STAFF PAPER

IFRS Interpretations Committee Meeting

January 2012

Project	**Definition of the term 'non-monetary asset' in SIC-13 and IAS 28 (revised in 2011)**		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. The IFRS interpretations Committee (the Committee) received a request to clarify the definition of the term 'non-monetary asset' used in SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (revised in 2011).

2. The submitter notes that there is currently a conflict between the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 for transactions in which a parent contributes interests in a subsidiary to a joint venture/Jointly Controlled Entity (JCE) and this contribution results in a loss of control in the subsidiary by the parent. Paragraph 5 of SIC-13 restricts gains and losses arising from contributions of non-monetary assets to a joint venture/JCE to the extent of the interest attributable to the other equity holders in the JCE, whereas paragraph 34 of IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary. The consequence is that a higher gain (if any) would be accounted for under IAS 27 in comparison with the gain that would be accounted for under SIC-13 at the contribution date.

3. As a result, diversity in practice has emerged on the accounting for a loss of control of a subsidiary when it is contributed to a joint venture/JCE. Entities, in effect, have an accounting policy choice of applying either IAS 27 or SIC-13.

4. The submitter also notes that the incorporation of SIC-13 into paragraph 30 of IAS 28 (2011) may introduce further diversity of practice in the future when IAS 28 (2011) will become mandatory. Indeed, some consider under the current requirements that SIC-13 should only be applied to contributions to a joint venture/JCE and not to contributions to an associate. However, it should be noted that some also apply SIC 13 by analogy to contributions to an associate.

5. The submitter thinks that this diversity in practice could be reduced if there were to be a clarification as to whether a business (as defined in IFRS 3 *Business Combinations*) qualifies as a non-monetary asset under SIC-13 (and IAS 28 revised in 2011). The submission is shown in Appendix A.

6. It should be noted that the inconsistency will remain when IFRS 10 *Consolidated financial Statements* will replace IAS 27. In fact, the requirements in IFRS 10 (paragraphs 25 and B98) on the accounting for the loss of control of a subsidiary are similar to the requirements in IAS 27 (paragraph 34).

Structure of the paper

7. The objectives of the paper are:

   (a) to present the previous decisions of the Board and the Committee regarding the conflict between IAS 27 and SIC-13;

   (b) to discuss whether the clarification of the definition of a non-monetary asset would solve the conflict between IAS 27 and SIC-13;

   (c) to discuss what would be the consequences if the definition of a non-monetary asset as defined in SIC-13 were to include or exclude businesses;

   (d) to present the requirements in the IFRS literature regarding the definition of a non-monetary asset; and

   (e) to discuss whether the Committee should take the issue onto its agenda.

Previous decisions of the Board and the Committee regarding the conflict between IAS 27 and SIC-13

8. At its May 2011 meeting, the Committee noted that the Board had decided previously, in December 2009, not to deal with the inconsistency within the joint venture project but to deal with it separately. The Committee also noted that there are broader issues in relation to contributions to a JCE or associate in general, particularly involving the loss of control when a subsidiary becomes a JCE or an associate. The Committee therefore concluded that this issue would be best resolved by referring it to the Board as part of a broader project on equity accounting. Consequently, the Committee decided to recommend that the Board should not add the issue to Annual Improvements. The May 2011 IFRIC Update and the December 2009 IASB Update are shown in Appendices B and C.

Would the conflict between IAS 27 and SIC-13 be solved if the definition of a non-monetary asset was clarified?

9. In order to solve this conflict, it should be made clear when to apply SIC-13 and when to apply IAS 27. The table below illustrates what are the different accounting options under the current IFRS literature for contributions that result in a loss of control. The table distinguishes between:
   (a) direct contributions of assets versus contributions of an interest in a subsidiary;
   (b) contributions that constitute a business versus contributions that do not constitute a business;
   (c) the level of interest retained: the interest retained may be an investment in the scope of IAS 39/IFRS 9, an associate in the scope of IAS 28 or a joint venture/JCE in the scope of IAS 31/IFRS 11.

All the contributions result in a loss of control	Direct contribution of a group of assets that constitutes a business	Contribution of a subsidiary that constitutes a business	Direct contribution of a group of assets that does not constitute a business	Contribution of a subsidiary that does not constitute a business
Retained interest = Investment (IAS 39)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)
Retained interest = Associate	IAS 27 or SIC 13 (1) Accounting policy choice (2)	IAS 27 or SIC 13 (1) Accounting policy choice (2)	IAS 27 or SIC 13 (1) Accounting policy choice (2)	IAS 27 or SIC 13 (1) Accounting policy choice (2)
Retained interest = JCE	IAS 27 or SIC 13 Accounting policy choice (2)	IAS 27 or SIC 13 Accounting policy choice (2)	IAS 27 or SIC 13 Accounting policy choice (2)	IAS 27 or SIC 13 Accounting policy choice (2)

(1) Comment on SIC 13 being applied by analogy: some consider that SIC 13 should not be applied to contributions to associates under the current requirements (ie before IAS 28 revised in 2011 becomes mandatory). When IAS 28 (2011) will become effective, the conflict between IAS 27 and IAS 28 (2011) will extend to contributions to associates.

(2) Because of the conflicting guidance in the IFRS literature, the entity has in practice an accounting policy choice of applying consistently either IAS 27 or SIC-13 to all the contributions (although IFRSs do not present it as an accounting policy choice).

10. It should be noted that SIC-13 (and IAS 28 revised in 2011) refers to contributions of non-monetary assets. It does not explicitly refer to contributions of interests in entities. IAS 27 (and IFRS 10) refers to the loss of control of a subsidiary. It does not explicitly refer to the loss of control of a business. A subsidiary is defined in IAS 27 (paragraph 4) as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). Although it is clear that the definition of an 'entity' in IAS 27 includes unincorporated entities, we observe that IAS 27 does not require that an 'entity' be a business.

11. As a result, clarifying the definition of a non-monetary asset would not be sufficient to solve the issue in full. We think that the conflict between IAS 27 and SIC-13 would be solved only if it is also made clear that the same accounting should be applied whether the contribution is a direct contribution of assets or whether it is the contribution of an interest in a subsidiary that includes the assets. In our view, this would require to clarify SIC 13 (and IAS 28 revised in 2011), but also IAS 27 (and IFRS 10).

12. If the clarification in IAS 27 was not made, the accounting might be driven by whether an entity exists or not (and not by the substance of the transaction). For example, the accounting might be different if the entity:

    (a) either directly contributes an asset or a group of assets to a JCE or an associate; or

    (b) creates a wholly owned subsidiary A, contributes the assets to subsidiary A and then contributes subsidiary A to a JCE or an associate.

Consequences if the definition of a non-monetary asset excludes businesses as defined in IFRS 3 ('quick fix' A)

13. One proposal could be to exclude businesses as defined in IFRS 3, from the definition of non-monetary assets. In this case, non-monetary assets would exclusively refer to a group of assets that do not meet the definition of a business as defined in IFRS 3, such as items of property, plant and equipment (PPE) and intangible assets. As explained above, in order to solve the conflict between IAS 27 and SIC-13, this would also require clarifying that IAS 27 does not apply to contributions of subsidiaries(that do not constitute a business) to an associate or a JCE.

14. As a result, the guidance in SIC-13 would apply to:

    (a) a direct contribution of a group of assets that does not meet the definition of a business; and

    (b) a contribution of an interest in a subsidiary that does not meet the definition of a business.

    Gains (if any) would be limited to the amount attributable to other investors' interests.

15. The guidance in IAS 27 would apply to:

    (a) a direct contribution of a group of assets that meets the definition of a business; and

(b) a contribution of an interest in a subsidiary that meets the definition of a business.

A full gain would be recognised when control of the business is lost.

16. If these two clarifications were made, the outcome would be as shown in the table below:

All the contributions result in a loss of control	Direct contribution of a group of assets that constitutes a business	Contribution of a subsidiary that constitutes a business	Direct contribution of a group of assets that does not constitute a business	Contribution of a subsidiary that does not constitute a business
Retained interest = Investment (IAS 39)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)
Retained interest = Associate	IAS 27 (full gain)	IAS 27 (full gain)	SIC 13 (partial gain)	SIC 13 (partial gain)
Retained interest = JCE	IAS 27 (full gain)	IAS 27 (full gain)	SIC 13 (partial gain)	SIC 13 (partial gain)

Consequences if the definition of a non-monetary asset includes businesses as defined in IFRS 3 ('quick fix' B)

17. Another proposal could be to specify that businesses as defined in IFRS 3 are non-monetary assets. In this case, the guidance in SIC 13 would apply to all contributions of assets to a JCE or an associate:

(a) whether the assets constitute a business or not; and

(b) whether this is a direct contribution of a group of assets or a contribution of an interest in a subsidiary.

18. As explained above, in order to solve the conflict between IAS 27 and SIC-13, this would also require an amendment to IAS 27 to make clear that IAS 27 does not apply to the loss of control of subsidiaries if the entity that contributes the subsidiary retains joint control or significant influence of the former subsidiary. The guidance in IAS 27 would apply only to the contribution of a group of assets or an interest in a subsidiary in the case where the entity that contributes the assets does not retain joint control or significant influence of the former subsidiary.

19. If these two amendments were made, the outcome would be as shown in the table below:

All the contributions result in a loss of control	Direct contribution of a group of assets that constitutes a business	Contribution of a subsidiary that constitutes a business	Direct contribution of a group of assets that does not constitute a business	Contribution of a subsidiary that does not constitute a business
Retained interest = Investment (IAS 39)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)	IAS 27 (full gain)
Retained interest = Associate	SIC 13 (partial gain)	SIC 13 (partial gain)	SIC 13 (partial gain)	SIC 13 (partial gain)
Retained interest = JCE	SIC 13 (partial gain)	SIC 13 (partial gain)	SIC 13 (partial gain)	SIC 13 (partial gain)

Guidance in the existing IFRS literature on the notion of non-monetary assets

20. IFRS 3 (paragraph 38) seems to differentiate non-monetary assets from a business.

> The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a business of the acquirer).

21. IAS 21 *The Effect of Changes in Foreign Exchange Rates* (paragraph 16) states that:

> The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability… Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill;

> intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

22. IAS 39 *Financial Instruments: Recognition and Measurement* (paragraph AG83) and IFRS 9 *Financial Instruments* (paragraph B5.7.3) indicate that equity instruments (classified as available for sale assets in IAS 39 or investments in equity instruments in IFRS 9) are non-monetary items. This might suggest that interests in subsidiaries, JCEs or associates are also non-monetary items.

> IAS 39 AG83…For available for-sale financial assets that are not monetary items under IAS 21 (for example, equity instruments), the gain or loss that is recognised in other comprehensive income under paragraph 55(b) includes any related foreign exchange component…

> IFRS 9 B5.7.3 Paragraph 5.7.5 permits an entity to make an irrevocable election to present in other comprehensive income changes in the fair value of an investment in an equity instrument that is not held for trading. Such an investment is not a monetary item…

23. We also note that a business:
    (a) is generally a combination of monetary items and non-monetary items (as this notion is defined in IAS 21);
    (b) may be exclusively composed of non-monetary items (as this notion is defined in IAS 21) in certain circumstances; and
    (c) would very seldom be exclusively composed of monetary items (as this notion is defined in IAS 21).

24. However, we do not think that the guidance in IAS 21 or in other IFRSs is useful to solve the inconsistency between IAS 27 and SIC-13/IAS 28 (2011). We think that the issue is broader (see below).

Should the Committee take this issue onto its agenda?

25. We note that the Board has made it clear that it wanted to resolve the inconsistency between IAS 27 and SIC-13/IAS 28 (2011) within a separate project. In the May 2011 *IFRIC Update*, the Committee also concluded that this issue would be best resolved by referring it to the Board as part of a broader project on equity accounting. Consequently, we think that the Committee should not take this issue onto its agenda, unless the Board asks the Committee to address this issue. The staff's assessment of the agenda criteria is shown in Appendix D. The staff proposal for the draft tentative agenda decision is shown in Appendix E.

26. An alternative view could be to ask the Board whether it wants the Committee to deal with this issue. We think that this issue relates to a fundamental question, which is to determine whether the loss of control of a subsidiary or a group of assets is such a significant economic event that it should trigger re-evaluation of the retained interest at fair value, even if the investor retains joint control or significant influence over the retained interest.

27. When discussing this matter as part of the business combination project that led to the publication of IAS 27 (revised in 2008), the Board decided that this was the case for the loss of control of a subsidiary. The rationale in IAS 27 is that the partial disposal of an interest in a subsidiary resulting in a loss of control is accounted for as a full disposal followed by a reacquisition of the retained interest. As a result, any investment retained in the former subsidiary is recognised at its fair value at the date when control is lost. Paragraph 37 of IAS 27 states that the fair value of the retained interest in the former subsidiary is the cost on initial recognition of an investment in an associate or JCE. In other words, IAS 27 states that a full gain should be recognised on the loss of control of a subsidiary, even if the investor retains joint control or significant influence over the retained interest.

> 34 If a parent loses control of a subsidiary, it:
>
> …
>
> (d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;
>
> …

> 37 The fair value of any investment retained in the former subsidiary at the date when control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 Financial Instruments or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

28. We note that the rationale in SIC 13 is different. SIC 13 is an interpretation that follows the rationale of IAS 28 (paragraph 22) and IAS 31 (paragraph 48) with regard to the elimination of gains in transactions such as sales of assets between an investor and an associate (or between a venturer and a joint venture). Thus, the rationale in SIC 13 is based on requirements that deal with the application of the equity method after the initial recognition of the associate or joint venture. One could argue that the contribution of a subsidiary to an associate or a joint venture is an issue linked to the initial recognition of the associate of joint venture. It should not be linked to requirements on equity accounting regarding the subsequent recognition of the associate or joint venture.

29. We also note that IAS 28 (paragraph 10) states that under the equity method, the investment in an associate or a joint venture is recognised at cost on initial recognition, but this standard does not provide guidance on how to measure the cost of a retained interest in a former subsidiary. IAS 27 (paragraph 37) specifies how to initially recognise and measure the cost of a retained interest in an associate or a joint venture.

30. As a result, the Board's recommendation could be:

    (a) To address the inconsistency through a separate Board project;

    (b) To propose the Committee to address the issue through a 'quick fix'. In that case, we think that the objective should be to specify that the guidance in SIC-13 is limited to contributions of assets that do not meet the definition of a business (see above 'quick fix' A). We do not think that the objective should be to specify that the guidance in SIC 13 applies to all contributions of assets to an associate or a JCE (see above 'quick fix' B). This alternative does not address the conceptual issue, but would lead to a reduction in

diversity in practice. The guidance in IAS 27 would apply to the loss of control of businesses (whether the business is a legal entity or not), including cases where the investor has retained joint control or significant influence over the investee. This would require to clarify that:

(i) the SIC 13 guidance does not apply to the contribution of a business;

(ii) IAS 27 does not apply to the contribution of a subsidiary to an associate or a joint venture when the subsidiary does not constitute a business.

(c) To propose the Committee to address the issue such that all contributions are accounted for similarly under the requirements of IAS 27. In other words, the loss of control of an asset or a group of assets (that does not meet the definition of a business) would also be considered a significant event that triggers the reevaluation at fair value of the retained interest in the asset. All the contributions of assets or businesses to an associate or a joint venture would be accounted for similarly under the guidance of IAS 27. In our view, this alternative makes sense because we think that the same rationale should be applied, whether the contribution is a business or not, or whether the assets contributed are included in a legal entity or not. This would require deleting SIC 13 and amending IAS 28 (2011).

Question for the Committee
Does the Committee agree with the staff's recommendation not to add this issue to its agenda? Does the Committee have any comments on the proposed wording for the tentative agenda decision in Appendix E?
Does the Committee want to ask the Board whether it wants the Committee to deal with this issue?

Appendix A: submission

Issue:

In its May 2011 meeting the Interpretations Committee discussed the accounting for a loss of control over a subsidiary through a contribution of the subsidiary to a jointly controlled entity (JCE) or an associate. One of the issues in the agenda request was whether it makes a difference if the subsidiary is a business (as defined in IFRS 3), or is a single-asset entity. The Committee concluded that the issues would be best resolved by the Board as part of a broader project on equity accounting. We believe the Committee could eliminate some diversity in practice before any broader project if the Committee were to provide clarification on the definition of the term 'non-monetary asset' used in SIC-13 and IAS 28 (2011)'.

SIC-13 and IAS 28.30 (2011) require that gains and losses resulting from a contribution of a non-monetary asset to an associate or a joint venture in exchange for equity interest in an associate or a joint venture only be recognised to the extent of unrelated investors' interests in the associate or joint venture. IAS 28.22 requires that profits and losses resulting from sales of assets between an investor and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate.

IAS 27.34 is clear that if a parent loses control of a subsidiary, the parent recognises any investment retained in the former subsidiary at its fair value through profit and loss. Diversity in practice has emerged on the accounting for a loss of control over a business when that business is contributed to a JCE or an associate in exchange for an equity interest in that JCE or associate. The consequence is that some companies would recognise a higher gain/loss and investment in JCE or associate at the contribution date (see Appendix C for example). This diversity in practice could be reduced if there was a clarification as to whether a business qualifies as a non-monetary asset under SIC-13 and IAS 28 (2011).

<u>Current practice:</u>

There are two views currently as to whether a business meets the definition of a non-monetary asset and therefore an entity can apply SIC-13 or IAS 28.30 (2011) for a contribution of a business to a JCE or associate.

View 1: SIC-13 concepts should not be applied to contributions of a 'business', as defined in IFRS 3 (2008), to associates or joint ventures. References to non-monetary assets in IFRS refer to items such as land, intangibles, plant and machinery. IFRS 3.38 differentiates nonmonetary assets from a business (Refer to Appendix A). US GAAP defines non-monetary assets and liabilities as assets and liabilities other than monetary ones and provides examples such as inventories; investments in common stocks; property, plant, and equipment; and liabilities for rent collected in advance. [APB 29, paragraph 3].

A subsidiary is defined in IAS 27.4 as an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the parent). In its July meeting the IFRS IC discussed that an acquirer in a reverse acquisition does not need to be a 'legal entity' because the notion of an 'entity' in IFRS 3 refers to the concept of the 'reporting entity' as defined in the exposure draft Conceptual Framework for Financial Reporting. Therefore, it seems to follow that IAS 27.34 requires a parent to recognise any investment retained in the former 'reporting entity' at its fair value through profit and loss if a parent loses control of a
'reporting entity'.

The guidance in SIC-13 and IAS 28.30 (2011) should be used for non-monetary assets. The guidance in IAS 28.22 should be used for sales of assets between an investor and an associate. The guidance in IAS 27 should be used for loss of control of a subsidiary and gains/losses recognised on the loss of control are not restricted to the amount attributable to the other investors' interests in the JCE or associate.

View 2: Non-monetary asset is defined in IAS 21.16 and may include the concept of a business. Under IAS 21.16, a non-monetary asset is an asset that does not carry the right to receive a fixed or determinable number of units of currency. Non-monetary asset includes PPE, prepaid for goods/services, intangible assets and inventories.

IAS 39 indicates that equity instruments that are held as available for sale financial assets are non-monetary assets (IAS 39.AG83). This suggests that equity investments in subsidiaries, associates or JCEs are non-monetary items. In addition, non-monetary items are defined as opposed to monetary items. Thus, a business could meet the definition of a non-monetary asset. Therefore, it should be possible to apply SIC-13 and IAS 28.30 (2011) to contribution of a business to a JCE.

Reasons for the IFRS IC / IASB to address the issue:

The issue occurs frequently and we believe it is resulting in divergent treatment in practice. At least one large accounting firm has published guidance that there is a policy choice on the accounting for a loss of control over a business when that business is contributed to an associate in exchange for an equity interest in that associate. View 1 is followed under US GAAP based on the amendments to Subtopic 810-10 issued in January 2010 (see Appendix A).

The incorporation of SIC-13 into IAS 28 (2011) may introduce further diversity of practice as currently all but one large accounting firm considers that a policy choice applies to contributions to a JCE but not an associate. Therefore the proposed amendment could avoid further divergence in the accounting for contribution(s) to associate(s). We believe that a minor clarification on the definition of non-monetary assets through an improvement of IAS 28 (2011) could assist entities in making consistent judgements about the accounting for gains and losses resulting from a contribution of a business to an associate or a joint venture in exchange for an equity interest in an associate or a joint venture. See Appendix B for suggested improvements to IAS 28.30 (2011).

Appendix A—Non-monetary asset references

IFRS 3.38 The consideration transferred may include assets or liabilities of the acquirer that have carrying amounts that differ from their fair values at the acquisition date (for example, non-monetary assets or a business of the acquirer).

IAS 21.16 The essential feature of a monetary item is a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: pensions and other employee benefits to be paid in cash; provisions that are to be settled in cash; and cash dividends that are recognised as a liability. Similarly, a contract to receive (or deliver) a variable number of the entity's own equity instruments or a variable amount of assets in which the fair value to be received (or delivered) equals a fixed or determinable number of units of currency is a monetary item. Conversely, the essential feature of a non-monetary item is the absence of a right to receive (or an obligation to deliver) a fixed or determinable number of units of currency. Examples include: amounts prepaid for goods and services (eg prepaid rent); goodwill; intangible assets; inventories; property, plant and equipment; and provisions that are to be settled by the delivery of a non-monetary asset.

IAS 39.AG83 [AMD 109]An entity applies IAS 21 to financial assets and financial liabilities that are monetary items in accordance with IAS 21 and denominated in a foreign currency. Under IAS 21, any foreign exchange gains and losses on monetary assets and monetary liabilities are recognised in profit or loss. An exception is a monetary item that is designated as a hedging instrument in either a cash flow hedge (see paragraphs 95–101) or a hedge of a net investment (see paragraph 102). For the purpose of recognising foreign exchange gains and losses under IAS 21, a monetary available-for-sale financial asset is treated as if it were carried at amortised cost in the foreign currency. Accordingly, for such a financial asset, exchange differences resulting from changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in accordance with paragraph 55(b). For available for-sale financial assets that are not monetary items under IAS 21 (for example, equity instruments), the gain or loss that is recognised in other comprehensive income under paragraph 55(b) includes any related foreign exchange component. If there is a hedging relationship between a non-derivative monetary asset and a non-derivative monetary liability, changes in the foreign currency component of those financial instruments are recognised in profit or loss.[AMD 109]

IAS 20.23 A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity....

IAS 38.8 An intangible asset is an identifiable non-monetary asset without physical substance. Monetary assets are money held and assets to be received in fixed or determinable amounts of money.

IFRS 2.BC42 ... If a non-monetary asset, such as plant and machinery, is received for those shares instead of cash, an entry is required to recognise the asset received. If the entity acquires another business or entity by issuing shares in a business combination, the entity recognises the net assets acquired.

FASB Codification > Master Glossary
Nonmonetary Assets and Liabilities
[Nonmonetary assets and liabilities are assets and liabilities other than monetary ones. Examples are inventories; investments in common stocks; property, plant, and equipment; and liabilities for rent collected in advance. [APB 29, paragraph 3]

FASB Accounting Standards Update No. 2010-02
This Update provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:
1. A subsidiary or group of assets that is a business or nonprofit activity
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
3. An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture).

BC4. ... U.S. GAAP on consolidation requires that changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary be accounted for as equity transactions. U.S. GAAP on consolidation also requires a parent to deconsolidate a subsidiary as of the date the parent ceases to have a controlling financial interest in the subsidiary. Upon deconsolidation, the parent accounts for the deconsolidation of the subsidiary by recognizing any retained investment in the subsidiary at fair value and a gain or loss in net income attributable to the parent. U.S. GAAP on consolidation provides no exceptions to this treatment other than for a deconsolidation through a nonreciprocal transfer to owners, such as a spinoff, for which Topic 845 (Nonmonetary Transactions) applies.
Accordingly, the deconsolidation model within Subtopic 810-10 does not include an evaluation of continuing involvement or gain realizability before recognizing the transaction as a divestiture with full gain recognition.

Appendix B—Proposed improvement

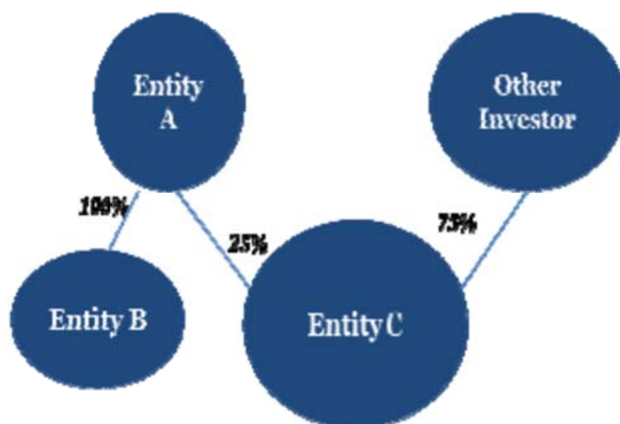
View 1: IAS 28.30 (2011) The contribution of a non-monetary asset that is not a business as defined in IFRS 3 to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method. IAS 28.3 (2011) The following terms are used in this Standard with the meanings specified:

View 2: IAS 28.30 (2011) The contribution of a non-monetary asset or a business as defined in IFRS 3 to an associate or a joint venture in exchange for an equity interest in the associate or joint venture shall be accounted for in accordance with paragraph 28, except when the contribution lacks commercial substance, as that term is described in IAS 16 Property, Plant and Equipment. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised unless paragraph 31 also applies. Such unrealised gains and losses shall be eliminated against the investment accounted for using the equity method and shall not be presented as deferred gains or losses in the entity's consolidated statement of financial position or in the entity's statement of financial position in which investments are accounted for using the equity method.

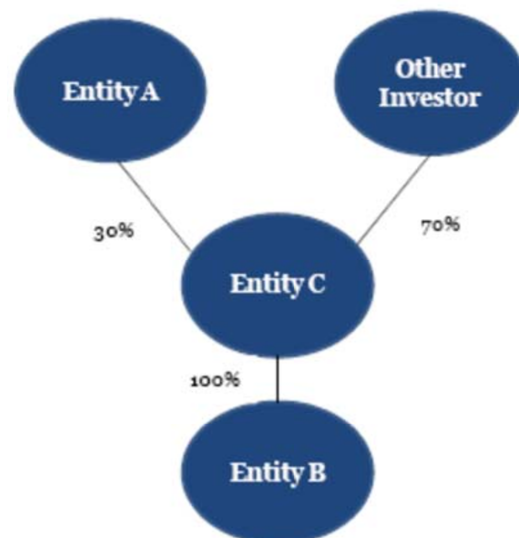
<u>Appendix C—Example</u>

Facts: Entity B, a business as defined in IFRS 3, is a consolidated wholly owned subsidiary of Entity A at 12/31/10 with a book value of CU100 and a fair value of CU200 at 12/31/10 and 1/3/11. Entity C is a 25% owned associate of Entity A at 12/31/10. Entity A contributes Entity B to Entity C on 31/1/11 in exchange for a 5% equity interests in Entity C.

Before



After



View 1: IAS 27 applies to the loss in control of a business

Entity A records the following on 31/3/11

DR Equity investment in Entity C CU200
CR Net Assets of Entity B CU100
CR Gain on Entity B sale CU100
To record the contribution of B into C and to record the difference between fair value and book value of Entity B upon loss of control. (CU200-CU100)

Entity A has a carrying amount of 200 for the additional 5% interest in Entity C at 31/3/11.

View 2: SIC-13 concepts apply to the contribution of a business

Entity A records the following on 31/3/11
DR Equity investment in Entity C CU170
CR Net Assets of Entity B CU100
CR Gain on Entity B sale CU70
*To record the other investors portion of the difference between fair value and book value of Entity B. ([CU200-CU100] * [11-30%])*

Entity A has a carrying amount of 170 for the additional 5% interest in Entity C at 31/3/11.

Appendix B: IFRIC Update May 2011

IAS 27 *Consolidated and Separate Financial Statements*—contributions to a jointly controlled entity or an associate

The Interpretations Committee received three requests asking for clarification of the accounting when a parent loses control over a subsidiary and that subsidiary is contributed so as to become (part of) a jointly controlled entity (JCE) or an associate. In particular, does the parent recognise the full gain or loss resulting from the transaction or only to the extent of the interests of the other equity holders in the JCE or the associate?

The Committee noted that there is an inconsistency between the guidance in IAS 27 and IAS 31 *Interests in Joint Ventures* together with SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* for transactions where a parent contributes interests in a subsidiary to a JCE and this contribution results in a loss of control in the subsidiary by the parent. Paragraph 5 of SIC-13 restricts gains and losses arising from contributions of non monetary assets to a JCE to the extent of the interest attributable to the other equity holders in the JCE, whereas paragraph 34 of IAS 27 requires full profit or loss recognition on the loss of control.

The Committee noted that the Board had previously in December 2009 decided not to deal with the inconsistency within the joint venture project but to deal with it separately. The Committee also noted that there are broader issues in relation to contributions to a JCE or associate in general, particularly involving the loss of control when a subsidiary becomes a JCE or an associate. The Committee therefore concluded that this issue would be best resolved by referring it to the Board as part of a broader project on equity accounting. Consequently, the Committee decided to recommend that the Board should not add the issue to Annual Improvements.

Appendix C: IASB Update December 2009

Joint ventures

The Board discussed the inconsistency between IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The inconsistency relates to the accounting for gains and losses resulting from contributions of nonmonetary assets to jointly controlled entities. The Board tentatively decided not to resolve the inconsistency within the Joint Ventures project, but to deal with it separately. The Board tentatively decided to incorporate the requirements in SIC-13 and any guidance relating to the equity method for joint ventures as a consequential amendment to IAS 28 *Investments in Associates*.
The Board discussed the comments received on the section of ED 9 relating to the accounting for transactions between the parties and their joint arrangements. The Board tentatively decided:

1. not to incorporate the requirements in SIC-13 that significant risks and rewards of ownership have been transferred to the arrangement and that gain or losses need to be measured reliably for the recognition of gains or losses arising from contributions of non-monetary assets. The condition relating the reliability in the measurement has not been considered necessary to be carried over because this is a statement already included in the Framework when discussing recognition.
2. to incorporate the requirement that the transaction should have commercial substance for the recognition of gains and losses arising from contributions of non-monetary assets.
3. to incorporate from IAS 31 *Interests in Joint Ventures* the requirement of full recognition of losses when the contribution, sale or purchase provides evidence of a reduction in the net realisable value or recoverable amounts of the assets contributed, sold or purchased.
4. to clarify in the final standard that when a joint operation is structured through an entity, transactions between the parties and the joint operations are, in essence, transactions between the parties themselves.

Appendix D: Agenda criteria assessment for the Committee

The staff's assessment of the agenda criteria is as follows:

(a) *The issue is widespread and has practical relevance.*

Yes, the issue is widespread and has practical relevance.

(b) *The issue indicates that there are significantly divergent interpretations (either emerging or already existing in practice). The Committee will not add an item to its agenda if IFRSs are clear, with the result that divergent interpretations are not expected in practice.*

Yes, there is reportedly divergence in practice.

(c) *Financial reporting would be improved through elimination of the diverse reporting methods.*

Yes.

(d) *The issue can be resolved efficiently within the confines of existing IFRSs and the Framework, and the demands of the interpretation process.*

No. The issue is too broad. The issue has already been referred to the Board.

(e) *It is probable that the Committee will be able to reach a consensus on the issue on a timely basis.*

No. The staff think that the Committee will not be able to reach consensus, unless the Board gives some indication on how the Committee should deal with the issue.

(f) *If the issue relates to a current or planned IASB project, there is a pressing need to provide guidance sooner than would be expected from the IASB's activities. The Committee will not add an item to its agenda if an IASB project is expected to resolve the issue in a shorter period than the Committee requires to complete its due process.*

No. There is a pressing need, but the staff do not think that the Committee can provide guidance sooner than would be expected from the IASB's activities, unless the Board gives some indication on how the Committee should deal with the issue.

In the light of the above, the staff recommend that the Committee should not take this issue onto the agenda.

Appendix E: Proposed wording for tentative agenda decision

The staff propose the following wording for the tentative agenda decision:

SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (revised in 2011): definition of the term 'non-monetary asset' in SIC-13 and IAS 28 (revised in 2011)

The IFRS interpretations Committee received a request to clarify the definition of the term 'non-monetary asset' used in SIC-13 *Jointly Controlled Entities-Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (revised in 2011).

The submitter noted that there is an inconsistency between the guidance in IAS 27 *Consolidated and Separate Financial Statements* and SIC-13 for transactions in which a parent contributes interests in a subsidiary to a Jointly Controlled Entity (JCE) and this contribution results in a loss of control in the subsidiary by the parent. Paragraph 5 of SIC-13 restricts gains and losses arising from contributions of *non-monetary assets* to a JCE to the extent of the interest attributable to the other equity holders in the JCE, whereas paragraph 34 of IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

As a result, diversity in practice has emerged on the accounting for a loss of control of a subsidiary when it is contributed to a JCE. The submitter also noted that the incorporation of SIC-13 into paragraph 30 of IAS 28 (revised in 2011) may introduce further diversity of practice in the future because this diversity may now be extended to contributions to associates in addition to contributions to a JCE. The submitter thinks that this diversity in practice could be reduced if there were to be a clarification as to whether a business (as defined in IFRS 3) qualifies as a non-monetary asset under SIC-13 and IAS 28 (revised in 2011).

In its May 2011 *IFRIC Update*, the Committee noted that there are broader issues in relation to contributions to a JCE or associate in general, and it therefore concluded that this issue would be best resolved by referring it to the Board as part of a broader project on equity accounting. The Committee continues to think that this would be the best course of action. Consequently, for the reasons mentioned above, the Committee [decided] not to add this issue to its agenda.