Australian Government

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
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Dear Hans

AASB comments on IASB Exposure Draft ED/2012/6
Sale or Contribution of Assets between an Investor and its Associates or Joint Ventures

The Australian Accounting Standards Board (AASB) is pleased to provide comments on the IASB Exposure Draft ED/2012/6 *Sale or Contribution of Assets between an Investor and Associates or Joint Ventures*. In formulating its views, the AASB sought and considered the views of its Australian constituents. The comment letters received are published on the AASB's website.

The AASB supports the IASB's efforts to address the diversity in practice arising from the changes made in IAS 27 *Consolidated Financial Statements* as part of the Business Combinations project. In particular, as a short-term response to the diversity in practice, the AASB can accept the IASB proposals to amend:

- IFRS 10 *Consolidated Financial Statements* 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; and
- IAS 28 *Investments in Associates and Joint Ventures* so that the gain or loss arising from transactions between an investor and its associate or joint venture resulting from the sale or contribution of assets (i) that do not constitute a business (as defined in IFRS 3) is only partially recognised; and (ii) that constitute a business (as defined in IFRS 3) is recognised in full.

In addition to the proposed amendments, given the proposals are predicated on determining whether a business (as defined in IFRS 3) is sold, the AASB recommends that the IASB considers providing additional guidance on the application of the definition of a business. The AASB is aware that applying that definition requires considerable judgement in certain circumstances, for example, in relation to early mining explorative activities and whether there are sufficient processes in place.

The AASB's views are explained in more detail in the Appendix.

If you have queries regarding any matters in this submission, please contact Christina Ng (cng@aasb.gov.au).

Yours sincerely

John O'Grady
Deputy Chairman

APPENDIX

Detailed comments on IASB ED/2012/6 *Sale or Contribution of Assets between an Investor and Associates or Joint Ventures*

Questions 1 and 2 of ED/2012/6 – Proposals to amend IFRS 10 and IAS 28

As a short-term solution to the diversity in practice, the AASB can accept the IASB's rationale in paragraphs BC5 and BC6 of ED/2012/6 for amending:

(a) IFRS 10 *Consolidated Financial Statements* 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; and

(b) IAS 28 *Investments in Associates and Joint Ventures* so that the gain or loss recognition for transactions between an investor and its associate or joint venture resulting from the sale or contribution of assets (i) that do not constitute a business (as defined in IFRS 3) is only partially recognised; and (ii) that constitute a business (as defined in IFRS 3) is recognised in full.

The AASB notes that the issue being addressed by the IASB's proposals are fundamentally related to the definition of a business under IFRS 3. Accordingly, the AASB considers it critical that the IASB considers providing further guidance on the application of the definition of a business. The AASB is aware that applying the definition of a business (as defined in IFRS 3) requires considerable judgement, particularly in the resources and properties industries. For example, debates frequently arise around the question of whether early mining explorative activities would satisfy the definition of a business, including whether there are sufficient processes in place.

Given the proposals in ED/2012/6 are predicated on the definition of a business, by virtue of their focus on the distinction between the sale or contribution of an asset and a business, it would be useful if the IASB could clarify the circumstances in which an acquisition relates to a business.

Furthermore, the AASB considers that if the IASB believes there is no conceptual basis for recognising the outcome of a sale of an asset or a sale of a business differently, the accounting for such outcomes should be consistent. However, in view of the due process steps that might be necessary if the scope of the proposals were to include a review of the difference between recognising the outcome of the sale of an asset and a business, the AASB does not suggest delaying the amendments to IFRS 10 and IAS 28 proposed by ED/2012/6. Instead, the AASB suggests the IASB considers reviewing that difference either in a separate project or as part of the IASB Conceptual Framework.

APPENDIX

Question 3 of ED/2012/6 – Proposal to apply the proposed amendment prospectively

The AASB supports the proposed amendment being required to be applied prospectively to sales or contributions of assets between an investor and its associates or joint ventures on or after the effective date.

The AASB notes that ED/2012/6 is silent on early application. The AASB urges the IASB to permit early application, on the basis that the proposed amendments to IFRS 10 and IAS 28 would improve financial reporting, and therefore, the improved information should be available to users as soon as possible. The AASB believes that this overrides any concerns about the implications of early application for the comparability of financial information during the transition period.