Grant Thornton

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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH

Grant Thornton International Ltd
Grant Thornton House
22 Melton Street
London NW1 2EP

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ED/2012/6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Proposed amendments to IFRS 10 and IAS 28

Grant Thornton International Ltd is pleased to comment on the International Accounting Standards Board's (the Board) Exposure Draft 2012/6 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Proposed amendments to IFRS 10 and IAS 28 (the ED). We have considered the ED, as well as the accompanying draft Basis for Conclusions.

We agree with the proposed approach, which is a pragmatic solution to a well-known conflict between IFRS 10 and IAS 28.

Our responses to the questions in the ED's Invitation to Comment are set out in the Appendix.

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If you have any questions on our response, or wish us to amplify our comments, please contact our Executive Director of International Financial Reporting, Andrew Watchman (andrew.watchman@uk.gt.com or telephone + 44 207 391 9510).

Yours sincerely,

Kenneth C. Sharp

Kenneth C Sharp
Global Leader - Assurance Services
Grant Thornton International Ltd

Responses to Invitation to Comment questions

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.