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ASSOCIATION
OF
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18 March 2013 **By post and email: commentletters@hkicpa.org.hk**

Mr Simon Riley
Director, Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
Hong Kong

Dear Mr Riley

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

We refer to your letter dated 8 January 2013 inviting our comments on the International Accounting Standards Board's Exposure Draft of Proposed Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

Our comments on the specific questions raised in the exposure draft are attached. Should you have any questions, please do not hesitate to contact our Senior Business Manager Ms Caris Wan at 2521 1855.

Yours sincerely

Boey Wong
Secretary

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Response of the Hong Kong Association of Banks ("HKAB") to the Specific Questions in the International Accounting Standards Board's Exposure Draft: Sale or Contribution of Assets between an Investor and its Associates or Joint Venture

<u>Question 1</u> – *Proposed Amendments 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 support the proposed amendment as it will address the inconsistency between IFRS 10 and IAS 28 in regards to the treatment of gains and losses upon the sale or contribution of a subsidiary to an associate or joint venture. However, we note that the proposed amendments would mean that the accounting treatment for the loss of control of a subsidiary would differ depending on whether the subsidiary constitutes a business or not. We note that the conceptual reasoning behind this difference has not been clearly articulated in the ED.

The key concept in IFRS 10 that supports full gain or loss recognition is that the loss of control of a subsidiary is such a significant economic event that it should trigger re-evaluation of any retained interest in the subsidiary at fair value through profit or loss. This concept is to be understood in the context of the definition of consolidated financial statements (which include all subsidiaries of the parent) and subsidiary (an entity that is controlled by the parent), and the concept of control. The concept of a business does not come into play. Based on the IASB's deliberations, we understand that the proposed amendments are intended to timely address a clear inconsistency in the accounting literature. We understand that there are broader issues that would need to be addressed if the full recognition of gains or losses were required on sale of non-business subsidiaries (or assets in the case of IAS 28 – see question #2 below) to associates or joint ventures. Therefore, we suggest that the IASB add to its agenda a project to address these remaining issues, including the concept of loss of control of a business in the context of consolidated financial statements.

The accounting treatment as a result of the proposed amendment will depend largely on whether assets sold or contributed constitute a business as defined in IFRS 3, which is highly judgemental and has its own diversity of application in practice. Increased reliance on the definition may result in further diversity of application. The proposed amendments may therefore reduce the existing diversity in practice in accounting for loss of control of a subsidiary but magnify the diversity arising from the interpretation of the definition of a business.

In addition, 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 recognized.

Despite the above concerns, we agree with the proposed amendment as a pragmatic interim solution to alleviate diversity in practice due to the inconsistency between IFRS 10 and IAS 28.

<u>Question 2</u> – *Proposed Amendments 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?

For the reasons discussed in our response to Question 1 above, we support the proposed amendments to IAS 28, which are consistent and conforming with the proposed amendments to IFRS 10. However, an inconsistency would continue to exist when there is a sale of a subsidiary that constitutes a business to a joint operation. Paragraph B34 of IFRS 11 also limits the recognition of gains and losses resulting from the sale or contribution of assets to a joint operation. For consistency, IFRS 11 should also be amended to limit gain or loss recognition only when there is a sale or contribution of assets that do not constitute a business to a joint operation.

<u>Question 3</u> – *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 that the proposed amendments should be applied prospectively. We are mindful of the significant challenges that may be faced by preparers in obtaining information needed for retrospective application and consider that the costs of obtaining such information would outweigh the benefits.