Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

April 24, 2013

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

REF: 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

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Exposure Draft 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 (the ED)". This response summarizes the views of our country-members, in accordance with the following due process.

Due-process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG). All country-members had the opportunity to appoint at least one member to form this TWG, and the following countries did so: Argentina (coordinator of this TWG), Brazil, Colombia, Ecuador, Mexico, Dominican Republic, Uruguay and Venezuela.

The working steps in developing the present response were as follows:

1. ***Conformation of the TWG.***
2. ***Agreement of all the TWG members in advance for requesting information in their own jurisdictions:*** each standards-setters' bodies represented in the TWG have undertaken different tasks in their respective countries (e.g. discussion forums, surveys; internal working groups).
3. ***Summarization of the all points of view gathered:*** All the results of the work stated in 2 were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several virtual meetings . In those virtual meetings the WTG developed a final document on the basis of the agreed upon responses and the technical point of view of its members. Finally, the WTG document was submitted to the GLASS Board for its approval.

Overall comments

[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect of all the documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is formed by: Brazil (Chair), Argentina (Vice Chair), Colombia (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru, El Salvador and Dominican Republic.

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We support the International Accounting Standards Board (IASB) in the treatment proposed to resolve the current inconsistency arising between IFRS 10 and IAS 28 in accounting for the sale or contribution of assets between an investor and its associate or joint venture, however we would like to draw its attention to a few matters that are concerning to us in relation to the definition of "business" and with the treatment of gain or loss resulting from these kinds of transactions when it is not a business being transferred, which we will explain in the accompanying annex in reply to the ED's questions.

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

Juarez Domingues Carneiro
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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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 with the proposal to resolve the current inconsistency between IFRS 10/IAS 27 and IAS 28 (SIC-13) and support the IASB to provide a pragmatic solution in the short term to the different accounting practices that arise in these kinds of transactions, and thus avoid a sale or contribution of assets of a subsidiary from being accounted for due to its form instead of its substance. That is why we agree that when the transaction entails the loss of control of a business there is a change in the economic substance of the investment held, converting the former investment in a subsidiary into: a) an investment in an associate or, b) an investment in a joint venture; consequently, the applicable treatment is the one set forth under IFRS 3 requirements for business combinations that, it is worth mentioning, contemplate a different accounting treatment for the acquisition of assets and for the acquisition of a business.

Notwithstanding the above, we would like to draw attention on the following matters we find concerning:

1) The accounting treatment proposed by the ED depends on whether the subsidiary that is sold or contributed constitutes a business. Further, the application of the definition of business in IFRS 3 often requires considerable professional judgment, particularly when it involves transactions between related parties. Accordingly, as this definition becomes an important matter, we recommend that it be clarified in such a way as to ensure a consistent application, i.e., that the definition of "business" and what constitutes merely a group of assets remains clear. This clarification could be addressed by adding examples to IFRS 3, or by further clarifying Appendix B Application Guidance to IFRS 3. Although we are aware that this would entail amending IFRS 3, which is outside the scope of the ED, we recommend that the IASB give priority to addressing this issue.

2) While the ED resolves the current inconsistency between IFRS 10/IAS 27 and IAS 28 (SIC-13), the proposal generates an inconsistency in the recognition of a gain or loss resulting from the sale or contribution of a subsidiary to a related party, as if the subsidiary constitutes a business, the gain or loss from that transaction would be recognized in full, while if the subsidiary constitutes only an asset or group of assets, the gain or loss would only be recognized to the extent of the interests attributable to the unrelated equity holders in the associate or joint venture. Although this inconsistency has been considered by the IASB as mentioned in paragraph BC 7 of the ED, and its analysis would require addressing multiple cross-cutting issues, and we understand that one of them will have to do with the definition of group, from a strictly conceptual point of view, as there has been a change in the economic substance of the transaction, we believe that all sales and

contributions of assets between an investor and an associate or joint venture should be afforded the same treatment in terms of recognizing the resulting gain or loss in full. That is why we recommend that this issue be analyzed in a longer-term project, most likely after having reviewed IFRS 3.

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 with the changes proposed to IAS 28 as they are consistent with the changes proposed to IFRS 10, and also eliminate the inconsistencies between IAS 28 and IFRS 10 in relation to sales and contributions of assets, as mentioned in our answer to question 1.

We believe the proposal constitutes: a) a pragmatic solution to avoid having different accounting treatments for transactions involving the same kinds of assets, depending on the way in which those assets are transferred, sold or contributed, in exchange for an interest in an associate or joint venture, and b) it includes improvements in the way it is drafted, as when the IASB issued the new strategic investment standards, the drafting of the amended IAS 28 left out what had been addressed in SIC-13, which has now been incorporated into IAS 28.

Regardless of the above, we again draw attention to the two matters we find concerning and which we explained in the answer 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 with the ED's prospective application, as if a retrospective application were required the changes proposed could require previous information that is difficult to obtain or which could lead to costs being incurred that are not related to the benefits of a retrospective application.

Additionally, we recommend that the IASB extend the ED's transition requirements to allow for its early application.

Other comments.

Regarding paragraph 2) of the response to question 1, in which we mentioned the case where the gain or loss from the sale or contribution of a subsidiary to a related party is recognized in full, one of the countries of the Working Group does not agree with keeping the gain or loss on the related parties involved, since it should be eliminated.

Therefore, it is proposed to analyze the IFRS 3 in order to assess whether it is appropriate to include a change for not allowing the purchase method to be used in transactions between related parties.