



Memorandum

To:	AASB members	Date:	27 March 2013
From:	Christina Ng and Kala Kandiah	Agenda Item:	10.1.1
Subject:	Proposed amendments to IFRS 10 and IAS 28	File:	

Action

Subject to consideration of any further comments that might be received from AASB constituents, form preliminary views on the proposals in IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, and decide on an approach for finalising the AASB's comment letter.

Attachments

Agenda paper 10.2 – AASB ED 232 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (proposed amendments to AASB 10 and AASB 128)

Agenda paper 10.4 – Submission 1 on ED 232 from CPA Australia and the Institute of Chartered Accountants in Australia dated 22 March 2013

Background

1. AASB ED 232, which incorporates IASB ED/2012/6, was issued in December 2012. Comments to ED 232 were due by 22 March 2013. At the time of writing this memo, one submission has been received (see Agenda Paper 10.4). AASB staff will provide a verbal update if any further submissions are received. Comments to the IASB on ED/2012/6 are due by 23 April 2013.

Overview of proposals

2. AASB ED 232 addresses the inconsistency between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates* in relation to the gain or loss resulting from the sale or contribution of assets between an investor and its associate or joint venture. The IASB proposes to:
 - (a) 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 *Business Combinations*, 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;

- (b) amend IAS 28 so that:
 - (i) 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
 - (ii) 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; and
 - (c) apply these proposed amendments to IFRS 10 and IAS 28 prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective.
3. ED/2012/6 does not propose an effective date (the date will be specified by the IASB in due course), nor does it indicate whether early adoption would be allowed.

Preliminary staff views

4. Based on outreach performed to large accounting firms in Australia, AASB staff understand that diverse practice exists as to the whether the full gain or loss is recognised for transactions between an investor and its associate or joint venture. Feedback received indicates that the prevalent practice in Australia is that many entities apply an accounting policy choice as to whether full or partial gains or losses on the sale or contribution of any asset are recognised.
5. In relation to the proposals in paragraphs 2(a) and 2(b) above, AASB staff note that the IASB discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. The IASB noted that the Interpretations Committee would not be able to address such a broad issue in a timely way and concluded that the proposed amendments were the best way to address the issue. AASB staff consider that if the IASB believes there is no conceptual difference between an asset and a business, ideally the IASB should identify an appropriate and consistent approach for these types of transactions. However, although AASB staff acknowledge that the current IASB work program does not have scope for adding any major projects at this time, we note the IASB could consider the broader issue of recognition of gains or losses on the sale or contribution of assets as part of its deliberations on the Conceptual Framework project in relation to the definition and recognition of income.
6. In the context of providing a short-term solution to resolving the inconsistencies between IFRS 3 and IAS 28, overall, AASB staff can accept the IASB's proposals and agree with the IASB and Interpretations Committee's rationale in paragraphs BC5 and BC6 of ED/2012/6. This view is consistent with comments received in submission 1 to ED 232 (Agenda Paper 10.4).
7. AASB staff also support the IASB's proposal to require the proposed amendments to be applied prospectively, based on the rationale in paragraph BC9 of ED/2012/6.

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8. As noted above, the ED does not include any proposals in relation to early application. AASB staff recommend that the submission includes a comment supporting the general approach of IFRSs to permit early application, on the basis that new/revised Standards represent an improvement in financial reporting, and accordingly, the improved information outweighs concerns about comparability across entities and therefore should be available to users as soon as possible.

Question to the Board

Does the Board agree with the AASB staff's preliminary views outlined in paragraphs 4–8 above, pending consideration of any further constituent comments that might be received?

Proposed AASB staff project plan

AASB staff propose that the AASB submissions on ED/2012/6 be finalised out-of-session through the Chairman of the April 2013 AASB meeting.

Question to the Board

Does the Board agree with the AASB staff's proposed project plan?