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COMMISSIE VOOR BOEKHOUDKUNDIGE NORMEN

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Correspondant	Your references	Our references	Date
Ignace Bogaert Tel. 02 277 61 74	IFRS 10 / IAS 28	C – 2013/25	23.04.2013

Dear Sir, Madam,

Invitation to comment – IASB ED *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Proposed amendments to IFRS 10 and IAS 28*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the Exposure Draft on *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Proposed amendments to IFRS 10 and IAS 28* issued by the IASB (the "Boards") in December 2012 (hereinafter the "ED").

Question 1

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?

The BASB agrees with the amendments proposed. We have the following observations, however.

1. *The definition of a business*

   We understand that this ED and the ED/2012/7 *Acquisition of an Interest in a Joint Operation (proposed amendment to IFRS 11)* introduce new situations where the definition of a business becomes even more important.

Differences in application of the definition of a business have been noted between industries (e.g., the real estate sector is concerned that the ED brings them back to the issue as to whether a rented property (or a single property Special Purpose Vehicle) is a business or not) and between IFRS and US GAAP (although the definition is the same in both frameworks).

Therefore, we recommend that the IASB consider clarifying the definition of a business as soon as possible. We believe that many of the divergent interpretations of the definition of a business could be addressed by adding examples to IFRS 3, or by further clarifying Appendix B to IFRS 3. We understand the reason for the IASB limiting the scope of this ED, and the fact that it is seeking to amend IFRS 10 and IAS 28 and not IFRS 3. Therefore this amendment is not the place for clarifying the definition of a business. However, we are not convinced that the significant diversity in practice will be reduced unless the definition of a business is clarified, and we therefore recommend that this issue should be given priority by the IASB.

2. *Sale or contribution of a business to a joint operation in consolidated financial statements of the joint operator*

While the ED aims to reduce uncertainty relating to accounting for sales or contributions of businesses to associates or joint ventures, we have also noted diversity in practice for sales of contributions of businesses to joint operations:

View 1 – Sale or contribution of assets that constitute a business by a joint operator to its joint operation causes a change in the relationship between the joint operator and the underlying assets and represents a significant economic event. Therefore, the same principles as those proposed in the ED shall also apply to sale or contribution of assets that constitute a business by a joint operator to its joint operation, i.e. full gain or loss recognition.

View 2 - Sale or contribution of assets that constitute a business by a joint operator to its joint operation represents a reduction in joint operator's rights to the underlying assets. There was and continues to be a direct interest in the underlying assets themselves, therefore the gain or loss shall be recognised only to the extent of the unrelated investors' share in the underlying assets.

We recommend the IASB consider providing guidance on this issue as part of this amendment.

3. *Sale or contribution of a business to a joint operation in separate financial statements of the joint operator*

It is unclear how a sale or contribution of a business by a joint operator to its joint operation should be accounted for in the separate financial statements of the joint operator. Assume for example that a joint operator has previously recognised the investment in the subsidiary (that is a business) as a single line item in accordance with IAS 27 *Separate Financial Statements.* After contributing the subsidiary (that is a business) to the joint operation, the joint operator then recognises the underlying assets and liabilities.

Similarly, there is diversity in practice on how to account for such transaction in the separate financial statements of the joint operator:

View 1 - Some believe that from the parent entity's point of view, the nature of investment has changed. Therefore, remeasurement of the retained interest and full gain or loss recognition will be required.

View 2 - Others believe that there was no change in the nature of the relationship between the joint operator and the underlying assets, therefore the gain or loss shall be recognised only to the extent of the unrelated investors' share in the underlying assets.

We recommend the IASB consider providing guidance on this issue as part of this amendment.

Question 2

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?

The BASB agrees with the amendments proposed, but would also like to refer to our comments on the first question.

Question 3

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 support the prospective application proposed by the ED.

We recommend that the IASB clarify whether it intended to require full retrospective application of the ED's proposals by first-time adopters. We believe that the proposals of the ED should be applied by first-time adopters prospectively, similarly to the transition requirements of paragraph B7(c) of IFRS 1 *First-time Adoption of International Financial Reporting*, and the transition requirements proposed in ED/2012/7 *Acquisition of an Interest* *in a Joint Operation*. Therefore we recommend the IASB to make the appropriate consequential amendments to IFRS 1.

Should you wish to discuss the content of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB