Grant Thornton

Mr Kevin Stevenson
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By Email: standard@aasb.gov.au

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Dear Kevin

Exposure Draft ED 232 – ED/2012/6 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to AASB 10 and AASB 128)

Grant Thornton Australia Limited (Grant Thornton) is pleased to provide the Australian Accounting Standards Board with its comments on ED 232 which is a re-badged copy of the International Accounting Standards Board's (the Board) Exposure Draft ED/2012/6 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (proposed amendments to AASB 10 and AASB 128) (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

Grant Thornton's response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations (NFPs). This submission has benefited with input from our clients, Grant Thornton International which will be finalising a global submission to the IASB by its due date of 23 April 2013, and discussions with key constituents.

We agree with the proposed approach, which is a pragmatic solution to a well-known conflict between IFRS 10 and IAS 28. Our detailed comments are set out in the Appendix to this letter.

If you require any further information or comment, please contact me.

Yours sincerely
GRANT THORNTON AUSTRALIA LIMITED

Keith Reilly
National Head of Professional Standards

A. IASB Comments on specific proposals

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 agree. The proposed amendment is a pragmatic solution to this well-known conflict between IFRS 10 and IAS 28.

Notwithstanding this support, we note that proposed solution is conceptually challenged. The issue addressed (along with several others) stems at least in part from the lack of clarity as to the conceptual basis for the equity method - ie whether the equity method is primarily a 'one-line consolidation' or simply a method of re-measuring a single investment. The proposal would also create an exception from IFRS 10's normal requirements for loss of control of a subsidiary for which there is also little or no conceptual basis. A broader review of the equity method is therefore called for and we are pleased to note that this has been identified as a priority research project in the Board's Feedback Statement on its 2011 Agenda Consultation.

As a drafting matter, we do not think the requirement to eliminate part of the gain or loss on sale or contribution of a non-business subsidiary should apply to an investor that is a venture capital organisation, mutual fund, unit trust or similar entity (but not an investment entity) and measures investments in associates and joint ventures at fair value applies in accordance with paragraph 18 of IAS 28. If the Board agrees, the wording of new proposed paragraph B99A of IFRS 10 should be amended accordingly.

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 agree, for the reasons given 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?

We agree, for the reasons given in BC9.

B. AASB invitation to comment questions

Question 1 - Whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

- **a not-for-profit entities; and**
- **b public sector entities – including any implications for GAAP/GFS harmonisation.**

We are not aware of any regulatory issues.

Question 2 - Whether, overall, the proposals would result in financial statements that would be useful to users.

We agree that the proposals would result in financial statements that would be useful to users.

Question 3 - Whether the proposals are in the best interests of the Australian economy.

We agree that the proposals are in the best interests of the Australian economy.

Question 4 - Unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

We have no further comment.