

STAFF PAPER

November 2015

Project	Deferral of the effective date of the September 2014 Amendment to IFRS 10 and IAS 28		
Paper topic	Comment letter analysis		
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This paper has been prepared for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Purpose

1. This paper summarises the feedback received in response to the IASB's Exposure Draft *Effective Date of Amendments to IFRS 10 and IAS 28* (the 'ED'). In the ED, the IASB proposes deferring the effective date of *Sale or Contribution of Assets or Joint Ventures* (Amendments to IFRS 10 and IAS 28), issued in September 2014 (the 'September 2014 Amendment'). The effective date of the September 2014 Amendment is 1 January 2016.
2. The ED was published for public comment in August 2015; the comment period ended on 9 October 2015. The Due Process Oversight Committee (DPOC) of the Trustees of the IFRS Foundation agreed to a comment period of 60 days as a result of the urgency of the matter and the narrow scope of the proposed amendment.
3. The summary contained in this paper is based on the staff's analysis of comment letters received as well as on the feedback received from outreach activities undertaken by IASB members and staff.
4. In this paper the staff ask whether you agree with their recommendations about the next steps that should be taken in finalising the IASB's proposals. The staff recommendation is that the IASB's proposals be finalised as worded in the ED.

Structure of this paper

5. This topic is organised as follows:
 - (a) background;
 - (b) overview of the comment letter respondents;
 - (c) possible courses of action by the IASB;
 - (d) finalise the proposals as worded;
 - (e) withdraw the September 2014 Amendment;
 - (f) do not defer the effective date;
 - (g) permit or prohibit early application; and
 - (h) summary and staff recommendation.

Background

Recent and proposed changes to IAS 28

6. In the last two years, the IFRS Interpretations Committee and the IASB have considered a number of issues in relation to the transfers of assets between an investor and its associates or joint ventures:
 - (a) the September 2014 Amendment arose to address an inconsistency between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* that affected the transfers of a subsidiary to an associate or a joint venture. IFRS 10 requires that the gain or loss on the disposal of a subsidiary is recognised in full; IAS 28 requires that gains or losses on transfers between an investor and its associate or joint venture are only recognised to the extent of unrelated investors' interests in the investee. The September 2014 Amendment made it clear that a full gain is recognised when the transfer to an associate or a joint venture involves a business, and a partial gain or loss is recognised if the asset transferred does not contain a business. The gain or loss that is not recognised is eliminated against the cost of the investment.

- (b) in November 2014 the IASB completed its balloting process on a narrow-scope amendment to IAS 28 that would clarify how eliminated gains or losses should be accounted for after the carrying amount of the investment has been reduced to zero.
- (c) at its February 2015 meeting, the IASB gave the staff permission to begin balloting a further narrow-scope amendment, to be bundled with the amendment balloted in November 2015 for completeness, that would clarify some inconsistencies between IFRS 10 and IAS 28 that were linked to the September 2014 Amendment.
- (d) because of that linkage, the February 2015 pre-ballot draft also included a proposal to defer the effective date of the September 2014 Amendment until the effective date of the February 2015 pre-ballot draft.

June 2015 meeting of the IASB

- 7. At its June 2015 meeting, the IASB decided that the issues addressed in the February 2015 pre-ballot draft should instead be addressed as part of the research project on equity accounting and should not be progressed separately. At that meeting the IASB also decided to propose a deferral of the effective date of the September 2014 Amendment in order to avoid requiring two successive rounds of changes in a short period of time.
- 8. Consequently, in August 2015 the IASB published its proposal that the effective date of the September 2014 Amendment be deferred for an indefinite period.

Update on the research project on equity accounting

- 9. The application issues with respect to IAS 28 have been transferred to the research project on equity accounting. The project team have presented papers to the IFRS Advisory Council, the Accounting Standards Advisory Forum, the Global Preparers Forum and others. The staff have also presented agenda papers on this topic to the May 2014 and June 2015 meetings of the IASB. The staff are currently awaiting the results of future outreach and the IASB's *2015 Agenda Consultation* before proposing its next steps to the IASB.

Overview of the comment letter respondents

10. The comment letter period on the ED ended on 9 October 2015. We received 51 comment letters, which are summarised in the following table by type of respondent and geographical region.

Type of comment letter respondent

Respondent type	Number of respondents	Percentage of respondents
Auditors and accounting firms	20	39
Standard-setters	16	31
Preparers and industry organisations	10	20
Regulators and government agencies	3	6
Individuals	2	4
Total	51	100

Geographical distribution of comment letter respondents

Geographical region	Number of respondents	Percentage of respondents
Asia and Oceania	19	37
Europe	15	29
International	8	16
South America	5	10
Africa	3	6
North America	1	2
Total	51	100

11. Views tend to be common to all types of participants and all geographical regions, but the following analysis identifies the circumstances in which different populations of respondents hold different views.

Possible courses of action by the IASB

12. The comment letters raise four possible responses to the IASB's proposals to defer the effective date of the September 2014 Amendment:
- (a) the majority of respondents support the IASB's proposal and recommend finalisation of the proposals as worded;

- (b) a few respondents think that it would be better to withdraw the September 2014 Amendment;
- (c) some respondents think that the effective date of the September 2014 Amendment should not be deferred; and
- (d) a number of respondents, irrespective of their overall response, think that permitting the continued early application of the September 2014 Amendment will increase diversity in practice.

Finalise the proposals as worded

13. The majority of respondents support the IASB's proposal to defer the effective date of the September 2014 Amendment for the following reasons:
 - (a) it will defer any amendments, allowing all application issues to be identified and addressed in a more comprehensive and conceptual way;
 - (b) it will enable the IASB to reassess the sweep issues that were not subject to public consultation when the September 2014 Amendment was finalised;
 - (c) it will enable preparers to avoid changing the way in which they apply IAS 28 twice in a short period of time, ie once for the September 2014 Amendment and again for any amendments that arise from the current project on equity accounting; and
 - (d) it will allow preparers time to reassess the effect of applying IAS 28 in the light of the complexities raised.
14. Some respondents who support the deferral of the effective date think that the Basis for Conclusions should be extended to describe the full range of issues identified with respect to the application of IAS 28.
15. A number of respondents also gave further examples of previously unidentified inconsistencies or uncertainties arising from the September 2014 Amendment in support of the IASB's proposal to defer its effective date:

- (a) a few respondents query how the entity's indirect interest in the new associate, used in the elimination calculation, should be calculated in example 17.
 - (b) two respondents think that the September 2014 Amendment extends the scope of the requirements of paragraph 28 of IAS 28 to the *creation of* associates and joint ventures as well as to *transactions with* associates or joint ventures.
 - (c) one respondent thinks that the September 2014 Amendment did not achieve its objective of consistent accounting regardless of whether the assets transferred were structured as the transfer of shares in an entity or directly as an asset transfer.
 - (d) another respondent suggests that requirements concerning the transfer of a business should also be reviewed for any potential interaction with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
 - (e) one respondent suggests that deferral will also give the IASB a further chance to address matters raised in the dissenting opinions from the September 2014 Amendment.
16. The staff acknowledge these further comments concerning the difficulty in applying IAS 28 and the complexity of its interaction with other Standards and note that they provide further arguments in support of the IASB's proposal to defer the effective date of the September 2014 Amendment.

Withdraw the September 2014 Amendment

17. A few respondents do not think that deferring the effective date of the September 2014 Amendment goes far enough and, instead, recommend that it is withdrawn. They have a number of reasons for holding this view:
- (a) reporting two versions of the Standard, one in the Red Book and another in the Blue Book, for an indefinite period will cause confusion by creating uncertainty about what the IASB thinks and thereby increase diversity;

- (b) withdrawal would remove any diversity that has arisen from some entities' early application of the September 2014 Amendment;
 - (c) withdrawing the September 2014 Amendment would allow the topic to be reviewed in a more conceptual manner, by removing any earlier conclusions; and
 - (d) the regulatory and legal framework of some jurisdictions does not allow endorsement of amendments with no effective date.
18. Several respondents who supported the IASB's proposal to defer the effective date of the September 2014 Amendment also suggested withdrawal as an alternative. One respondent, however, did not think that withdrawal would be a feasible alternative as the process would be complicated in those jurisdictions in which application is already permitted.
19. The staff acknowledge that withdrawal would result in a 'cleaner' version of IFRS until this matter is resolved. The staff also notes that withdrawal would also deliver the benefits identified in paragraph 13 and enable the IASB to address the further matters raised in paragraph 15.
20. The staff note, however, that there would be some practical difficulties associated with the withdrawal process such as:
- (a) the need to re-expose the proposals would mean that any proposal to withdraw would not be finalised before the effective date of 1 January 2016 or before Q1 2016 financial reporting. Any ED also puts some level of consultation burden on stakeholders.
 - (b) the methodology by which jurisdictions that have already endorsed the September 2014 Amendment would withdraw that amendment will vary by jurisdiction and may be more complicated if the September 2014 Amendment is withdrawn after its effective date of 1 January 2016.
 - (c) the extent of early application is unknown. The IASB may need to consider whether transition requirements would need to be defined for any entities that have already applied the September 2014 Amendment.

Do not defer the effective date

21. A number of respondents thought that the IASB should not defer the effective date of the September 2014 Amendment. They thought that:
 - (a) the research project is likely to take some time given the complexity of the topic;
 - (b) in the meantime, the September 2014 Amendment seeks to improve consistency and should therefore become effective as planned;
 - (c) deferring the effective date undermines the due process that preceded issuing the amendment; and
 - (d) deferring the effective date could create a precedent and could result in stakeholders seeking deferral of other amendments or Standards.
22. The staff note that approximately half of those respondents who recommended not deferring the September 2014 Amendment were based in jurisdictions, such as Australia, where there are particular difficulties in endorsing a Standard for which the effective date has been indefinitely deferred. Two respondents noted that they would insert a notional date into the wording used in their endorsement process in order to circumvent this problem. The staff think that this approach proposed by one respondent would remove a significant level of concern in these jurisdictions.
23. We note that a few respondents have concerns that the deferral of the effective date may be seen to undermine our due process. The staff also note that many respondents think that either the deferral or the withdrawal of the effective date would equally raise concerns about the due process.
24. The staff note, however, that the respondents do not make any other arguments that were not discussed by the IASB when developing its proposals. Consequently, the staff think that the effective date should be deferred as proposed in the ED.

Indefinite deferral

25. Many respondents, both who supported the IASB's proposal and those who did not, were concerned by indefinite deferral. Many referred to the need for a timely resolution and some were concerned that the research project may not be completed

for a number of years, given the complexity of the topic. A few suggested that a notional date be inserted into the proposals, instead of deferring the amendment for an indefinite period.

Permit or prohibit early application

26. In the ED, the IASB proposes that early application of the September 2014 Amendment is retained. We heard differing views on the effect of this proposal:
- (a) a number of respondents, regardless of the course of action they recommended, think that it is incongruous to propose indefinite deferral, while permitting early application. They think that it will lead to greater diversity in practice because some entities will change their accounting as a result of applying the amendment, while others will not.
 - (b) other respondents thought that early application effectively means that there are two forms of IFRS in effect at the same time.
 - (c) others take the view that the amendment was intended to reduce diversity in practice and that by allowing early application, the entities that were affected by inconsistencies between IFRS 10 and IAS 28 will be able to improve the quality of their financial reporting.
 - (d) some think that early application would not have resulted in diversity in practice because they think that the 2014 September Amendment did not create new requirements but only clarified existing ones.
 - (e) one respondent suggests that the IASB should prohibit early application of the September 2014 Amendment once the proposal to defer the effective date is issued, in order to restrict the time period in which early application is possible. They think that this would reduce diversity in practice.
27. The staff are concerned that the proposal in paragraph 26(e), to prohibit early application after issuing the deferral IFRS, would not achieve the IASB's objective, ie that the amendment was intended to reduce diversity in practice and that by allowing early application, the entities that were affected by such inconsistencies will be able to improve the quality of their financial reporting.

28. The staff think that the IASB's original decision, discussed in paragraph BC8 of the ED, is still valid and that early application should not be restricted in any way:

BC8 The IASB considered whether early application of the September 2014 Amendment should be allowed while to continue throughout the period of the deferral of the effective date is deferred. Some members of the IASB were concerned that allowing early application would increase diversity in practice. The IASB decided that early application should continue to be permitted because the September 2014 Amendment was intended to address existing diversity in practice. ... Consequently, early application of the September 2014 Amendment was considered unlikely to increase diversity. ...

Summary and staff recommendation

29. The staff note that the majority of respondents support the IASB's proposals to defer the effective date of the September 2014 Amendment for the reasons given in the draft Basis for Conclusions. These respondents see these proposals as a timely and appropriate response by the IASB to the concerns raised.
30. Although a few respondents suggest that the September 2014 Amendment should be withdrawn, the staff think that this would be a complex solution, particularly for stakeholders in those jurisdictions in which the September 2014 Amendment had already been endorsed. The staff also note that withdrawal would not be possible before the effective date of 1 January 2016 which would add further complexity to the process. The staff does not think that withdrawal is an effective solution to the concerns raised.
31. Consequently, the staff recommend that the IASB's proposals be finalised as worded in the ED.

32. If the IASB accepts the staff recommendation, the project plan would be:

Milestone	Date
IASB grants permission to issue	December meeting
Publication	Mid-December

Question
Does the IASB agree with the staff recommendation to finalise the proposals as worded in the ED?