From: Steve Ong [mailto:SteveOng@HKEX.COM.HK]
Sent: Monday, February 04, 2013 7:02 PM
To: Simon Riley; Winnie Chan
Cc: ComMem-DICKENS Mark; David Graham; Grace Hui; Dorian Chan; Elce Lee; Committee-FRSC
Subject: HKICPA Invitation to Comment on IASB ED on Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28) (IASB due date 23 April 2013)

Dear Simon and Winnie,

HKICPA Invitation to Comment on IASB ED on Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28) (IASB due date 23 April 2013)

Thank you for the HKICPA letter dated 8 January 2013 on the subject matter addressed to our Mr. Mark Dickens, Head of Listing, which has been passed to me for my attention as the HKEx representative member on the HKICPA Financial Reporting Standards Committee.

It is my understanding that the IASB proposes to amend IFRS 10 and IAS 28 to address issues related to the changes made in IAS 27 as part of the Business Combinations project. According to IAS 27, if a parent loses control of a subsidiary, it derecognizes the assets and liabilities of that subsidiary, recognizes any investment retained in the former subsidiary at fair value and recognizes a gain or loss in profit and loss. As a result, the gain and loss includes any gain or loss corresponding to the difference between the fair value of the retained investment in the former subsidiary and its carrying amount at the date when control is lost.

It was reported that while IAS 27 provides general guidance on the loss of control of a subsidiary (including cases in which the investor retains joint control of, or significant influence over, the investee), some interested parties noted that this guidance appears to conflict with the gain or loss guidance in SIC-13 “Jointly Controlled Entities –Non monetary Contributions by Venturers”.

In accordance with SIC-13, the gain or loss resulting from the contribution of a non-monetary asset to a joint controlled entity in exchange for an equity interest in that jointly controlled entity is restricted to the extent of the interests that are attributable to the unrelated equity holders in the jointly controlled entity. The conflict identified is that IAS 27 requires full gain or loss recognition on the loss of control of a subsidiary, whereas SIC-13 requires a partial gain or loss recognition in transactions between an investor and its associate or joint venture.

As a result of the conflict, there is diversity in practice. The ED is an attempt to resolve this conflict and therefore proposes that all contributions of businesses as defined in IFRS 3 (whether in a subsidiary or not) would follow the existing principles in IAS 27 which is to account for full gain or loss recognition. All other contributions would be accounted for in accordance with the rationale in SIC 13, which is to account for partial gain or loss recognition.

The IASB therefore decided to amend both IAS 28 (2011) and IFRS 10, as set out below:

(a) <u>Amendment to IAS 28 (2011)</u>

(i) Any gain or loss resulting from the sale or contribution of an asset that does not constitute a business between an investor and its associate or joint venture should be partially recognized

(ii) Any gain or loss arising from the sale or contribution of an asset that does constitute a business between an investor and its associate or joint venture should be fully recognized.

(b) <u>Amendment to IFRS 10</u>

(i) Any gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business between an investor and its associate or joint venture should be partially recognized, to the extent of the unrelated investor’s interests in the associate or joint venture.

In summary, the consequence of the proposals to IFRS 10 and IAS 28 is such that a full gain or loss would be recognized on the loss of control of a subsidiary that constitutes a business, even if the investor retains joint control or significant influence over the investee.

It was reported that all 15 IASB members approved the proposed amendments.

Given the above, and in particular taking into account the IASB's efforts to attempt to reduce diversity in accounting for these issues by clarifying the principles in the relevant standards, I support the proposed amendments.

Thanks.

Kind regards,
Steve

Steve Ong, FCA, FCPA
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