Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB Website (www.ifrs.org)

10 May 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

IASB Exposure Draft of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28)

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We agree with the IASB that there is inconsistency between IAS 28 and IFRS 10 in regards to the treatment of gains and losses upon the sale or contribution of a subsidiary. However, we are concerned that the proposed amendments would introduce an exception to the general requirements for measuring the gain or loss on the loss of control of a subsidiary of IFRS 10. This will introduce an inconsistency in IFRS 10 as accounting for the loss of control of a subsidiary when it is sold or contributed to an associate or joint venture, would in future depend on whether that subsidiary is a business or not. On the contrary, we note that no such distinction would exist if, instead of selling the subsidiary *to* an associate, the parent sells enough shares *in* that investee to another party such that the subsidiary itself *becomes* an associate. In such a case, the nature of the subsidiary itself as to whether it is a business or not is irrelevant to the accounting treatment required by IFRS 10 as a result of the loss of control.

We therefore do not consider that this piecemeal amendment is an improvement to IFRSs. Instead we believe that the conflict between IFRS 10 and the equity method should be dealt with as part of the fundamental review of the equity method of accounting as part of the IASB's work programme so that conceptual concerns (i.e. the principles underlying the application of the equity method) as expressed in paragraph BC7 of the Basis for Conclusions of the ED can be addressed.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Manager of Standard Setting at winniechan@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC
Encl.

Comment on IASB Exposure Draft of Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28)

Question 1: Proposed amendment to IFRS 10

The IASB proposes to amend IFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised only to the extent of the unrelated investors' interests in the associate or joint venture. The consequence is that a full gain or loss is recognised on the loss of control of a subsidiary that constitutes a business, as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee.

Do you agree with the amendment proposed? Why or why not? If not, what alternative do you propose?

We are concerned that the proposed amendments would introduce an exception to the general requirements for measuring the gain or loss on the loss of control of a subsidiary of IFRS 10. This will introduce an inconsistency in IFRS 10 as accounting for the loss of control of a subsidiary when it is sold or contributed to an associate or joint venture will depend on whether that subsidiary is a business or not. On the contrary, we note that no such distinction would exist if, instead of selling the subsidiary *to* an associate, the parent sells enough shares *in* that investee to another party such that the subsidiary itself *becomes* an associate. In such a case, the nature of the subsidiary itself, as to whether it is a business or not, is irrelevant to the accounting treatment required by IFRS 10 as a result of the loss of control.

We therefore do not consider that this piecemeal amendment is an improvement to IFRSs. Instead we believe that the conflict between IFRS 10 and the equity method should be dealt with as part of the fundamental review of the equity method of accounting as part of the IASB's work programme so that conceptual concerns (i.e. the principles underlying the application of the equity method) as expressed in paragraph BC7 of the Basis for Conclusions in the ED can be addressed.

If the IASB decides to continue with this amendment, then we suggest that paragraph B99A of the ED be clarified so that it addresses only the gain or loss related to the investment in subsidiary (that is not a business) that is sold or contributed to the associate or joint venture. As currently worded, the ED could be interpreted to require that any gain or loss on re-measurement at fair value of a retained interest in the subsidiary should not be recognised.

Question 2: proposed amendment to IAS 28 (2011)

The IASB proposes to amend IAS 28 (2011) so that:

(a) the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3; and

(b) the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture is recognised in full.

Do you agree with the amendment proposed? Why or why not? If not, what alternative do you propose?

We do not agree with the proposed amendment for the same reasons as stated in our response to Question 1.

Question 3: transition requirements

The IASB proposes to apply the proposed amendments to IFRS 10 and IAS 28 (2011) prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective.

Do you agree with the proposed transition requirements? Why or why not? If not, what alternative do you propose?

If the IASB decides to continue with this amendment, then we agree that prospective application would be appropriate.

~ End ~