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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.

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,

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Chairman
Accounting Standards Board of Japan