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**International  
Accounting Standards  
Board**

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*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## **INFORMATION FOR OBSERVERS**

**Board Meeting:** 11 March 2008, London

**Project:** ED Annual improvements process–Comment analysis

**Subject:** IAS 27 Measurement of subsidiary held for sale in separate financial statements (Q21)  
(Agenda paper 8F)

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## **Introduction**

1. The purpose of this agenda paper is to summarise the staff's analysis of the comments received on the proposed amendment in Question 21 of the annual improvements ED.
2. The staff does not intend to discuss this agenda paper at the Board meeting unless otherwise requested by Board members.

## **Staff recommendation**

3. The staff recommends that the Board proceed with the amendment to paragraph 37 of IAS 27 to remove the identified inconsistency, and add a sentence to clearly state the accounting for investments carried in accordance with IAS 39 when classified as held for sale. Proposed wording is included in Appendix 1 to this agenda paper.

## **Background**

4. This issue relates to an inconsistency that arises when the parent applies a policy of accounting for subsidiaries in accordance with IAS 39 in its separate

financial statements. The current text of IFRS 5 and IAS 27 suggest different measurement attributes for these subsidiaries when they are classified as held for sale.

5. Paragraph 5 of IFRS 5 excludes financial assets within the scope of IAS 39 from its measurement scope. Paragraph BC13 of IFRS 5 explains that the Board decided that non-current assets should be excluded ‘only if (i) they are already carried at fair value with changes in fair value recognised in profit or loss or (ii) there would be difficulties in determining their fair value less costs to sell.’ (IFRS 5.BC 13). The Board acknowledges that not all financial assets within the scope in IAS 39 are recognized at fair value with changes in fair value recognized in profit or loss but it did not want to make any further changes to the accounting for financial assets at this time.
6. IFRS 5.5 taken in isolation therefore suggests that a parent that accounts for its investments in subsidiaries in accordance with IAS 39 in its separate financial statements should continue to apply the accounting in IAS 39 when they are classified as held for sale.
7. In contrast, paragraph 37 of IAS 27 provides a measurement choice for investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5. The measurement choice is at cost or in accordance with IAS 39. The existing wording also states that a subsidiary classified as held for sale in accordance with IFRS 5 should be accounted for in accordance with IFRS 5.
8. IAS 27.37 therefore suggests that a parent that accounts for its investments in subsidiaries in accordance with IAS 39 in its separate financial statements should cease to apply the accounting in IAS 39 when they are classified as held for sale and instead, should apply the IFRS 5 measurement – at the lower of carrying value and fair value less costs to sell.
9. The Board discussed this issue in its May 2007 meeting and decided to amend paragraph 37 of IAS 27 to align the accounting for these investments with the accounting for other assets that are accounted for at fair value before classification as held for sale. As a result of the amendment proposed in the ED, these investments will continue to be accounted for in accordance with IAS 39 when they are classified as held for sale.

## **Comment Analysis**

10. Of the 75 comment letters received by the Board, 53 commented on this issue. Respondents generally agreed that investments in subsidiaries that are accounted for in accordance with IAS 39 in the parent's separate financial statements should continue that accounting when classified as held for sale (or included in a disposal group that is classified as held for sale).
11. One respondent objected on the basis that the proposed amendment still allows investments in subsidiaries measured at fair value to continue such accounting when classified as held for sale (CL 13). The respondent felt that all assets held for sale should be measured uniformly, and believed that investments in subsidiaries measured at fair value should also be accounted at the lower of carrying amount and fair value less cost to sell when classified as held for sale.
12. The staff notes that the Board has considered this issue and, instead, decided to align the accounting for these investments with other assets accounted for at fair value before classification as held for sale.
13. Another concern relates to whether investments in subsidiaries accounted for in accordance with IAS 39 can be measured at cost or fair value (CL 14). The staff notes that the Board has already considered this issue, as explained in both the Bases for Conclusions of the existing standard and of the proposed amendment in the exposure draft.
14. A few respondents commented that the proposed wording only clarifies that, when investments meet the criteria of held for sale as defined in IFRS 5, investments in subsidiaries carried at cost should apply the measurement requirements of IFRS 5 but is silent on the measurement to be applied to investments carried in accordance with IAS 39. They believed that further clarification for investments in subsidiaries accounted for in accordance with IAS 39 is necessary (CL 23, 25, 54).
15. The staff agrees that if the Board's proposal is intended to clarify the accounting for investments in subsidiaries accounted for in accordance with IAS 39 when they are classified as held for sale as defined in IFRS 5, the amended text should clearly state that accounting, and not be an implied conclusion for these investments.

16. Therefore, the staff recommends that the Board proceed with the amendment to paragraph 37 of IAS 27 to remove the identified inconsistency, and add a sentence to clearly state the accounting for investments accounted for in accordance with IAS 39 when they are classified as held for sale (proposed wording is included in Appendix 1 to this agenda paper).
17. **Does the Board agree with the staff's recommendation?**
18. **Does the Board have any drafting comments for Appendix 1?**

## **Appendix 1 – DRAFTING**

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[Omitted from observer notes]