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Global Mindset, Asian Insights

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International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – EFFECTIVE DATE OF AMENDMENTS TO IFRS 10 AND IAS 28

ISCA sought views from its members on the above ED through a one-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We support the International Accounting Standards Board's ("IASB") proposal to defer the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28). These amendments to IFRS 10 and IAS 28 were issued in September 2014 ("September 2014 Amendment"), and affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. These amendments were to have been applied prospectively to transactions occurring in annual periods beginning on or after 1 January 2016 with earlier application permitted.

In the Basis for Conclusions on *Effective Date of Amendments to IFRS 10 and IAS 28*, IASB elucidated the rationale for the deferment of the effective date to be the need for further clarification on the application of the September 2014 Amendment. The following were further narrow-scope amendments ("the February 2015 Proposals") that would clarify in greater detail:

(a) how the eliminations required by the September 2014 Amendment would be recognised if the amount eliminated exceeds to carrying amount of the investment;

(b) how the transfer of assets would be recognised if the investor receives both assets and an equity interest; and

(c) how other requirements of IAS 28 interact with the changes made to IFRS 10 by the September 2014 Amendment.

We agree that the above are practical application issues relating to the September 2014 Amendment, and hence do not object to the deferment of the effective date until those issues are addressed as part of the IASB's research project on equity accounting.

However, we need to bring to IASB's attention, a significant conceptual flaw in paragraph B99A and example 17(b) of the September 2014 Amendment, relating to the requirement for partial recognition of the gain arising from re-measuring the retained interest in the former subsidiary (an asset holding company that does not operate a business). This requirement, stipulated in paragraph B99A is as follows:
"In addition, if the parent retains an investment in the former subsidiary and the former subsidiary is now an associate or a joint venture that is accounted for using the equity method, the parent recognises the part of the gain or loss resulting from the re-measurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the <u>*unrelated investors' interest*</u> *in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former subsidiary."*

The above requirement of paragraph B99A, which was not exposed for comment, requires a partial recognition of the re-measurement gain based on the extent of the "<u>unrelated investors' interest</u>". In principle this should have been the extent of the unrelated investors' interest in the portion of the asset being re-measured (the portion of the asset being re-measured is the parent's direct interest in the former subsidiary), which is nil. In example 17(b), the 30% directly held retained interest in the former subsidiary is re-measured from its carrying amount of CU30 to its fair value of CU90, resulting in a re-measurement gain of CU60. Based on the accounting rule for re-measuring an equity investment, the entire CU60 should have been recognised as a gain because this is a simple revaluation gain of a 30% directly held investment. The parent's overall continuing effective interest of 44% (direct holding of 30% plus indirect holding of 14%) has no relevance to the 30% directly held retained interest. Accordingly, paragraph B99A and example 17(b) should not have required the elimination of 44% of the CU60 re-measurement gain against the carrying amount of the investment in the former subsidiary.

We therefore would strongly recommend that IASB goes ahead now to rectify the above flaw through a narrow scope amendment without waiting for the research project on equity accounting since early application of the September 2014 amendment is permitted.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Financial Reporting Standards & Corporate Reporting, or Ms Jezz Chew, Manager, Financial Reporting Standards & Corporate Reporting, from ISCA via email at <u>jumay.lim@isca.org.sg</u> or <u>jezz.chew@isca.org.sg</u> respectively.

Yours faithfully,

Mr Titus Kuan
Director
Technical Advisory and Professional Standards