PROPOSED FINANCIAL REPORTING STANDARD	ED/FRS

Exposure Draft of Proposed

AMENDMENTS TO *FRS 101 FIRST-TIME ADOPTION OF FINANCIAL REPORTING STANDARDS:*

COST OF AN INVESTMENT IN A SUBSIDIARY

Comments to be received by 27 March 2007

This exposure draft (ED) contains proposed amendments to FRS 101 *First-Time Adoption of Financial Reporting Standards - Cost of an Investment in a Subsidiary*.

This ED should be read in the context of the Preface to Financial Reporting Standards published by the Council on Corporate Disclosure and Governance (CCDG).

This ED is issued by CCDG for comment only and does not necessarily represent the views of CCDG.

Since this ED may be modified as a result of comments received, CCDG would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **27 March 2007**, preferably by email to:
accounting_stds@acra.gov.sg or addressed to:

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CONTENTS

Introduction and Invitation to Comment

This Exposure Draft of proposed amendments to FRS 101 *First-time Adoption of International Financial Reporting Standards* provides relief from particular requirements of FRS 27 *Consolidated and Separate Financial Statements* in the separate financial statements of a parent. CCDG invites comments on the proposals. It would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, when applicable, provide a suggestion for alternative wording.

CCDG is not requesting comments on matters in FRS 101 not addressed in this Exposure Draft.

Comments should be submitted in writing so as to be received no later than **27 March 2007**.

Question 1

FRS 27 requires a parent, in its separate financial statements, to account for an investment in a subsidiary either at cost or at fair value (in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*). However, the CCDG believes that in some cases, on first-time adoption of FRSs, the difficulties in determining cost in accordance with FRS 27 exceed the benefit to users.

This Exposure Draft proposes to allow a parent, at its date of transition to FRSs, to use a deemed cost for an investment in a subsidiary. The deemed cost would be determined using either the carrying amount of the net assets of the subsidiary, or its fair value, at that date. Is this appropriate? If not, why?

Question 2

The cost method in FRS 27 requires a parent to recognise distributions from a subsidiary as a reduction in the cost of the investment to the extent they are received from the subsidiary's pre-acquisition profits. This may require a parent, in some cases, to restate the subsidiary's pre-acquisition accumulated profits in accordance with FRSs.

Such a restatement would be tantamount to restating the original business combination, requiring judgements by management about past conditions after the outcome of the transaction is known.

This Exposure Draft proposes a simplified approach to determining the pre-acquisition accumulated profits of a subsidiary for the purpose of the cost method in FRS 27. Is this appropriate? If not, why?

Proposed Amendments to FRS 101 *First-time Adoption of Financial Reporting Standards*

In the Standard, paragraph 47F and in Appendix B, after paragraph B3, a heading and paragraphs B4–B6 are added.

Effective date

47F An entity shall apply paragraphs B4–B6 for annual periods beginning on or after [date to be determined after exposure]. Earlier application is permitted. If an entity applies those paragraphs for an earlier period, it shall disclose that fact.

Appendix B
Business Combinations

Investments in subsidiaries in the separate financial statements of the parent

B4 FRS 27 *Consolidated and Separate Financial Statements* requires a parent to account for investments in subsidiaries in its separate financial statements (unless they are classified as held for sale, or included in a disposal group that is classified as held for sale, in accordance with FRS 105 *Non-current Assets Held for Sale and Discontinued Operations*) either:

(a) at cost, or

(b) at fair value in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*.

B5 In determining cost in accordance with FRS 27, a first-time adopter may elect to use a deemed cost to measure some or all investments in subsidiaries as at the date of transition to FRSs. For this purpose, a parent shall use as the deemed cost:

(a) its interest in the carrying amount of the subsidiary's assets less liabilities, using the carrying amounts that FRSs would require in the subsidiary's balance sheet; or

(b) the fair value of the investment in the subsidiary.

A first-time adopter may choose which measurement to use for each individual investment in a subsidiary.

B6 For the purpose of applying the cost method in FRS 27:

(a) when a parent measures an investment in a subsidiary using a deemed cost in accordance with paragraph B5, the parent shall, at the date of transition to FRSs, treat that subsidiary's accumulated profits under FRSs as pre-acquisition accumulated profits;

(b) a parent shall, for subsidiaries that have not been measured in accordance with paragraph B5, either:

(i) determine the pre-acquisition accumulated profits of each subsidiary under FRSs, or

(ii) treat the pre-acquisition accumulated profits of each subsidiary under previous GAAP as the pre-acquisition accumulated profits under FRSs.

In the Guidance on implementing FRS 101, after paragraph IG31, paragraphs IG31A and IG31B and IG Examples 9A and 9B are added.

FRS 27 *Consolidated and Separate Financial Statements*

IG31A Paragraph B5 of Appendix B of the FRS refers to the carrying amount of a subsidiary's assets and liabilities. If the subsidiary is also a parent, the assets and liabilities referred to in paragraph B5 are the assets and liabilities of the group of which the subsidiary is the parent.

IG31B IG Examples 9A and 9B illustrate the application of paragraphs B4–B6 of the FRS.

IG Example 9A Cost of an investment in a subsidiary

Background

Parent X's date of transition to FRSs is 1 January 2007. Parent X has one subsidiary, Subsidiary Y. On transition to FRSs, Parent X elects to account for Subsidiary Y in its separate financial statements using the cost method in FRS 27.

On 1 January 2007:

(a) Parent X owns 100 per cent of Subsidiary Y.

(b) under its previous GAAP, Parent X measures its investment in Subsidiary Y at 100 in its separate financial statements.

(c) under FRSs, Subsidiary Y would measure its assets at 800 and its liabilities at 300. On this basis, Subsidiary Y's net assets are 500 under FRSs.

(d) the fair value of Parent X's investment in Subsidiary Y is 600.

Application of requirements

At 1 January 2007, Parent X may measure its investment in Subsidiary Y at any of the following amounts:

(a) deemed cost of 500 (the carrying amount of Subsidiary Y's assets less liabilities, using the carrying amounts that FRSs would require in Subsidiary Y's balance sheet).

(b) deemed cost of 600 (fair value of its investment in Subsidiary Y).

(c) cost determined under FRS 27.

IG Example 9B Post-transition distributions

Background

Parent X's date of transition to FRSs is 1 January 2007. Parent X has two subsidiaries, Subsidiary Y and Subsidiary Z. All entities use the same GAAP before Parent X's transition to FRS.

On 1 January 2007:

(a) Parent X elects to use the cost method in FRS 27 for the subsidiaries in its separate financial statements.

(b) for Subsidiary Y only, Parent X uses a deemed cost to measure the cost of the investment.

(c) under its previous GAAP, Subsidiary Y has pre-acquisition accumulated profits of 350 and total accumulated profits of 800.

(d) under its previous GAAP, Subsidiary Z has pre-acquisition accumulated profits of 300 and total accumulated profits of 900.

(e) there are FRS transition adjustments in Subsidiary Y and Subsidiary Z that would change their accumulated profits at the acquisition date.

(f) in accordance with FRSs, the accumulated profits of Subsidiary Y and Subsidiary Z are 650 and 1,000 respectively.

Some time after the date of transition to FRSs, Subsidiary Y and Subsidiary Z pay a dividend to Parent X equal to their entire accumulated profits calculated in accordance with FRSs. Their accumulated profits at this time were 750 and 950 respectively.

Application of requirements

On transition to FRSs, Parent X elects to use a deemed cost for its investment in Subsidiary Y only.

At Parent X's date of transition to FRSs the accumulated profits of Subsidiary Y under FRSs are 650. In accordance with paragraph B6(a) of the FRS, 650 is Subsidiary Y's pre-acquisition accumulated profits for the purpose of applying the cost method in FRS 27. Therefore, Parent X treats 650 of the dividend from Subsidiary Y as a reduction in the cost of its investment in Subsidiary Y. Parent X recognises the remainder of the dividend (100) as revenue.

In accordance with paragraph B6(b) of the FRS, Parent X elects to use Subsidiary Z's pre-acquisition accumulated profits arising under its previous GAAP for the purpose of applying the cost method in FRS 27. Therefore, Parent X treats the portion of the dividend that relates to the pre-acquisition accumulated profits of Subsidiary Z under its previous GAAP as a return on the investment in Subsidiary Z (300). Parent X recognises the remainder of the dividend (650) as revenue.