STAFF PAPER

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IFRS® Interpretations Committee meeting

Project	**Sale of a single asset entity containing real estate (IFRS 10)**		
Paper topic	Initial Consideration		
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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about the sale of a single asset entity containing real estate. Specifically, the submitter asked about the accounting for a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a single asset entity that is a subsidiary.

2. The objective of this paper is to:
   (a) provide the Committee with a summary of the matter;
   (b) present our research and analysis; and
   (c) ask the Committee whether it agrees with our recommendation not to add the matter to its standard-setting agenda.

Structure of the paper

3. This paper includes:
   (a) background information (paragraphs 5–6);
   (b) outreach (paragraphs 7–17);
   (c) staff analysis (paragraphs 18–50); and

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(d) staff recommendation (paragraph 51).

4. There are two appendices to this paper:

(a) Appendix A—proposed wording of the tentative agenda decision; and

(b) Appendix B—submission.

Background information

The fact pattern

5. The submission outlines the following fact pattern:

(a) An entity builds and sells real estate as part of its ordinary activities (ie the entity enters into contracts for the sale of real estate before, during or after construction of a building).

(b) The entity establishes a legal entity (Real Estate) for each real estate asset (land and/or a building) when it acquires the land and before it enters into contracts with customers.

(c) Real Estate holds only the real estate asset and any related tax asset or liability.

(d) At the time Real Estate is established, the entity concludes that Real Estate is a subsidiary as defined in IFRS 10 *Consolidated Financial Statements*.

(e) In selling the real estate to a customer, the entity transfers its 100% equity interest in Real Estate to the customer; ie legally, the entity sells shares and not the real estate.

(f) As a consequence of the transaction, the entity loses control of Real Estate.

The submission

6. The main question (Question A) in the submission is whether the entity applies IFRS 10 or IFRS 15 *Revenue from Contracts with Customers* in accounting for the

sale of Real Estate. However, depending on the answer to Question A, there are also two follow up questions:

(a) Question B—If IFRS 10 applies, does the entity present the resulting gain or loss on a gross or net basis?

(b) Question C—If IFRS 15 applies, would that conclusion continue to apply if, in addition to the real estate and any related tax asset or liability, Real Estate has other assets or liabilities (for example, a financing liability)?

Outreach

7. We sent information requests to members of the International Forum of Accounting Standard-Setters, securities regulators and large accounting firms.

8. The request asked those participating to provide information based on their experience about:

   (a) the prevalence of the fact pattern; and

   (b) whether entities typically apply IFRS 10 or IFRS 15 in accounting for the sale of Real Estate.

9. We also asked those participating whether variations to the fact pattern described in paragraph 5 of this paper are common. In particular, we asked about fact patterns in which:

   (a) an entity disposes of less than 100% of the share capital of Real Estate; or

   (b) Real Estate contains additional assets and/or liabilities.

10. We received 13 responses—six from large accounting firms, five from national standard-setters and two from organisations representing groups of regulators. The views received represent informal opinions, rather than formal views of those responding.

Prevalence

11. Responses to our outreach indicated that the fact pattern described in paragraph 5 of this paper is common in some jurisdictions but not in others. Respondents said it is common in Germany, Norway, Sweden, Singapore and the UK. The fact pattern has been observed, but is not common, in Australia, Belgium, Canada, China, Hong Kong, Israel, Japan, the Netherlands, Poland and South Africa.

12. Some respondents said the fact pattern is common for other assets or in other industries—for example, in the construction and sale of renewable energy plants, undeveloped land and extractive industries.

13. Respondents said a fact pattern in which an entity disposes of less than 100% of the share capital of Real Estate is not common. However, some respondents said that they had observed such a fact pattern in Denmark, Germany, Israel, Japan and the UK.

14. Respondents also said a fact pattern in which Real Estate contains additional assets and/or liabilities is not common.

Accounting

15. Respondents reported mixed practice—some entities apply IFRS 10 to the fact pattern described in the submission and some apply IFRS 15. Respondents said entities that apply IFRS 15 typically do so because:

    (a) the transaction is part of the entity's ordinary activities; or

    (b) Real Estate is not a business as defined by IFRS 3 *Business Combinations*.

16. Some respondents also said entities may decide to apply IFRS 15 because they think:

    (a) it would better reflect the 'substance' of the transaction—ie the entity is 'in substance' selling the real estate and not the shares;

    (b) presenting a net gain or loss on disposal would not faithfully represent the entity's activities; or

    (c) the transaction was structured within a separate legal entity for legal, tax or risk reasons, which should not affect the recognition of revenue.

17. Some respondents said they had not observed practice applying IFRS 15, but had done so applying IAS 18 *Revenue*.

Staff analysis

18. In the fact pattern described in the submission, Real Estate is a subsidiary of the entity as defined in IFRS 10. The entity has therefore applied IFRS 10 from the date of obtaining control of Real Estate.

19. We have not analysed other fact patterns. For example, we have not considered a fact pattern in which an entity constructs real estate and transfers the real estate to a newly established legal entity only at the time of selling the real estate to a customer.

Question A

20. The submitter asks whether, in the fact pattern described in the submission, the entity applies IFRS 10 or IFRS 15 to the sale of Real Estate.

21. Paragraph 5 of IFRS 15 defines the scope of the Standard:

> An entity shall apply this Standard to all contracts with customers, except the following: …
>
> (c) financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*; …

22. Real Estate is a subsidiary as defined in IFRS 10. The entity therefore applies IFRS 10 in accounting for its interest in Real Estate from the date that it obtains control of Real Estate until the date of losing control.

23. Paragraph 20 of IFRS 10 states:

> Consolidation of an investee shall begin from the date the investor obtains control of the investee and cease when the investor loses control of the investee.

24. Paragraph 25 of IFRS 10 specifies requirements for the loss of control of a subsidiary:

> If a parent loses control of a subsidiary, the parent:
>
> (a) derecognises the assets and liabilities of the former subsidiary…
>
> (b) recognises any investment retained in the former subsidiary…
>
> (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

25. Accordingly, the transaction described in the submission (the loss of control of Real Estate, a subsidiary) is within the scope of IFRS 10, and paragraph 25 of IFRS 10 includes requirements that apply to the transaction.

26. Consequently, the entity applies IFRS 10 to the transaction described in the submission; that transaction is excluded from the scope of IFRS 15 by paragraph 5(c) of IFRS 15.

Question B

27. Question B is applicable when the entity applies IFRS 10 to the transaction described in the submission.

28. The submitter asks whether the entity presents the resulting gain or loss from the loss of control of Real Estate on a gross or net basis. In other words, is the entity required to present the resulting gain or loss within one line item in the statement of profit or loss, or could the entity choose to present the component parts of the net gain or loss as separate line items in the statement of profit or loss?

29. To illustrate, consider the following example:

> Real Estate is an entity that has an inventory asset and an associated deferred tax liability. An entity (Seller) owns 100% of the share capital of Real Estate, and consolidates Real Estate applying IFRS 10. Seller agrees to sell Real Estate to a customer for CU110, and in doing so loses control of Real Estate. On the date that control is lost, the carrying amounts of

> Real Estate's inventory asset and deferred tax liability are CU100 and (CU10) respectively in Seller's consolidated financial statements. Consequently, applying paragraph 25 of IFRS 10 to the transaction, Seller recognises a gain associated with the loss of control of Real Estate of CU20 (proceeds of CU110, less net assets of CU90). Selling real estate is part of Seller's ordinary activities.

30. Question B in the submission asks whether, in this example, Seller presents:

    (a) the gain on disposal of Real Estate (CU20) in only one line item in the statement of profit or loss; or

    (b) the proceeds from the disposal of Real Estate (CU110) in one line item in the statement of profit or loss, and the net assets of Real Estate disposed of (CU90) in another line item. In this case, Seller might present the proceeds as revenue and the net assets disposed of in an operating expense line item, such as cost of sales.

31. As noted in the submission (and above in paragraph 24 of this paper), paragraph 25(c) of IFRS 10 requires an entity to recognise the gain or loss associated with the loss of control attributable to the former controlling interest. In this example, the former controlling interest is 100% of the share capital of Real Estate.

32. Paragraph B98 of IFRS 10 contains requirements that describe how an entity determines the gain or loss associated with the loss of control of a subsidiary (**bold added**):

> B98 If a parent loses control of a subsidiary, it shall:
>
> (a) derecognise:
>
> (i) the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost; and
>
> (ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

(b) recognise:

(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control;

(ii) if the transaction, event or circumstances that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution; and

(iii) any investment retained in the former subsidiary at its fair value at the date when control is lost.

(c) reclassify to profit or loss, or transfer directly to retained earnings if required by other IFRSs, the amounts recognised in other comprehensive income in relation to the subsidiary on the basis described in paragraph B99.

(d) **recognise any resulting difference as a gain or loss in profit or loss attributable to the parent**.

33. The submission says some have suggested that the use of the word 'recognise' (instead of 'present') in paragraphs 25(c) and B98(d) of IFRS 10 means that there are no specific requirements regarding presentation. Therefore, an entity would develop an accounting policy applying paragraphs 10–12 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* for its presentation of the gain or loss associated with the loss of control of a subsidiary. The entity might develop a policy that results in presenting the proceeds from sale of a subsidiary in one line item (such as revenue) and the net assets of the subsidiary sold in another line item (such as cost of sales).

34. We disagree. Paragraphs 10–12 of IAS 8 apply only in the absence of an IFRS Standard that specifically applies to the transaction. In our view, there are requirements in IFRS Standards (in this case, those in paragraph B98(d) of IFRS 10 together with the presentation requirements in IAS 1 *Presentation of Financial Statements*) that apply to the presentation of the gain or loss associated with the loss of control of a subsidiary.

35. We note that paragraph B98(d) of IFRS 10 refers to recognising 'any resulting difference as a gain or loss in profit or loss attributable to the parent'. In other words, paragraph B98(d) requires an entity to recognise the resulting gain or loss in the statement of profit or loss. In requiring the recognition of the consideration received (paragraph B98(b)), and the derecognition of the assets and liabilities of the subsidiary (paragraph B98(a)), there is no mention of profit or loss. An entity recognises and derecognises those component parts of the gain or loss in its statement of financial position applying paragraphs B98(a) and (b).

36. In the context of the example in paragraph 29 of this paper, we think Seller recognises only the resulting gain of CU20 in profit or loss as follows:

DR. Cash/receivable	110	
DR. Deferred tax liability	10	
CR. Inventory		100
CR. Gain on loss of control		20

37. Seller would then present this gain of CU20 in an appropriate line item applying IAS 1. There would be no amounts of CU110 and (CU90) recognised in profit or loss to present in separate line items.

38. Accordingly, in our view, in considering how to present the gain or loss associated with the loss of control of a subsidiary, an entity determines the line item in the statement of profit or loss within which to present the gain or loss; an entity does not componentise the gain or loss and present the component parts in separate line items.

39. We think paragraphs 25(c) and B98(d) of IFRS 10 do not refer to 'presentation' because, doing so, would imply that an entity is required to present any gain or loss associated with the loss of control of a subsidiary as a separate line item in the statement of profit and loss. This is not the case—paragraph 82 of IAS 1 lists line items an entity is required to present in the statement of profit or loss. Any gain or loss associated with the loss of control of a subsidiary is not included in that list.

Consistency with requirements in other Standards

40. We think the requirements in paragraph B98 of IFRS 10 in this respect are consistent with the recognition and presentation requirements for other similar items—for example, the disposal of non-current assets, including investments and operating assets. Requirements for those items frame the recognition of a gain or loss on disposal in the context of presenting a net amount:

    (a) Paragraph 68 of IAS 16 states: 'The gain or loss arising from the derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognised (unless IFRS 16 *Leases* requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.'

    (b) Paragraph 113 of IAS 38 states: 'The gain or loss arising from the derecognition of an intangible asset shall be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It shall be recognised in profit or loss when the asset is derecognised (unless IFRS 16 requires otherwise on a sale and leaseback). Gains shall not be classified as revenue.'

    (c) Paragraph 34 of IAS 1 states: '…An entity undertakes, in the course of its ordinary activities, other transactions that do not generate revenue but are incidental to the main revenue-generating activities. An entity presents the results of such transactions, when this presentation reflects the substance of the transaction or other event, by netting any income with related expenses arising on the same transaction. For example: (a) an entity presents gains and losses on the disposal of non-current assets, including investments and operating assets, by deducting from the amount of consideration on disposal the carrying amount of the asset and related selling expenses.'

Other similar fact patterns

41. In deciding to establish Real Estate when it acquires land, the entity described in the submission could decide to sell less than 100% of its interest in Real Estate and thus retain an interest in the real estate sold. For example, the entity could decide to sell

80% of its 100% equity interest in Real Estate to the customer. Alternatively, Real Estate could have more assets or liabilities than only real estate inventory and a related tax liability—as mentioned in Question C below, it could also have a financing liability such as a bank loan.

42. In these fact patterns, Question B in the submission would then become more complicated if we were to assume that IFRS Standards permit an entity to componentise any gain or loss and present the component parts separately.

43. For example, using the example in paragraph 29 of this paper, assume the same facts except that Seller sells only 80% of its equity interest in Real Estate for CU88. At the date of losing control of Real Estate, Seller recognises its 20% retained interest in Real Estate at CU22 applying paragraph B98(b). As a consequence, Seller recognises a resulting gain of CU20 (proceeds of CU88, plus retained interest of CU22, less net assets of CU90). In this example, could Seller choose to componentise the gain of CU20 into (a) an amount of CU110 that represents the fair value of 100% of Real Estate, and (b) an amount of (CU90) that represents the carrying amount of Real Estate's net assets at the date of losing control, even though Seller has sold only 80% of Real Estate?

44. Similarly, using the example in paragraph 29 of this paper, assume the same facts except that (a) Real Estate also has a bank loan outstanding of CU30, and (b) Seller sells 100% of its equity interest in Real Estate for CU80. Seller again recognises a resulting gain of CU20 (proceeds of CU80, less net assets of CU60) on losing control of Real Estate. In this example, could Seller decide to componentise the gain of CU20 and, if so, into what component parts?

45. As noted above, in our view, applying paragraphs 25 and B98 of IFRS 10 (together with the presentation requirements in IAS 1) an entity cannot present the component parts of a gain or loss associated with the loss of control of a subsidiary in separate line items in the statement of profit or loss. These slightly more complicated examples explain why this is the case—when a transaction involves the sale of shares rather than the sale of a tangible asset, the transaction can 'slice and dice' what is being sold in different ways. The requirements in IFRS 10 apply to transactions that involve the

sale of shares that result in the loss of control of a subsidiary—those requirements have been designed to deal with all the various fact patterns that might arise.

Question C

46. Question C is applicable only if IFRS 15 applies to the transaction described in the submission.
47. Question C asks if the conclusion that IFRS 15 applies would continue if, in addition to the real estate and any related tax asset or liability, Real Estate has other assets or liabilities (for example, a financing liability).
48. We have not analysed this question because the transaction described in the submission is not within the scope of IFRS 15.

Staff conclusion

49. In the fact pattern described in the submission, the entity accounts for the loss of control of Real Estate (its subsidiary) applying IFRS 10. The entity presents any gain or loss associated with the loss of control of Real Estate in one line item in the statement of profit or loss; it does not present the component parts of the gain or loss in separate line items.

Question 1 for the Committee
Does the Committee agree with our analysis of the application of the requirements in IFRS Standards to the fact pattern described in the submission set out in paragraphs 18–49 of this paper?

Should the Committee add this matter to its standard-setting agenda?

Is it necessary to add to or change IFRS Standards to improve financial reporting?[1]

50. Based on our analysis, we think the requirements in existing IFRS Standards provide an adequate basis for an entity to determine (a) whether to apply IFRS 10 or IFRS 15 to the transaction described in the submission; and (b) how to present any resulting gain or loss associated with that transaction.

Staff recommendation

51. Based on our assessment of the Committee's agenda criteria in paragraphs 5.16–5.17 of the *Due Process Handbook* (discussed in paragraph 50 of this paper), we recommend that the Committee does not add this matter to its standard-setting agenda. Instead, we recommend publishing a tentative agenda decision that outlines how an entity applies IFRS 10 to the fact pattern described in the submission.

Questions 2 and 3 for the Committee
2. Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda? 3. Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?

[1] Paragraph 5.16(b) of the *Due Process Handbook*

Appendix A—Proposed wording of the tentative agenda decision

Sale of a single asset entity containing real estate (IFRS 10 *Consolidated Financial Statements*)

The Committee received a request about the accounting for a transaction in which an entity, as part of its ordinary activities, enters into a contract with a customer to sell real estate by selling its equity interest in a subsidiary. The entity established the subsidiary some time before it enters into the contract with the customer; the subsidiary has one asset—real estate inventory—and a related tax asset or liability. The entity has applied IFRS 10 in consolidating the subsidiary before it loses control of the subsidiary as a result of the transaction with the customer.

The request asked:

a) whether the entity applies IFRS 10 or IFRS 15 *Revenue from Contracts with Customers* to the transaction (Question 1); and

b) if the entity applies IFRS 10 to the transaction, whether the entity can present the component parts of any gain or loss resulting from the transaction within separate line items in the statement of profit or loss or, instead, is required to present any gain or loss within one line item in that statement (Question 2).

Question 1

IFRS 10 requires a parent (an entity that controls one or more entities) to prepare consolidated financial statements, unless one of the exceptions in paragraphs 4-4B of IFRS 10 applies. Paragraph 20 of IFRS 10 requires an entity to consolidate a subsidiary from the date of obtaining control of the subsidiary until the date of losing control. Paragraph 25 of IFRS 10 specifies requirements for the loss of control of a subsidiary.

Paragraph 5(c) of IFRS 15 excludes from the scope of that Standard financial instruments and other contractual rights or obligations within the scope of IFRS 9 *Financial Instruments*, IFRS 10, IFRS 11 *Joint Arrangements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*.

In the transaction described in the request, the entity loses control of a subsidiary to which it had applied IFRS 10 from the date of obtaining control. Accordingly, the Committee concluded

that the entity applies IFRS 10 to the transaction. Paragraph 5(c) of IFRS 15 excludes the transaction from the scope of that Standard.

Question 2

Paragraph 25(c) of IFRS 10 requires an entity to recognise the gain or loss associated with the loss of control of a subsidiary. Paragraph B98 specifies how an entity calculates and recognises that gain or loss. For the transaction described in the request, paragraph B98 requires the entity to:

(a) derecognise the assets and liabilities of the subsidiary at their carrying amounts at the date when control is lost (paragraph B98(a));

(b) recognise the fair value of the consideration received (paragraph B98(b)); and

(c) recognise any resulting difference as a gain or loss in profit or loss (paragraph B98(d)).

The Committee observed that paragraph B98(d) requires the recognition of the gain or loss associated with the loss of control of a subsidiary in profit or loss; paragraph 98(a) and (b) require the recognition or derecognition of the component parts of the gain or loss (for example, the recognition of the consideration received and the derecognition of the assets and liabilities of the subsidiary) in the statement of financial position. Consequently, in applying IFRS 10 to the transaction described in the request, there is only one amount recognised in profit or loss—the gain or loss associated with the loss of control of the subsidiary. In considering presentation in the statement of profit or loss, the entity therefore determines the line item within which to present that gain or loss applying IAS 1 *Presentation of Financial Statements*. The transaction does not result in the recognition of the component parts of the gain or loss in profit or loss that the entity might then present in separate line items.

Consequently, the Committee concluded that, for the transaction described in the request, the entity is required to present any gain or loss associated with the loss of control of the subsidiary within one line item in the statement of profit or loss.

The Committee concluded that the principles and requirements in IFRS Standards provide an adequate basis for an entity to determine (a) which Standard to apply to the transaction described in the request, and (b) how to present the gain or loss associated with the transaction. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B—Submission

B1. We have reproduced the submission below, and in doing so deleted details that would identify the submitter of this request.

IFRS IC Potential Agenda Item Request

[We request] the IFRS Interpretations Committee (the Committee) address the following issue relating to the scope and application of IFRS 10 *Consolidated Financial Statements* and IFRS 15 *Revenue from Contracts with Customers*.

Issue:

The issue relates to which standard is applicable, IFRS 10 or IFRS 15, to transactions involving the sale of an asset held in a corporate wrapper that are in the ordinary course of business. Specifically, the issue arises when the entity, as part of its ordinary activities, enters into contracts with customers to sell the asset by selling the equity interest in the legal entity that holds the asset (i.e., the corporate wrapper) and the entity has previously concluded that the corporate wrapper is a subsidiary in accordance with IFRS 10.

Fact pattern:

In practice, different scenarios involving the sale of assets via corporate wrappers exist. For example, fact patterns vary in terms of:

- When the corporate wrapper is created and the asset transferred into it
- When the entity enters into a contract with a customer
- When the construction of the asset starts (if applicable)
- When the equity interest in the corporate wrapper is legally transferred to the customer

Entities may prefer to sell assets through a corporate wrapper because of tax or legal reasons or because of local regulation or business practice.

We ask the Committee to clarify the accounting in an entity's consolidated financial statements for the most challenging of these arrangements. Specifically, transactions where the entity:

a) controls the corporate wrapper prior to the sale and, therefore, has been applying IFRS 10; and
b) enters into transactions to sell its equity interest in a corporate wrapper (that holds a single asset) in the ordinary course of business.

Assume the following facts:

- An entity builds and sells real estate in the ordinary course of business.
- Each real estate asset (land and/or building) is held in a separate legal entity (i.e., the corporate wrapper) and is the only item within the corporate wrapper, except for any deferred tax asset or liability linked to the real estate.
- The corporate wrapper is established when the entity acquires land and before the entity has entered into a contract with a customer.
- At the time the corporate wrapper is established, the entity concludes that the corporate wrapper is a subsidiary in accordance with IFRS 10 (i.e., the entity controls the corporate wrapper prior to sale).
- As part of its ordinary activities, the entity enters into contracts with customers for the sale of real estate before, during or after construction of a building on the land.
- To effect the sale to the customer, the entity legally transfers its equity interests in the corporate wrapper (holding the real estate) to the customer, rather than directly selling the real estate.

As part of this transaction the entity loses control of the corporate wrapper. *When* the entity loses control of the corporate wrapper is a matter of facts and circumstances and may not coincide with the legal transfer of the

equity interest. The entity might lose control at the time it enters into a contract with a customer or thereafter (e.g., during the construction phase or after construction is completed).[2]

Questions

Question A and, if applicable, Question B relate to the fact pattern above, where the corporate wrapper does not include any item other than the real estate asset, except for any deferred tax asset or liability linked to that real estate.

If applicable, Question C introduces a variation to the fact pattern that we believe would help constituents understand the scope of the Committee's conclusion on Question A.

Question A:

Does IFRS 10 or IFRS 15 apply when the entity loses control of the corporate wrapper in the situation described in the fact pattern?

View 1: IFRS 10 applies

Proponents of this view believe that IFRS 10 applies, regardless of whether there is a contract with a customer. IFRS 10 provides requirements that apply in situations where a parent loses control of a subsidiary (IFRS 10.25). If an entity previously concluded that IFRS 10 applied to the corporate wrapper (i.e., to consolidate), then IFRS 10 should apply to the loss of control. Importantly:

- IFRS 10 (contrary to IFRS 3 *Business Combinations*) does not distinguish between a business and a non-business (i.e., IFRS 10 applies to both).
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* requires entities to apply the requirements that specifically apply to a transaction, other event or condition (IAS 8.7).

Proponents of this view also note that IFRS 15 specifically excludes from its scope financial instruments and other contractual rights and obligations within the scope of IFRS 10 (IFRS 15.5(c)). Arguably, this scope exclusion would not be needed if one thought IFRS 10 only applied to transactions that are not in the ordinary course of business.

Under US GAAP, as a consequence of issuing ASC 606, *Revenue from Contracts with Customers*, the Financial Accounting Standards Board (FASB) issued and amended guidance relating to the disposal of non-financial assets (ASC 610-20, *Gains and Losses from the Derecognition of Nonfinancial Assets (Other Income)*) and loss of control (ASC 810, *Consolidation*). ASC 610-20 applies to the recognition of gains or losses on transfers of non-financial assets and in-substance non-financial assets that are not businesses to counterparties that are not customers. ASC 610-20 states that ASC 606 is applied when the counterparty is a customer. In addition, ASC 810 (as amended) indicates that its deconsolidation and derecognition guidance does not apply to a loss of control of a subsidiary that is a business if that transaction is within the scope of ASC 606. A loss of control of a subsidiary that is not a business is equally excluded from the scope of ASC 810 if the substance of the transaction is within the scope of another standard (e.g., ASC 606).[3] A similar amendment was not made to IFRS 10 when IFRS 15 was issued. Absent a similar scope exclusion, IFRS 10 applies according to proponents of View 1.

The IFRS 15 model is intended to apply to contracts that involve the transfer of control over an asset to a customer. In contrast, IFRS 10 is intended to apply to transactions or other events involving changes in control of entities (e.g., by means of transferring equity interests), which occurs in the fact pattern. While IFRS 15 deals with transactions with customers in the ordinary course of business, it may not address issues specific to transactions where the legal form is the sale of an equity interest (although not applicable in the fact pattern described above, examples could include when the corporate wrapper holds assets or liabilities other than the real estate and related deferred tax, or when the seller retains a non-controlling interest).

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[2] For example, prior to the legal transfer of the equity interest, the entity may become an agent in relation to the corporate wrapper based on the terms and conditions as stipulated in the customer contract.

[3] See Appendix for extracts from US GAAP.

Proponents of this view also believe that if for tax purposes the seller argues the sale is, in substance, a sale of an entity, it would be a challenge to argue for accounting purposes that it is, in substance, a sale of an asset.

View 2: IFRS 15 applies
In the fact pattern above, developing the land and selling real estate is part of the entity's ordinary activities. While the contract involves the transfer of an equity interest, it is, in substance, a contract with a customer in the ordinary course of business. Therefore, proponents of this view believe it should be a revenue-generating transaction within the scope of IFRS 15. Accounting for loss of control under IFRS 10 (i.e., disregarding the substance) is not reflective of the entity's economic performance.

Proponents of this view note that applying IFRS 10 (depending on the answer to Question B) could result in no revenue for an entity whose ordinary activities solely involve the sale of real estate in a corporate wrapper. Therefore, View 1 would not provide relevant information to users of the financial statements. Furthermore, proponents of View 2 believe that View 1 may result in inappropriate and unreliable accounting outcomes. For example, if some, or all, of the consideration received in exchange is variable, the variable consideration constraint in IFRS 15 would not apply. Also, IFRS 10 does not allow for transfer of control over time (i.e., recognition would always be at a point in time), even if the customer obtains control of the underlying asset over time.

In many instances, the legal form of the contract (i.e., transfer of equity interests) is intended to ensure tax efficiency or may be required in a jurisdiction by law and regulations. Proponents of View 2 believe that this should not affect the accounting treatment. A March 2009 IASB staff paper (in the context of an IAS 39 scope exemption) discussed a transaction involving the acquisition of a single-asset entity and noted that, if it was not a business (in accordance with IFRS 3), the acquirer effectively has a contract to buy the underlying non-financial asset.[4] While this staff paper precedes IFRS 10 (which applies to subsidiaries regardless of whether they constitute a business or not) it suggests sympathy for a look-through approach that focuses on the substance of the transaction, rather than its form.

Question B:
If IFRS 10 applies when the entity loses control of the corporate wrapper in the situation described in the fact pattern, does the entity present the resulting gain or loss on a gross or net basis?

View 1: The entity presents the gain or loss on a net basis
Proponents of View 1 believe that IFRS 10.B98(d) is clear and requires net presentation. That paragraph requires an entity to "recognise any resulting difference as a gain or loss in profit or loss attributable to the parent" [emphasis added].

View 2: The entity may present the gain or loss on a gross basis
Proponents of View 2 believe that IFRS 10.B98(d) focuses only on 'recognition', which is not the same as 'presentation'. IFRS 10 does not provide specific presentation requirements. Therefore, an entity needs to develop an appropriate accounting policy in accordance with IAS 8.

Proponents of View 1 note that applying a gross basis would raise several practical questions about how to determine the gross amounts, particularly if there is deferred tax on the asset, or, as introduced in Question C, the corporate wrapper includes other assets or liabilities. For example, would a financing liability be added to income or deducted from expenses?

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[4] Paragraphs 9-10 of Agenda Paper 10C: Annual Improvements Project – comment letter analysis: IAS 39 Financial Instruments: Recognition and Measurement Scope exemption for business combination contracts (IAS 39.2(g)), March 2009, link: http://archive.ifrs.org/Meetings/Documents/IASBMarch09/AIP0903b010Cobs.pdf

Question C:
If IFRS 15 applies when the entity loses control of the corporate wrapper in the situation described in the fact pattern, would that conclusion continue to apply if, in addition to the real estate and any related deferred tax asset or liability, the corporate wrapper includes a financing liability?

Reasons for the IFRS IC to address this issue:
a. Is the issue widespread and has, or is expected to have, a material effect on those affected?
This issue is widespread. Furthermore, determining which standard (i.e., IFRS 10 or IFRS 15) applies may have a material effect on the financial statements of the affected entities. In our view, this is not solely a matter of presentation. The timing of recognition may be different, as well as the measurement of consideration. For example, IFRS 10 does not constrain variable consideration, while IFRS 15 may. Furthermore, the applicable standard may affect derecognition of any other assets or liabilities included in the corporate wrapper. For example, IFRS 9 *Financial Instruments* would seem applicable to the derecognition of any financing liability when IFRS 15 applies to the sale, whereas IFRS 10 is applicable to all assets and liabilities of the subsidiary on loss of control.

Prior to the adoption of IFRS 15, based on our experience, entities generally applied IAS 18 *Revenue* or IAS 11 *Construction Contracts* (as appropriate) when accounting for the loss of control of a corporate wrapper, such as in the fact pattern above.

IAS 18 and IAS 11, unlike IFRS 15, did not include an explicit scope exclusion for contracts within the scope of IFRS 10. Therefore, entities may have concluded that such transactions were in the scope of both IAS 18 and IFRS 10 and may have developed an accounting policy on which standard took precedence.
It is still too early to comment on established practice under IFRS 15. However, we understand that entities generally expect to continue their past accounting (i.e., apply the revenue standard to account for the loss of control of such a corporate wrapper). Despite including a scope exclusion in IFRS 15 for contracts within the scope of IFRS 10, we are also aware that some believe the IASB did not intend to change the accounting for disposals of non-financial assets held in a corporate wrapper.

b. Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?
We believe divergent views exist and financial reporting would be improved through the reduction of reporting methods.

c. Can the issue be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting?
Yes. We believe that consideration by the Committee is needed in this instance and that it can be resolved efficiently within the confines of IFRS Standards and the Conceptual Framework for Financial Reporting.

d. Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRS Standards
We believe this issue is sufficiently narrow in scope that it can be addressed in an efficient manner.

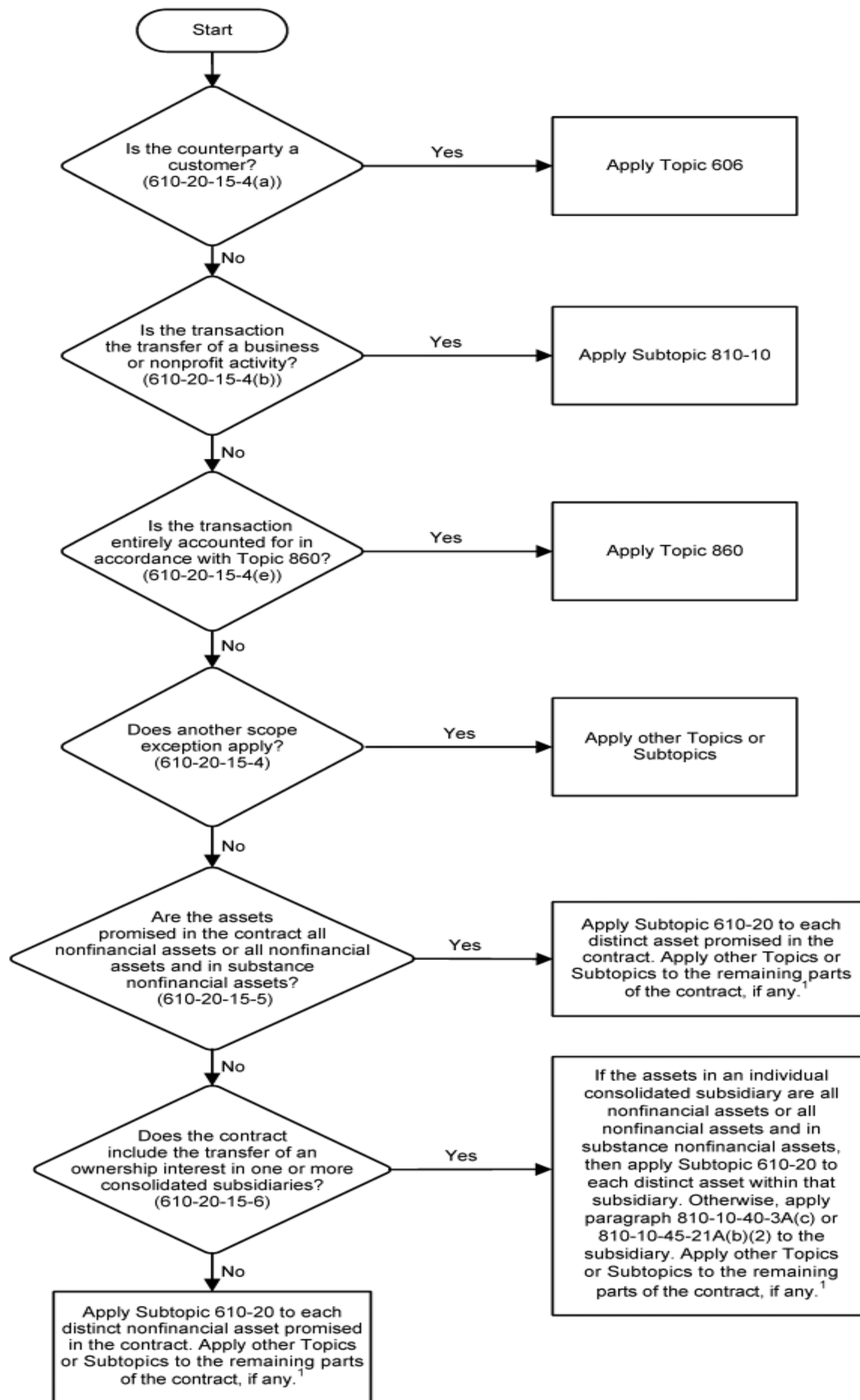
e. Will the solution developed by the Interpretations Committee be effective for a reasonable time period? The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified.

We are unaware of any current or planned IASB project that will directly address this issue.

Appendix: extracts from US GAAP

ASC 610-20-15-10

The following decision tree depicts the process for evaluating whether assets promised to a counterparty in a contract (or parts of a contract) shall be derecognized within the scope of this Subtopic. The decision tree is not intended as a substitute for the guidance in this Subtopic.



[1] If the transfer includes other contractual arrangements that are not assets of the seller to be derecognized (for example, guarantees), those contracts are separated and accounted for in accordance with other Topics or Subtopics.

ASC 810-10-40-3A

The deconsolidation and derecognition guidance in this Section applies to the following:

a. A subsidiary that is a nonprofit activity or a business, except for either of the following:
    1. Subparagraph superseded by Accounting Standards Update No. 2017-05
    2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360)
    3. A transfer of a good or service in a contract with a customer within the scope of Topic 606.

b. A group of assets that is a nonprofit activity or a business, except for either of the following:
    1. Subparagraph superseded by Accounting Standards Update No. 2017-05
    2. A conveyance of oil and gas mineral rights (for guidance on conveyances of oil and gas mineral rights and related transactions, see Subtopic 932-360)
    3. A transfer of a good or service in a contract with a customer within the scope of Topic 606.

c. c. A subsidiary that is not a nonprofit activity or a business if the substance of the transaction is not addressed directly by guidance in other Topics that include, but are not limited to, all of the following:
    1. Topic 606 on revenue from contracts with customers
    2. Topic 845 on exchanges of nonmonetary assets
    3. Topic 860 on transferring and servicing financial assets
    4. Topic 932 on conveyances of mineral rights and related transactions
    5. Subtopic 610-20 on gains and losses from the derecognition of nonfinancial assets.