. In the case of Question A, the Committee decided to include its preferred view in the tentative agenda decision simply as a means of obtaining feedback on that view. Based on its discussion in September, we understood that the Committee did not intend to include this in any final agenda decision. Therefore, its preferred view was not intended to override the technical conclusions it reached for Question A (ie a reasonable reading of the requirements in IFRS Standards could result in an entity applying either the fair value as deemed cost approach or the accumulated cost approach), nor to outline a principle that would apply more broadly to other step acquisition transactions.

33. Based on our analysis and consistent with the Committee's intentions, we recommend removing the reference to the Committee's preferred view from the agenda decision. Nonetheless, to the extent Committee members continue to hold this view, we will report it to the Board at a public meeting and will include it in a separate paragraph in the January 2019 IFRIC® Update—that paragraph would supplement, but not form part of, the agenda decision.

Standard-setting

Summary of feedback

34. Deloitte says the tentative agenda decision is sufficient to address the matters described in the submission and, accordingly, agrees with the Committee's decision not to undertake standard-setting. Mazars understands the Committee's rationale for not undertaking standard-setting but regrets the decision because this would have avoided the matter in Question B.

35. The MASB agrees with the Committee's conclusions on Questions A and B but suggests making a narrow-scope amendment to IAS 27 for clarity.

36. The OIC disagrees with the Committee's decision not to undertake standard-setting. The OIC says the submission raises a broader question about the meaning of 'cost' in separate financial statements and suggests adding a project on this broader matter.

Staff analysis and conclusion

37. As explained in the tentative agenda decision, the Committee considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages—ie the matter described in Question A. The Committee observed that (a) it did not have evidence to assess whether the application of the two acceptable approaches to determining cost would have a material effect on those affected, and (b) the matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 *Investments in Associates and Joint Ventures* to initially measure an investment in an associate or joint venture at cost. The Committee had not obtained information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the Equity Method.

38. We continue to agree with the Committee's tentative decision on this matter for the reasons outlined in the tentative agenda decision. Our analysis of this matter was included in paragraphs 69–82 of the September agenda paper. Respondents have not provided any new information beyond that considered by the Committee at its September 2018 meeting. Accordingly, we recommend not undertaking standard-setting to address the matter at this time.

Other comments

Summary of feedback and staff analysis

39. Some respondents made other comments on the tentative agenda decision. The following table summarises these comments, along with our analysis and recommendations:

Respondent comments	Staff analysis
(a) KPMG disagrees with the Committee’s conclusion that an entity can apply the accumulated cost approach. However, KPMG says that if the Committee were to confirm that an entity could apply the accumulated cost approach, it would agree with the Committee’s conclusion on Question B. KPMG suggests including a reference only to paragraph 88 of IAS 1 when explaining the rationale for the Committee’s conclusion.	We agree with KPMG that a reference only to the requirements in paragraph 88 of IAS 1 would simplify the wording of the agenda decision. Appendix A to this paper includes our suggested changes to the tentative agenda decision in this respect.
(b) The OIC says it is unclear how an entity applies the fair value as deemed cost approach to other step acquisition transactions in separate financial statements (such as when an entity previously applied the equity method in accounting for the initial interest). The OIC says the fair value as deemed cost approach may be inappropriate in some cases.	We think these comments are beyond the scope of the matters raised in the submission. Accordingly, we recommend no change to the tentative agenda decision in this respect.
(c) One respondent (L Dias) suggests the Committee extend its analysis to also consider circumstances in which an entity prepares consolidated financial statements.	

Staff recommendation

40. Based on our analysis, we recommend finalising the agenda decision as published in IFRIC® Update in September 2018, subject to the changes noted in paragraphs 33 and 39(a) of this paper and some editorial changes. Appendix A to this paper sets out the proposed wording of the final agenda decision.

Question for the Committee
Does the Committee agree with the staff recommendation to finalise the agenda decision set out in Appendix A to this paper?

Appendix A—Proposed wording of the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through).

Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.

- holds an initial investment in another entity (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS *32 Financial Instruments: Presentation*. The investee is not an associate, joint venture or subsidiary of the entity and, accordingly, the entity applies IFRS 9 *Financial Instruments* in accounting for its initial investment (initial interest).

- subsequently acquires an additional interest in the investee (additional interest), which results in the entity obtaining control of the investee—ie the investee becomes a subsidiary of the entity.

The request asked:

(a) whether the entity determines the cost of its investment in the subsidiary as the sum of:

(i) the fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or

(ii) the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) (Question A).

(b) how the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach (Question B).

Question A

IAS 27 does not define 'cost', nor does it explicitly specify how an entity determines the cost of an investment acquired in stages. The Committee noted that cost is defined in other IFRS Standards (for example, paragraph 6 of IAS 16 *Property Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40 *Investment Property*). The Committee observed that the two approaches outlined in the request arise from different views of whether the step acquisition transaction involves (a) the entity exchanging its initial interest (plus consideration paid for the additional interest) for a controlling interest in the investee, or (b) purchasing the additional interest while retaining the initial interest.

Based on its analysis, the Committee concluded that a reasonable reading of the requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach).

The Committee observed that an entity would apply its reading of the requirements consistently to all step acquisition transactions. An entity would also disclose the selected approach applying paragraphs 117–124 of IAS 1 *Presentation of Financial Statements* if that disclosure would assist users of financial statements in understanding how step acquisition transactions are reflected in reporting financial performance and financial position.

Question B

~~IFRS Standards do not explicitly specify how an entity applying the accumulated cost approach accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration. In these circumstances, an entity applies the requirements in paragraphs 10-11 of IAS 8~~ ~~*Accounting Policies, Changes in Accounting Estimates and Errors*~~ ~~in developing and applying an accounting policy. The Committee observed that such a~~ Any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. ~~Applying paragraph 88 of IAS 1,~~ Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1, the entity recognises this difference ~~as income or expense~~ in profit or loss~~,~~ regardless of whether, before obtaining control, the entity had presented subsequent changes in fair value of the initial interest in profit or loss or other comprehensive income ~~(OCI)~~.

For Question A, the Committee considered whether to develop a narrow-scope amendment to address how an entity determines the cost of an investment acquired in stages. The Committee observed that:

(a) it did not have evidence to assess whether the application of the two acceptable approaches to determining cost, outlined in this ~~[tentative]~~ agenda decision, would have a material effect on those affected.

(b) the matter could not be resolved without also considering the requirements in paragraph 10 of IAS 28 to initially measure an investment in an associate or joint venture at cost. The Committee ~~has~~ did not obtain~~ed~~ information to suggest that the Board should reconsider this aspect of IAS 28 at this stage, rather than as part of its wider consideration of IAS 28 within its research project on the Equity Method.

On balance, the Committee ~~[~~decided~~]~~ not to undertake standard-setting to address Question A. ~~Nonetheless, Committee members expressed their preference for the fair value as deemed cost approach. This is because, in their view, the accumulated cost approach would not provide useful information to users of financial statements. Committee members' views will be reported to the Board at a future Board meeting~~.

For Question B, the Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine its accounting.

Consequently, the Committee ~~[~~decided~~]~~ not to add these matters to its standard-setting agenda.

Appendix B—Comment letters

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21 November 2018

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Dear Ms Lloyd

Tentative agenda decision – IAS 27 *Separate Financial Statements*: Investment in a subsidiary accounted for at cost – Step acquisition

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the accounting for a step acquisition of a subsidiary measured at cost in separate financial statements.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision and with Committee members' preference for the 'deemed cost' approach to such transactions. We also believe that an agenda decision from the Committee would provide sufficient guidance to address this issue and, therefore, that standard-setting activity is not necessary at this time.

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

Yours sincerely

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Our ref RD/288

21 November 2018

Dear Ms Lloyd

Tentative agenda decision: Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements)

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements)* (IFRIC Update September 2018). We have consulted with, and this letter represents the views of, the KPMG network.

Question A

We agree with the inclusion of prior fair value to determine cost. Further, we believe this is the only approach permitted by the IFRS literature.

We do not support the alternative that is cited as the 'accumulated cost approach'. In following the hierarchy of requirements in paragraph 11 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*[1] there is no basis to look further than other IFRSs, and therefore we consider such an approach, even if it were consistent with the conceptual framework, to be inconsistent with IAS 8.

In determining an accounting policy, paragraph 11 of IAS 8 requires consideration of other sources in **descending order**, the first of which is IFRSs dealing with similar issues. We note that there are IFRSs that deal with similar issues that roll-over fair value carrying value as cost[2]. Therefore, under paragraph 11(a) of IAS 8 a policy analogy is available to determine the treatment. Paragraph 11 requires one to stop with this step in the hierarchy and select and apply accounting policies based on those similar IFRSs. Due to the

[1] IAS 8.11 states that in making the judgement described in paragraph 10, management shall refer to, and consider the applicability of, the following sources in descending order: (a) the requirements in IFRSs dealing with similar and related issues, and (b) the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses in the Framework.

[2] Paragraphs 33-39 of the staff paper discuss similar IFRSs: (1) IFRS 3 for business combinations achieved in stages; (2) IAS 27 for accounting for an investment in a subsidiary when it ceases to be an investment entity; and (3) IAS 40 and the transfer of investment property to owner-occupied or inventories.

descending order rule, there is no basis to apply paragraph 11(b). Therefore, the 'accumulated cost' approach, even if paragraph 11(b) were to lead to it, should be precluded.

Further, there are limited instances in IFRS that permit the reversal of previous accounting. These instances are limited to the:

— rectification of an error in accordance with paragraph 42 of IAS 8; and
— retrospective application of a voluntary change in accounting policy in accordance with paragraph 19 of IAS 8[3].

However, these are not comparable cases: this is not an error, nor a voluntary change in accounting policy. Further, an error correction is not through profit or loss, yet the 'accumulated cost' approach cited in the paper results in the reversal of previous accounting reflected in the current period. In doing so it represents the entity as having sustained a loss (taking the example of reversal of a previous gain) when there has been no transaction or event that has actually occasioned an economic loss for the entity.

We therefore believe that allowing an entity to reverse previous period accounting will encourage rather than reduce diversity and compromise the application of paragraph 11 of IAS 8. Further, we do not understand how that method can be considered consistent with paragraph 15 of IAS 1 and the paramount requirement for fair presentation.

Question B

We do not believe that Question B is applicable, given our response to Question A. However, were the committee to persist that the 'accumulated cost' approach cannot be precluded, we believe the tentative agenda decision would need to be clarified.

While we agree with the Committee's conclusion, in that circumstance, that the difference should be recognised in profit or loss, we believe that the agenda decision should refer solely to the requirements of paragraph 88 of IAS 1.

We would be happy to discuss our comments in more detail.

Please contact Mike Metcalf at +44 (0) 20 7694 8871 if you wish to discuss any of the issues raised.

Yours sincerely

KPMG IFRG Limited

KPMG IFRG Limited

[3] There is also the case under paragraph 28 of IFRS 5 of a non-current asset ceasing to be classified as held for sale. However, this is not a reversal but a catch-up adjustment.

MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

21 November 2018

Ms. Sue Lloyd
Chair
IFRS Interpretations Committee (Committee)
Columbus Building
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United Kingdom

Dear Ms. Lloyd

Tentative Agenda Decision - Investments in a subsidiary accounted for at cost: Step acquisition (IAS 27 *Separate Financial Statements*)

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the above Tentative Agenda Decision.

We agree with the Committee's conclusion for both Questions A and B. However, for clarity purpose we recommend that a narrow-scope amendment to be made to IAS 27 to ensure consistent application of the Standard.

In addition, we believe the amendment, if any, should address what the reversal of the fair value gain or loss represents if the accumulated cost approach is permitted, notwithstanding the Committee has acknowledged in the Tentative Agenda Decision that it would not provide useful information to users of financial statements.

If you need further clarification, please contact the undersigned by email at beeleng@masb.org.my or at +603 2273 3100.

Thank you.

Yours sincerely,

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Executive Director

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21 November 2018

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Comments on the Tentative Agenda Decision Relating to IAS 27 *Separate Financial Statements* —Investment in a Subsidiary Accounted for at Cost: Step Acquisition

1. The Accounting Standards Board of Japan (the "ASBJ" or "we") welcome the opportunity to comment on the IFRS Interpretation Committee (the "Committee")'s tentative agenda decision relating to IAS 27 *Separate Financial Statements* — Investment in a subsidiary accounted for at cost: Step acquisition, proposed in the September 2018 IFRIC Update.

2. On Question A (How does an entity determine the cost of an investment acquired in stages?), we agree with the view in the Committee's tentative agenda decision that either of the two approaches to determine the cost of an investment (ie the fair value as deemed cost approach or the accumulated cost approach) is acceptable.

3. However, on Question B (the accounting process for any difference between the fair value of the initial interest and its original cost applying accumulated cost approach), we think the conclusion may change depending on how one views the difference at the date control is obtained.

4. If this difference is viewed as one arising from the change in the measurement basis, as analysed by the IASB staff, we understand that the consequence would be to present such difference in profit or loss. However, we are doubtful whether this conclusion results in financial reporting that is useful when the entity elected the OCI option for the initial interest. In other words, we are not entirely comfortable with

the treatment where the changes in fair value until control is obtained would be recognised in OCI, but the difference that arises at the date control is obtained would be recognised in profit or loss (see table below). In this regard, we believe that a reasonable explanation is needed to clarify what kind of economic substance this accounting treatment and the resulting financial statements purport to represent.

At initial recognition	Financial asset	100		
			Cash	100
At subsequently measurement	Financial asset	20		
			OCI[1]	20
At the date control is obtained[2]	Profit or loss	20		
	Interests in subsidiary	100		
			Financial asset	120

5. If we take the view that adopting the concept of cost accumulation on Question A is based on the view that the entire investment should not be measured at fair value, we think the accounting treatment at the date control is obtained could be viewed as "cancelling" the changes in fair value that had previously been recognised. Under this view, we think the accounting treatment may be different from that presented in paragraph 4 of this comment letter. For example, if the entity had recognised changes in fair value of the initial interest through OCI, we think it is possible to consider an accounting treatment that would remove the cumulative gain or loss that had previously been recognised in OCI from equity. .

6. We note that the resetting of the changes in fair value that had previously been recognised would be consistent with the analysis of the IASB staff in paragraph 54[3] of Agenda Paper 6B prepared for discussions at the IFRS-IC meeting on 11 September 2018.

7. We hope our comments are helpful for the Committee's and the IASB's consideration in the future. If you have any questions, please feel free to contact us.

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1 We ignore the impact of tax effect, for simplicity.
2 We ignore the descriptions of accounting for additional interests.
3 The paragraph 54 of Agenda Paper 6B stated as follows.
「The accumulated cost approach results in Entity X adjusting the measurement basis of the initial interest--ie the entity ‘resets’ the value of the initial interest from fair value to its original cost and in effect unwinds previously recognised fair value changes.」

Yours sincerely,

Yukio Ono
Chairman
Accounting Standards Board of Japan

Rio de Janeiro, Nov 21, 2018

CONTRIB 0062/2018

Ms Lloyd
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD, UK.

Subject: Tentative Agenda Decision and comment letters—Investments in a Subsidiary Accounted for at Cost : Step Acquisition

Reference: IAS 27- Separate Financial Statements

Dear Ms Lloyd,

Petróleo Brasileiro S.A. - Petrobras welcomes the opportunity to comment on the IFRS Interpretations Committee's tentative agenda decision - Investments in a subsidiary accounted for at cost: Step acquisition. We believe this is an important opportunity for all parties interested in the future of IFRS and we hope to contribute to the progress of the Board's activities.

We generally agree with the Interpretations Committee's conclusion and we support the decision not to add this item to its agenda

If you believe we can be of any assistance regarding this matter, do not hesitate to contact us (contrib@petrobras.com.br).

Respectfully,

/s/Rodrigo Araujo Alves

Rodrigo Araujo Alves

Chief Accounting and Tax Officer

Global Financial Reporting Collective
incorporating the Pacioli Initiative

globalfrcollective@gmail.com

17 November 2018

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD
United Kingdom

The Global Financial Reporting Collective is pleased to offer its comments on the Tentative Agenda Decision—Investments in a Subsidiary Accounted for at Cost - Step Acquisition.

We agree with the preference expressed by the Committee that the fair value would be the deemed cost. However, the principle, or logic, in the tentative Agenda Decision is less clear to us.

As we read the tentative Agenda Decision, it seems like the Committee is saying that fair value should (ie as it's preference) **always** be fair value when there is a step acquisition to get control. This would be consistent with IFRS 3 *Business Combinations* because the consideration in IFRS 3 is measured to include the fair value of the previously held interests. This would mean that the consideration in IFRS 3 is more closely aligned with the cost to the parent (except, of course, presumably the cost for the purposes of IAS 27 includes acquisition costs whereas the consideration in IFRS 3 excludes them).

As we read it, the Committee is also suggesting that its preferred approach is that if you have an associate and have been equity accounting it in the parent's separate financial statements the deemed cost would also be fair value if the parent got control and accounting for its investments in subsidiaries at cost.

If that is not your intention then you need to make that clear. Otherwise, when we use this Agenda Decision teach or advise from, this that seems to be the logical extension. We think that is the way you are viewing this issue because you say that if you had a narrow scope amendment you would also have to consider the initial measurement in IAS 28.

Another way of viewing the question that the Committee was asked is to clarify what you do when the measurement basis changes when you move from one Standard (or part of a Standard) to another. In this particular case an entity has been measuring its interest at fair value and will stop doing that. Should the value at the date it stops then become the deemed cost? In the case of the equity method, would that become the deemed cost?

There is guidance in IAS 40.60 that when an investment property is transferred to occupied property (IAS 16) the fair value at the date of transfer is the deemed cost. That requirement doesn't seem to say that the right initial measurement basis for IAS 16 is fair value. It simply says to us that you stop measuring in accordance with IAS 40 and that last measurement becomes the starting point for the new Standard.

Although the staff paper discussed at the September meeting refers to IAS 40.60, the paper seems to imply that this paragraph means that the fair value is a component of cost. The paper does not seem to address whether this is simply handing an item from one Standard (or part of a Standard) to another. One thing that is clear is that, for an investment property, going back to the original cost on transfer is not permitted. We think this provides a strong analogy that could easily be considered in following the IAS 8 hierarchy.

We cannot see any basis for supporting going back to the original cost and effectively undoing all of the accounting until that date. We would have preferred the Committee to say that such an approach is not appropriate. You would not have to answer the second question (ie the gain or loss) if you did stick with the principle of using the stopping measure from one Standard (or requirement) as the start measure in the new Standard (or requirement).

This seems to us to be a sensible principle. It could well be that the IASB would want to make an exception in a particular case. But that should be an exception and be expressed explicitly in the relevant Standard. As you can probably tell from our comments, those of us who teach or advise are unlikely to be advocating going back to the original cost.

To summarise, even if you finalise this Agenda Decision to say that either fair value or original cost is a "reasonable reading" we think it is unclear whether you prefer fair value because fair value is, in principle, a better starting point or because it happened to be the measure you had when you moved from one requirement to another. If it is the former, we have concerns.

Thank you for considering our comments.

Global
Financial
Reporting
Collective

Global Financial Reporting Collective

17 November 2018

Mrs Sue Lloyd

IFRS Interpretations Committee
Columbus Building,
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Paris, November 23, 2018

Tentative Agenda Decisions – IFRIC Update September 2018

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We note that the Tentative Agenda Decisions are sometimes based on a strict reading of existing IFRSs without considering the relevance of the financial information resulting from the decision. In our opinion, this is especially the case for the step acquisition issue (IAS 27, see Appendix 4) and the cash flow hedge relationship (IFRS 9 and IAS 39, see Appendix 6). We consider it key to question the relevance of the accounting consequences of an Agenda Decision before finalizing it, to avoid some counterintuitive accounting and to enhance at the same time the credibility of the work undertaken by the Interpretations Committee.

Should you have any questions regarding our comments on the various tentative agenda decisions, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin **Edouard Fossat**

Financial Reporting Advisory

Appendix 4

Investment in a subsidiary accounted for at cost: Step acquisition (IAS 27 Separate Financial Statements) — Agenda Paper 6B

While we agree with the technical analysis conducted by the Committee in the light of existing IFRSs to provide its answers to both questions A and B, we have concerns regarding the relevance of the accounting outcome of those conclusions.

Question A: whether the entity determines the cost of its investment in the subsidiary on the basis of accumulated cost or fair value as deemed cost

We agree with the Committee that both approaches are a reasonable reading of existing IFRSs applied to the fact pattern. We also share the Committee members' preference for the fair value as deemed cost approach, as it is consistent with:

- what is required for the accounting for step acquisitions in the consolidated financial statements in accordance with IFRS 3;
- the conclusion reached by the Committee on the partial disposal issue.

We understand the Committee's rationale for not undertaking standard setting, but we regret it as it would have permitted to delete question B, the conclusion of which appears rather controversial.

Question B: how the entity accounts for any difference between the fair value of the initial interest and its original cost if the entity applies the accumulated cost approach to question A

We understand the rationale for recognizing any difference between the fair value of the initial interest and its original cost based on IAS 1.88 that requires all items of income and expenses to be recognized in profit or loss unless an IFRS requires or permits otherwise.

We nevertheless question the relevance of this outcome in case the entity elects to retain consideration paid as cost of its interest in the subsidiary: coming back to initial cost is more a cancellation of previously recognized changes in fair value. If the investor elected, on initial recognition of the initial investment, to present changes in fair value in OCI, such cancellation should go through OCI as well.

BC 5.22-23 of IFRS 9 justify the option for presenting changes in fair value in OCI by noting that "*presenting fair value gains and losses in profit or loss for some equity investments may not be indicative of the performance of the entity, particularly if the entity holds those equity instruments for non-contractual benefits, rather than primarily for increases in the value of the investment. An example could be a requirement to hold such an investment if an entity sells its products in a particular country.*

The IASB also noted that, in their valuation of an entity, users of financial statements often differentiate between fair value changes arising from equity investments held for purposes other than generating investment returns and equity investments held for trading. Thus, the IASB believes that separate presentation in other comprehensive income of gains and losses for some investments could provide useful information to users of financial statements because it would allow them to identify easily, and value accordingly, the associated fair value changes."

Cancelling through P&L the previously recognized changes in fair value of FVOCI investments leads to:

1. not recognizing through P&L a performance before obtaining control on the basis that the changes in fair value of the investment may not be indicative of the actual performance of the entity, and
2. recognizing through P&L a performance that is the opposite of previous changes in fair value, while no performance at all (either positive or negative) occurred on the date of obtaining control.

We consider this outcome as irrelevant and misleading as it fails to fairly present the economics of the step acquisition transaction and the actual performance of the investor during the financial period in which the transaction occurs.

In addition, we note that this misstatement would not occur under IAS 39 with an Available For Sale initial investment: the derecognition of the AFS investment to replace it by an investment in a subsidiary would trigger for recycling the cumulative fair value changes in P&L, that would offset the P&L effect arising from the change of measurement basis.

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23 November 2018

Re: IFRS Interpretations Committee tentative agenda decisions published in the September 2018 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ("the Committee") tentative agenda decisions included in the September 2018 IFRIC Update.

Our comments refer to the following tentative agenda decisions:

- Assessment of promised goods or services (IFRS 15 – Revenue from Contracts with Customers);
- Liabilities in relation to a joint operator's interest in a joint operation (IFRS 11 – Joint Arrangements);
- Investment in a subsidiary accounted for at cost: step acquisition (IAS 27 - Separate Financial Statements);
- Deposits relating to taxes other than income tax (IAS 37 – Provisions, Contingent Liabilities and Contingent Assets);
- Load following swap (IFRS 9/IAS 39 Financial Instruments).

[...]

Investment in a subsidiary accounted for at cost: step acquisition

We acknowledge that the issue raised to the Committee relates to the cost of an investment in a subsidiary acquired in stages in the Separate Financial Statements (SFS). However, we think that the request highlights a broader issue of how defining cost in SFS. The Committee analysed the issue of the meaning of cost only in the specific transaction of steps acquisition. The definition of cost applies to many other circumstances. For example in the case of loosing control over a subsidiary in the case in which the residual investment (eg investment in associate) is still measured at cost in accordance with IAS 27.

Moreover, considering the agenda decision, it is not clear how to apply the *fair value as deemed cost approach* to some types of step acquisitions in SFS; for example, when the initial interest is an associate rather than an investment measured at fair value*.* It seems that the *fair value as deemed cost approach* would require to re-measure the initial interest at fair value. This may generate an unrealised gain in profit or loss, which in our view is inconsistent with the criteria of cost.

We are not convinced that in this case the approach applied in the consolidated financial statements, ie revaluing the residual investment at fair value, has still merits when the measurement model does not change, ie remains at cost. We think that this broader issue is fundamental for entities that apply IFRSs in SFS. We believe that entities that apply IFRSs in their SFS deserve clear requirements.

We suspect that clarifying the definition of cost of an investment in a subsidiary, joint venture or associate, cannot be done with an agenda decision, but requires a specific project. All the implications of different possible definitions should be careful evaluated before reaching a conclusion. Consequently, we disagree with the Committee's conclusion not to undertake standard-setting agenda this matter. We, as a national standard setter of a country, which applies IFRS to the separate financial statements, are pleased to directly contribute to a project on this topic.

Finally, we have a comment also on the wording of the tentative agenda decision. Indeed it is firstly said that:

"*the Committee concluded that a reasonable reading of requirements in IFRS Standards could result in the application of either one of the two approaches outlined in this agenda decision (ie fair value as deemed cost approach or accumulated cost approach)*"

and then that:

"*Committee members expressed their preference for the fair value as deemed cost approach. This is because, in their view, the accumulated cost approach would not provide useful information to users of financial statements*."

We think that this second statement may create confusion, contradicting the statement which specifies that different approaches can be applied. Therefore we suggest to delete this second statement, if the Committee decides to finalise this tentative agenda decision or even if the Committee agrees that a project to clarify the point is needed.

[...]

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,

Angelo Casò
(Chairman)

[1] Please see our comment letter on the January 2014 IFRS IC tentative agenda decision IAS 12 – *Threshold of recognition of an asset in the situation in which the tax position is uncertain*.

November 20, 2018

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EX 4M 6XH
United Kingdom

Submitted Online

Dear Mr. Hoogervorst,

Re: Tentative Agenda Decision and comment letters – Investments in a Subsidiary Accounted for at Cost: Step Acquisition

I appreciate the opportunity to provide my comments to the IFRS Interpretations Committee on the matter of measurement of the cost of an investment acquired through step acquisitions in an entity's separate financial statements. My comments are as follows:

General Comments:

I agree with the Committee's decision to address issues affecting the measurement of the cost of investment in a subsidiary. There are multiple references in the IFRS Handbook to business acquisitions and valuation of investments in a subsidiary. However, the varying nuances of these transactions impact multiple standards and are accordingly addressed within the limited frame of reference permitted by the standard or interpretation in focus. As a result of the pervasive nature of these business transactions, the discussion of its accounting implications is structured around specific standard-based content. This clarification will help in the consistent application of the standard.

Specific Comments:

Question 1
Whether the entity determines the cost of its investment in the subsidiary as the sum of: i) The fair value of the initial interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach); or ii) The consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach)

Response 1) The fact pattern under consideration in the request states that the entity had measured an investment in an equity instrument at cost and subsequently increased its investment securing control of the investee and recognizing it as a subsidiary.

The Committee should consider clarifying that the measurement approach for an investment in a subsidiary at the consolidated financial statement level would differ slightly, from the measurement approach for an investment in a subsidiary at the acquirer entity's separate financial statement level, from a reporting and disclosure perspective.

Fair Value as Deemed Cost Approach

The flow of events indicates a step-acquisition or a business combination achieved in steps. Under IFRS 3.41-42, *Business Combinations*, the standard states that when an acquirer obtains control of an acquiree, in which it held an equity interest immediately before the acquisition date, and subsequently purchases an additional interest in the investee giving it control of the investee, it is referred to as a step acquisition.

The standard goes on to state that in a business combination achieved in steps, the acquirer shall remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. If in prior periods, the acquirer had recognized changes in the value of its equity interest in the acquiree in other comprehensive income, the amount that was recognized in other comprehensive income should be recognized on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest.

For reporting purposes, the separate financial statements of the subsidiary entity would reflect financial assets and liabilities at their acquisition-date fair value, with the net increase or decrease recognized in its statement of income (loss). Under IAS 1.51, when the financial statements of an entity represent a group of entities, the financial statements are prepared on a consolidated basis. Financial statements prepared on a consolidated basis would result in the combination of acquisition-date fair values of assets and liabilities of the subsidiary with the assets and liabilities from the separate financial statements of the parent or acquirer. Upon consolidation, the total cost of investment on the acquirer's separate financial statements (i.e. original cost of first step investment + purchase consideration of second investment) is eliminated against the offsetting shareholders equity, representing total controlling interest acquired, in the subsidiary. The resulting consolidated financial statements would include the subsidiary entity's assets and liabilities at acquisition-date fair values along with the fair value gain or loss in the subsidiary company included in the consolidated statement of income (loss).

When preparing financial statements on a consolidated basis, the standard is clear on the practice to be followed in the measurement of the investment in the subsidiary. On a consolidated basis, this would require the investment in the subsidiary to be measured under the fair value as deemed cost approach. The investment in the subsidiary is represented by the subsidiary's assets and liabilities, which are consolidated with the parent entity's financial statements.

The term 'cost of investment' may be slightly confusing at the consolidated level of financial statements, with respect to investment in a subsidiary, as the subsidiary's assets and liabilities are measured at acquisition-date fair values. Additionally, the resulting gain or loss on the fair valuation of the net assets in the subsidiary's financial statements would be recognized on consolidation of the acquirer and the acquiree's financial statements.

If the acquirer recognizes, in its separate financial statements, the gain or loss on remeasuring to fair value its previously held equity interest in the acquiree, upon consolidation of the entity separate financial statements its investment in the subsidiary would be eliminated against the shareholders equity in the subsidiary's financial statements. This would cause the fair value gain or loss on the original investment to be eliminated and to not adequately comply with IFRS 3.41-42, which requires the recognition of the fair value gain or loss in the financial statements.

Accumulated Cost Approach
When preparing separate financial statements, the acquirer in its separate financial statements would have to record its next step acquisition in the acquiree at the consideration paid for the additional interest acquired. This would result in its cost of investment in the subsidiary being measured as the sum of the consideration paid for the initial interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach) as in (ii) above.

It is not clear how the acquirer entity in its separate financial statements would record the fair value of the initial investment in its subsidiary at a value above the original consideration paid, under the fair value as deemed cost approach, if these statements were subsequently consolidated as the total investment at fair value would be eliminated on consolidation. The increase in fair value of the initial purchase would only be reflected in the acquirer entity's consolidated financial statements as a result of the combination of both the acquirer's and the subsidiary's separate financial statements along with intercompany eliminations, as necessary.

Under IFRS 10.4, *Consolidated financial statements* when a parent entity is otherwise exempt from presenting consolidated financial statements, the acquirer entity should be able to record the fair value of the initial investment in its subsidiary and recognize the gain or loss in the statement of income (loss) of its separate financial statements.

The Committee may consider clarifying the approach to be followed, to measure the cost of investment in the subsidiary as it relates to IFRS 10, *Consolidated financial statements* and IAS 27, *Separate financial statements*, in order to remove any potentially inconsistent application of these cost approaches.

Question 2
How the entity accounts for any difference between the fair value of the initial interest at the date of obtaining control of the subsidiary and its original consideration when applying the accumulated cost approach?

Response 2) Under IFRS 27.10, *Separate financial statements*, the standard states that when an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either: at cost, or in accordance with IFRS 9, *Financial instruments*, or using the equity method as described in IAS 28, *Investments in associates and joint ventures*.

Under the fact pattern being considered, measuring the cost of investment in a subsidiary under the fair value as deemed cost approach would not necessarily comply with the above-noted standard, which specifies the measurement for cost of investment in subsidiaries to be at cost.

If the acquirer recognizes, in its separate financial statements, the gain or loss on remeasuring to fair value its previously held equity interest in the acquiree, its investment in the subsidiary would be eliminated against the shareholders equity in the subsidiary's financial statements upon consolidation of the entity separate financial statements. This would cause the fair value gain or loss on the original investment to be eliminated and to not adequately comply with IFRS 3.41-42, which requires the recognition of the fair value gain or loss in the financial statements.

Under IFRS 10.4, *Consolidated financial statements* when a parent entity is otherwise exempt from presenting consolidated financial statements, the acquirer entity should be able to record the fair value of the initial investment in its subsidiary and recognize the gain or loss in the statement of income (loss) of its separate financial statements.

The discussion paper notes that the difference between the fair value of the interest at the date of obtaining control of the subsidiary and its original consideration should be recognized in the statement of income (loss) in the acquirer's separate financial statements. This might be somewhat confusing in the absence of further wording to clarify the most suitable approach when a parent entity with subsidiary interests prepares consolidated financial statements and when it is required to prepare separate financial statements.

If you have any questions please do not hesitate to contact me by email at lynessadias@gmail.com.

Yours sincerely,

Lynessa Dias, CPA, CGA, CFA, FRM, CAIA