ED/2012/6 ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***

Feedback to Constituents – EFRAG Final Comment Letter

June 2013

Objective of this feedback statement

EFRAG published its final comment letter on the ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28)* ('the ED') on 15 April 2013.

This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by EFRAG Technical Expert Group (EFRAG TEG) during its technical discussions when reaching a final position on the ED.

Background to the Exposure Draft

On 13 December 2012, the IASB published the ED with a request for comments by 23 April 2013.

The ED addressed the acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS *28 Investments in Associates and Joint Ventures (2011)*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture.

To solve the inconsistency the IASB proposed amendments to both IFRS 10 and IAS 28 as follows:

- 'full' gain or loss should be recognised on the loss of control of a *business*, as defined in IFRS 3, regardless of whether the transaction is between an investor and its associate or joint venture; and
- a 'partial' gain or loss should be recognised in accounting for the sale or contributions of assets or subsidiaries that do not constitute a business between an investor and its associate or joint venture.

EFRAG's draft comment letter

In January 2013, EFRAG published its draft comment letter on the ED. In the draft comment letter EFRAG agreed that there was an inconsistency between IFRS 10 and IAS 28 and considered that the amendments had the merit of being a short-term pragmatic solution to address the issue.

Further information is available on the project page on the EFRAG website.

EFRAG's final comment letter

In its final comment letter, EFRAG confirmed the tentative position in its draft comment letter and also reflected the concerns of constituents regarding the accounting for loss of control of a subsidiary.

Comments received from constituents

EFRAG's tentative position

In its draft comment letter, EFRAG agreed that there was an inconsistency between IFRS 10 and IAS 28 and considered that the amendments had the merit of being a short-term pragmatic solution to address the issue.

However, EFRAG was concerned that the ED would require an entity to determine whether the asset being sold or contributed met the definition of a business under IFRS 3 *Business Combinations*. Applying the definition of a business in IFRS 3 was not always straightforward, often required considerable judgement and the proposed approach placed considerable stress on the definition of a business.

EFRAG was also concerned that the ED would raise a number of other related issues within IFRS 10 and IAS 28.

Constituents' comments

The majority of respondents agreed that the proposed amendments had the merit of being a pragmatic solution to solve diversity in practice. These respondents also generally shared EFRAG's concerns expressed in its draft comment letter. However, they noted additional concerns with the proposed amendments.

Two respondents supported the IASB's proposals in the ED, on the basis that the proposed amendments solved the inconsistency between the requirements in IFRS 10 and IAS 28, addressed the current diversity in practice and assisted in 'preventing' the accounting for a transaction being driven by its form rather than by its substance.

One respondent highlighted the need to address other related issues not addressed in the ED, and in particular they believed that there was still a need to address the issue of non-monetary contributions of assets to joint operations, as defined in IFRS 11 *Joint Arrangements*.

Some respondents believed that gains and losses from 'upstream' and 'downstream' transactions between an investor and its associate or joint

EFRAG's response to respondents' comments

EFRAG TEG members considered the different views and additional concerns expressed by respondents during its meeting in April 2013.

EFRAG TEG acknowledged that to address the concerns of some of the respondents, a more fundamental review of either the equity method or the requirements in IFRS 10 in relation to loss of control of a subsidiary would be required.

However, there was the concern that this would mean that the inconsistency and divergence in practice would not be addressed in the short-term. Specifically, it could require the finalisation of the Post-implementation Review of IFRS 3 which had not formally commenced and a complete review of the equity method of accounting.

As the majority of the respondents agreed that there was a need for a short-term pragmatic solution to address the issue, and, on the other hand, the proposed amendments would assist in 'preventing' the accounting for a transaction being driven by its form rather than by its substance, EFRAG TEG considered that its initial position should remain largely unchanged.

EFRAG decided that its final comment letter should reflect the concern of those who want to emphasise that the IASB should reconsider the accounting on loss of control of a subsidiary, in its Post-implementation Review of IFRS 3.

Comments received from constituents

venture should always be partially eliminated, as these results have not yet been realised. One of these respondents specifically noted that this would bring consistency to the accounting treatment of sale or contributions between an investor and its investee.

Another respondent stressed that the proposed amendments created an exception to the general rule of recognising gains and losses only to the extent of the unrelated investors' interests in the associate or joint venture as required by IAS 28. This respondent emphasised that the ED placed considerable stress on the definition of a business and the IASB should explain why it was appropriate that only sales and contributions of businesses to an associate or joint venture should result in full recognition of a gain or loss, even if this created an exception from the requirements of paragraph 25 of IFRS 10, which require full recognition of a gain or loss on loss of control of a subsidiary, without the need to assess whether the subsidiary was a business or not. This respondent concluded that it was of the view that an investor’s share in the associate or joint venture’s gains or losses resulting from ‘upstream’ and ‘downstream’ transactions should be eliminated, unless control of a subsidiary was lost.

Another respondent noted that the Post-implementation Review of IFRS 3 might identify issues that could call into question the proposed amendments and that the issue of elimination procedures in IAS 28 should be addressed with a more comprehensive discussion related to the equity method.

EFRAG’s response to respondents’ comments

List of respondents to EFRAG's draft comment letter

CL01	Accounting Standards Committee of Germany
CL02	Danish Accounting Standards Committee
CL03	Repsol
CL04	Dutch Accounting Standards Board
CL05	Instituto de Contabilidad y Auditoria de Cuentas
CL06	Autorité des Normes Comptables
CL07	Organismo Italiano di Contabilità