The Corporate Reporting Users' Forum

By email to: Commentletters@ifrs.org

23rd April 2013

**Response to 'Proposed amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture'.**

Under the proposed amendment, entities will be able to book all the profit resulting from the sale of a business to another entity in which they have an ownership stake. The CRUF is concerned that this amendment might create loopholes and inconsistencies and therefore opposes the proposed change.

In theory a gain booked in these circumstances could be justified if the transaction had taken place at fair value. However, given the potential for conflicts in such a situation, we believe "prudence" should apply as such a gain might not be reliable enough to warrant recognition. This is consistent with our general stance that it should not be possible for an entity to declare a profit by transferring goods, services, assets or indeed anything to itself. If an entity transfers anything to a partly owned associate or JV, then it should only be able to make a profit on the portion that is transferred to the independent investors.

The business relationship between an entity and an associate (such as a joint venture in China) can be complex with a combination of ownership, supply of components from the entity to the JV, purchase of finished goods by the entity from the JV , licensing arrangements and so on. From an investor's perspective, the associate is part of the business even if it isn't 'controlled' by the group.

We do not want the IASB to create the possibility of deals being structured in a way that enables the entity to book a profit from selling assets to itself. It is already often impossible to understand the precise relationship between an entity and a JV but investors should at least have the comfort of knowing that double counting is not possible.

We therefore urge the board to avoid creating an unnecessary and potentially misleading loophole.

**About the Corporate Reporting Users' Forum (CRUF)**

The CRUF came together in 2005 as a discussion forum to help its participants in their approach to the debate on current and future corporate reporting requirements. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters such as the IASB and FASB.

CRUF participants come from all around the world, including individuals from both buy- and sell-side institutions, and from both equity and fixed income markets.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. It does not seek to achieve consensus views, though at times some or all of its participants will agree to make joint representations to standard setters or to the media. It would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative.

We sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum (www.CRUF.com) and not as representatives of our respective organizations. The views expressed are those of individual CRUF participants and do not necessarily reflect the views of the respective organisations where we are employed.

The participants in the Forum that have specifically endorsed this response are listed below.

Yours sincerely

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