

## STAFF PAPER

November 2012

## IASB Meeting

<b>Project</b>	<b>Accounting for the sale or contribution of assets between an investor and its associate or joint venture (Proposed amendments to IFRS 10 and IAS 28)</b>		
<b>Paper topic</b>	Summary of due process followed		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

## Introduction and purpose

1. In September 2012 the IASB tentatively decided to publish an exposure draft proposing amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. These amendments are intended to clarify the accounting for the sale or contribution of assets between an investor and its associate or joint venture. The balloting process of Exposure Draft *Accounting for the sale or contribution of assets between an investor and its associate or joint venture* (Proposed amendments to IFRS 10 and IAS 28) (the Exposure Draft) is underway and publication scheduled for December 2012.
2. The purpose of this paper is to:
  - (a) provide the IASB with a brief summary of the proposed amendments ;  
and
  - (b) explain the steps in the due process the IASB has taken before the publication of the Exposure Draft (see Appendix A) and ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

## Summary of the proposals

3. The objective of the proposed amendments is to address issues related to the changes made in IAS 27 (2008) *Consolidated and Separate Financial Statements* as part of the Business combinations project. According to IAS 27, if a parent loses control of a subsidiary, it derecognises the assets and liabilities of that subsidiary, recognises any investment retained in the former subsidiary at fair value and recognises a gain or loss in profit or loss. As a result, the gain or loss includes any gain or loss corresponding to the difference between the fair value of the retained investment in the former subsidiary and its carrying amount at the date when control is lost.
4. While IAS 27 provides general guidance on the loss of control of a subsidiary (including cases in which the investor retains joint control of, or significant influence over the investee), some constituents noted that this guidance appears to conflict with the gain or loss guidance in SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. SIC-13 restricts the gain or loss resulting from the contribution of a non-monetary asset to a jointly controlled entity in exchange for an equity interest in the jointly controlled entity to the extent of the interests attributable to the unrelated equity holders in the jointly controlled entity. The conflict identified is that IAS 27 requires a full gain or loss recognition on the loss of control of a subsidiary, whereas SIC-13 requires a partial gain or loss recognition in transactions between an investor and its associate or joint venture.
5. When discussing this issue, the IASB observed that:
  - (a) IFRS 10 supersedes IAS 27 and is effective for annual periods beginning on or after 1 January 2013;
  - (b) IAS 28 (2011) supersedes both IAS 28 (2003) and SIC-13 and is also effective for annual periods beginning on or after 1 January 2013;
  - (c) The conflict between the requirements in IAS 27 and SIC-13 will remain when IFRS 10 replaces IAS 27 and when SIC-13 will be withdrawn. In fact, the requirements in IFRS 10 on the accounting for the loss of control of a subsidiary are similar to the requirements in IAS

27. The requirements in SIC-13 are incorporated in IAS 28 (2011) and apply to the sale or contribution of assets to an associate or a joint venture in exchange for an equity interest in the associate or joint venture.

6. As a result, the IASB proposes to amend IAS 28 (2011) so that:
- (a) the current requirements regarding the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in IFRS 3; and
  - (b) the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognised in full.
7. The IASB also proposes to amend IFRS 10 so that the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognised only to the extent of the unrelated investors' interests in the associate or joint venture. The consequence is that a full gain or loss would be recognised on the loss of control of a subsidiary that constitutes a business as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee.

### Confirmation of due process steps

8. In Appendix A we have summarised the due process steps we have taken in developing the Exposure Draft. For summarising these steps and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template 'Development and publication of an **exposure draft** for an IFRS, practice guidance or Conceptual Framework chapter' in 'Appendix 4—Due Process Protocol' of the draft of the revised Due Process Handbook .

## Compliance with Due Process to date

9. We note that the required due process steps applicable so far at this stage in the due process have been completed, as documented in Appendix A.

### Question for the IASB on compliance with Due Process

1. Is the IASB satisfied that all required Due Process steps applicable so far have been complied with?

## Appendix A

### Confirmation of Due Process Steps followed in the development of the Exposure Draft *Accounting for the sale or contribution of assets between an investor and its associate or joint venture* (Proposed amendments to IFRS 10 and IAS 28).

The following table sets out the due process steps followed by the IASB in the development of the Exposure Draft (prepared as at 7 November 2012):

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
<b>Board meetings held in public, with papers available for observers. All decisions are made in public session.</b>	Required	Meetings held to discuss topic.  Project Website contains a full description with up-to-date information on the project.  Meeting papers posted in a timely fashion.	Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted.  DPOC reviews comments from interested parties on IASB due process as appropriate.	This issue was discussed several times by both the IASB and the Interpretations Committee. The IASB tentatively decided at its September 2012 meeting to propose the amendments to IFRS 10 and IAS 28 as set out in the Exposure Draft.  IASB Updates and IFRIC Updates were published after every IASB or Interpretations Committee meeting in which this issue was discussed.  A Project Webpage was created after the September 2012 Interpretations Committee meeting.
<b>Formal consultation with the Trustees and the IFRS Advisory Council</b>	Required	Discussions with the IFRS Advisory Council on topic.	DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB.  IFRS Advisory Council chair invited to Trustees' meetings and meetings of DPOC	This proposed amendment is part of the IASB's and the Interpretations Committee's work on maintenance of IFRSs. The issue relates to an inconsistency in IFRSs that is leading to diversity in practice. The proposed amendment is narrow in scope and occupies little of the IASB's time. Given the limited nature of the project and the narrow scope of the proposed amendments, the IASB does not undertake a separate consultation with the Advisory Council.
<b>Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or on-going associated costs.</b>	Required	Publication of effect analysis	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS.  IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication.	Given the narrow scope and the expected limited consequences of the proposed amendments, an effects analysis is not prepared.
<b>Consultative groups</b>	Optional	Number of consultative	DPOC receives report	N/A

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
utilised, if formed		group meetings, and evidence of substantive involvement in issues  Consultative group review of draft exposure draft	of consultative group activity from IASB.	
<b>Fieldwork undertaken in analysing proposals</b>	Optional	IASB describes approach taken on fieldwork  IASB explains why it does not believe fieldwork is warranted, if that is the preferred path  Number of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB  DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	N/A
<b>Outreach meetings with a broad range of stakeholders, with special effort for investors</b>	Optional	Number of meetings held and location  Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	N/A
<b>Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.</b>	Optional	Number of and participation in webcasts	DPOC receives a report on outreach activities	N/A
<b>Public discussions with representative groups.</b>	Optional	Number of discussions held	DPOC receives a report on outreach activities	N/A
<b>Online survey to generate evidence in support of or against a particular approach.</b>	Optional	Number and results of surveys	DPOC receives a report on outreach activities	N/A
<b>Regional discussion forums, where possible, with national standard-setters with the IASB.</b>	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities DPOC receives a report on outreach activities	N/A
<b>Round-tables between external participants and members of the IASB.</b>	Optional	Number of meetings held	DPOC receives a report on outreach activities	N/A
<b>Drafting quality assurance steps are adequate</b>	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an exposure	Translations team has reviewed pre-ballot draft, and formatting changes will be made as a result of their review.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
			draft is issued.	
<b>Drafting quality assurance steps are adequate</b>	Required	XBRL team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	XBRL team has reviewed pre-ballot draft, and will also review ballot draft.
<b>Drafting quality assurance steps are adequate</b>	Optional	External reviewers used to review drafts and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued, including the extent to which external reviewers have been used in the drafting process.	N/A
<b>Drafting quality assurance steps are adequate</b>	Optional	Review draft made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
<b>Drafting quality assurance steps are adequate</b>	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
<b>Due process steps reviewed by IASB</b>	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an exposure draft is issued.	This step will be met by this Staff Paper.
<b>Exposure draft has appropriate comment period.</b>	Required	IASB sets comment period for response.  Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required.	The IASB agreed at the September 2012 meeting that the standard comment period of 120 days will be used for this exposure draft.
<b>Press release to announce publication of exposure draft.</b>	Optional	Press release published  Media coverage	DPOC informed of the release of the exposure draft.	Press release will be prepared and ready to be published with exposure draft.
<b>Snapshot document to explain the rationale and basic concepts included in the exposure draft.</b>	Optional	Snapshot posted on IASB Website	DPOC receives a report on outreach activities.  Snapshot sent to DPOC members.	N/A
<b>Exposure draft published</b>	Required	Exposure draft posted on IASB website	DPOC informed of the release of the exposure draft.	Exposure draft will be made available on the public website on publication date.