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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **15 May 2007, London**

Project: **Annual Improvements**

Subject: **Clarification of introduction to IAS 27 (Agenda paper 5G)**

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1. The Board decided at the March 2007 Board meeting that, in most circumstances, minor issues relating to material that is not part of a standard can be resolved as an editorial change. The staff have identified that the following issue would be most appropriately resolved as an editorial change without Board discussion.

   Issue: There is an unclear statement in the introduction to IAS 27 that suggests that a subsidiary acquired exclusively with a view to resale is not consolidated. This is inconsistent with the requirements of IAS 27 and IFRS 5.

2. This paper is for information. It will not be discussed at the Board meeting unless a Board member requests.

Staff recommendation

3. The staff recommends that:

   - this issue should be dealt with as an editorial change; and
   - IAS 27 is amended as proposed in paragraph 5 of this paper.

Background

4. The staff have been notified of an unclear statement in the introduction to IAS 27 (IAS 27 paragraph IN 7). This statement suggests that a subsidiary acquired exclusively with a view to resale is not consolidated. This is inconsistent with the requirements of IAS 27 paragraph 12 and IFRS 5 paragraph 16.

Drafting

5. The staff recommend that IAS 27 should be amended as follows. The amendment will be incorporated in the revisions to IAS 27 following the Business Combinations project.

Temporary control

IN7 The Standard ~~does not~~ requires consolidation of all subsidiaries~~y~~, including when ~~acquired when there is evidence that~~ control is intended to be temporary because the subsidiary has been acquired exclusively with a view to resale. Such subsidiaries are accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. ~~However, there must be evidence that the subsidiary is acquired with the intention to dispose of it within twelve months and that management is actively seeking a buyer. In addition, the words 'in the near future' were replaced with the words 'within twelve months'. When a subsidiary previously excluded from consolidation is not disposed of within twelve months it must be consolidated as from the date of acquisition unless narrowly specified circumstances apply.~~ ~~[1]~~

~~[1] In March 2004, the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from consolidation when control is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.~~