Investment in a subsidiary accounted for at cost: Partial disposal (IAS 27 *Separate Financial Statements*)—January 2019

The Committee received a request about how an entity applies the requirements in IAS 27 to a fact pattern involving an investment in a subsidiary.

In the fact pattern described in the request, the entity preparing separate financial statements:

- elects to account for its investments in subsidiaries at cost applying paragraph 10 of IAS 27.
- holds an initial investment in a subsidiary (investee). The investment is an investment in an equity instrument as defined in paragraph 11 of IAS 32 *Financial Instruments: Presentation*.
- subsequently disposes of part of its investment and loses control of the investee. After the disposal, the entity has neither joint control of, nor significant influence over, the investee.

The request asked whether:

a. the investment retained (retained interest) is eligible for the presentation election in paragraph 4.1.4 of IFRS 9 *Financial Instruments*. That election permits the holder of particular investments in equity instruments to present subsequent changes in fair value in other comprehensive income (OCI) (Question A).
b. the entity presents in profit or loss or OCI any difference between the cost of the retained interest and its fair value on the date of losing control of the investee (Question B).

Question A

Paragraph 9 of IAS 27 requires an entity to apply all applicable IFRS Standards in preparing its separate financial statements, except when accounting for investments in subsidiaries, associates and joint ventures to which paragraph 10 of IAS 27 applies. After the partial disposal transaction, the investee is not a subsidiary, associate or joint venture of the entity. Accordingly, the entity applies IFRS 9 for the first time in accounting for its retained interest in the investee. The Committee observed that the presentation election in paragraph 4.1.4 of IFRS 9 applies at initial recognition of an investment in an equity instrument. An investment in an equity instrument within the scope of IFRS 9 is eligible for the election if it is neither held for trading (as defined in Appendix A of IFRS 9) nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 *Business Combinations* applies.

In the fact pattern described in the request, assuming the retained interest is not held for trading, the Committee concluded that (a) the retained interest is eligible for the presentation election in paragraph 4.1.4 of IFRS 9, and (b) the entity would make this presentation election when it first applies IFRS 9 to the retained interest (ie at the date of losing control of the investee).

Question B

Any difference between the cost of the retained interest and its fair value on the date the entity loses control of the investee meets the definitions of income or expenses in the *Conceptual Framework for Financial Reporting*. Accordingly, the Committee concluded that, applying paragraph 88 of IAS 1 *Presentation of Financial Statements*, the entity recognises this difference in profit or loss. This is the case regardless of whether the entity presents subsequent changes in fair value of the retained interest in profit or loss or OCI.

The Committee also noted that its conclusion is consistent with the requirements in paragraph 22(b) of IAS 28 *Investments in Associates and Joint Ventures* and paragraph 11B of IAS 27, which deal with similar and related issues.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to account for a partial disposal transaction in its separate financial statements. Consequently, the Committee decided not to add this matter to its standard-setting agenda.