STAFF PAPER

22 July – 26 July 2013

IASB Meeting

Project	IAS 28 Investments in Associates and Joint Ventures		
Paper topic	Elimination of gains arising from 'downstream' transactions		
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Introduction

1. At its meeting in May 2013, the IFRS Interpretations Committee ('the Interpretations Committee') decided to recommend that the IASB should make a narrow-scope amendment to IAS 28 *Investments in Associates and Joint Ventures*.

2. This paper discusses the elimination of gains arising from 'downstream' transactions in accordance with this Standard. Specifically, the issue relates to a circumstance in which the amount of gains from a 'downstream' transaction that is to be eliminated in an investor's financial statements exceeds the carrying amount of the investor's interest in an associate or joint venture.

Purpose of this paper

3. The objective of this paper is to:

   (a) present background information for the issue;

   (b) provide a summary of the Interpretation Committee's discussion;

   (c) explain the rationale for the Interpretations Committee's decision to recommend that the IASB should make a narrow-scope amendment to IAS 28; and

(d) ask for the IASB's agreement with the Interpretations Committee's recommendation.

Background information

4. In January 2013, the Interpretations Committee received a request to clarify the accounting for a transaction between a joint venturer (an entity) and its joint venture. The entity accounts for its interest in the joint venture using the equity method in accordance with IAS 28 which requires partial elimination of the gain recognised on transactions between an entity and its associate or joint venture. The request describes a circumstance in which the amount of a gain in a 'downstream' transaction that is to be eliminated in the entity's financial statements exceeds the amount of the entity's interest in the joint venture. Specifically, the submitter requested that the Interpretations Committee should clarify whether:

   (a) the gain from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's interest in the joint venture; or

   (b) the remaining gain in excess of the carrying amount of the entity's interest in the joint venture should also be eliminated and, if so, what element in the financial statements it should be eliminated against.

5. An example[1] is illustrated as follows:

   - A joint venturer (an entity) paid CU60[2] in exchange for acquiring 60 per cent of the ownership shares of the newly established joint venture; another joint venturer paid CU40 in exchange for acquiring 40 per cent of the ownership shares of the newly established joint venture.
   - Thus, the carrying amount of the investment in the joint venture recognised at the inception in the entity's financial statements equals CU60 and the equity of the joint venture totals CU100.

[1] Some figures have been modified from the submitter's example for the convenience of understanding.

[2] In this staff paper, currency amounts are denominated in 'currency units' (CU).

- The entity leases an item of property, plant and equipment to its joint venture, and this lease transaction is classified as a finance lease.
- In this finance lease transaction, the carrying amount of the fixed assets to be derecognised from the entity's financial statements equals CU50,000 and the carrying amount of the lease receivable to be initially recognised in the entity's financial statements (ie the fair value of the fixed asset at the transaction date) equals CU70,000; thus the entity records a gain of CU20,000 in its separate financial statements.
- The entity applies the equity method when accounting for its interest in the joint venture in its consolidated financial statements. Paragraph 28 of IAS 28[3] would be applied to account for how to partially eliminate the gain of CU20,000. Paragraph 28 of IAS 28 reads as follows:

  > Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interest in the associate or joint venture. (…)

- On the basis of this paragraph, the amount to be eliminated in the example above would be CU12,000 (CU20,000 × 60 per cent) and therefore CU8,000 (CU20,000 – CU12,000) would be recognised in profit or loss in the entity's financial statements. However, because the amount to be eliminated (CU12,000) exceeds the carrying amount of the entity's interest in the joint venture (ie CU60), the question arises as to whether the whole amount of CU12,000 should be eliminated. If the amount to be eliminated should not exceed the carrying amount of the entity's interest in the joint venture, the amount to be eliminated will be CU60 and therefore CU19,940 (CU20,000 – CU60) will be recognised in profit or loss in the entity's financial statements.

6. The submitter noted two views:

[3] In this staff paper, paragraph numbers of IAS 28 denote those of IAS 28 as amended in 2011, unless otherwise indicated.

(a) **View A**—the gain from a ‘downstream’ transaction is eliminated only to the extent that it does not exceed the carrying amount of the entity’s interest in the joint venture; or

(b) **View B**—the gain from a ‘downstream’ transaction is eliminated to the extent of related investors’ interest, even if the amount of the gain to be eliminated exceeds the carrying amount of the entity’s interest in the joint venture.

7. In the example above, View A and View B are compared as follows:

	Amount of gains to be eliminated at the time of the transaction	**Amount of gains to be recognised in profit or loss at the time of the transaction**
View A	CU60	CU19,940
View B	CU12,000	CU8,000

Summary of the staff analysis

8. The following is a summary of the analysis presented to the Interpretations Committee in March 2013 and May 2013. Our full analysis was set out in Agenda Paper 13[4] for the March 2013 Interpretations Committee meeting and in Agenda Paper 10[5] for the May 2013 Interpretations Committee meeting. We have also included the respective IFRIC *Update* in Appendix C and Appendix D.

9. Although the submitter’s example relates to a finance lease transaction between a joint venturer and its joint venture, the Interpretations Committee noted that its conclusion on this issue would apply to all ‘downstream’ transactions of an entity with its associate or joint venture.

[4] http://www.ifrs.org/meeting/Agenda Paper 13

[5] http://www.ifrs.org/meeting/Agenda Paper 10

Issue 1: to what extent should the gain from a 'downstream' transaction be eliminated?

10. We note that paragraph 28 of IAS 28 clearly states that gains and losses resulting from 'downstream' transactions between an entity and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. We think that this requirement should be applied to all situations including the situation in which the gain to be eliminated exceeds the carrying amount of the entity's interest in the joint venture. Paragraph 28 of IAS 28 reads as follows [emphasis added]:

> 28 **Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture.** 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

11. Consequently, **we support View B** and the Interpretations Committee agreed with View B in its March 2013 meeting.

12. View A is based on paragraphs 38 and 39 of IAS 28. These paragraphs require that an entity should discontinue recognising its share of losses when the entity's interest in the associate or joint venture reduces to zero. Paragraphs 38 and 39 of IAS 28 state as follows:

> 38 If an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses. (…)

> 39 After the entity's interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the entity has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture. If the associate or joint venture subsequently reports profits, the entity resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

13. We, however, think that it is not appropriate to analogise to these paragraphs. This is because these paragraphs relate to recognising an entity's share of the associate's or joint venture's results, and not the accounting for elimination of gains on 'downstream' transactions. The reason why these paragraphs require discontinuation of recognising the entity's share of losses in that circumstance is that the entity would not bear any further losses exceeding the carrying amount of its investment in the associate or joint venture. However, the same reason cannot be applied to our case. We think that the only relevance of these paragraphs to our case is that they deal with a situation in which the carrying amount of the entity's interest in the joint venture reduces to zero.

14. Consequently, **we do not support View A**.

Issue 2: how should the gains to be eliminated in excess of the carrying amount of an entity's interest in an associate or joint venture be presented?

15. On the basis of the conclusion of Issue 1 above, in the paper presented to the May 2013 Interpretations Committee meeting we considered three possible methods to account for the gain to be eliminated in excess of the carrying amount of an entity's interest in an associate or joint venture. (**Appendix A** compares the three methods in more detail.):

    (a) **(Method 1)** present as deferred gain;

(b) **(Method 2A)** reduce the related asset (ie in our example, the lease receivable), but if the related asset is cash or cash equivalents, recognise the eliminated gain in profit or loss; and

(c) **(Method 2B)** reduce the related asset (ie in our example, the lease receivable), but if the related asset is cash or cash equivalents, present the eliminated gain as a deferred gain.

16. We think that elimination of the gain arising from a 'downstream' transaction is similar to the consolidation procedures described in IFRS 10 (ie 'the consolidation procedures approach'), as indicated by paragraph 26 of IAS 28. According to the consolidation procedures in accordance with IFRS 10, the recognition of the eliminated gain or loss in consolidated profit or loss would not depend on the type of the asset that a parent entity receives in a transaction with its subsidiary.

17. In this regard, we think that Method 2A and Method 2B are not appropriate because these methods are dependent on the type of the asset that the entity receives in terms of how to recognise the gain or loss and are therefore inconsistent with the consolidation procedures approach. We also think that these Methods can be in conflict with the requirements in other Standards. For example, in a certain 'downstream' transaction, an entity may receive an item of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* as a consideration for a 'downstream' transaction. In this situation, the related asset is the item of property, plant and equipment and therefore reducing the related asset in accordance with Method 2A and Method 2B would be at odds with the requirement for measurement and recognition in IAS 16.

18. On the other hand, Method 1 is not inconsistent with the consolidation procedures approach although it would not meet the recognition criteria for assets or liabilities in the *Conceptual Framework for Financial Reporting*[6].

[6] We note that using deferred gain is allowed in other Standards. For example, IAS17.61 states that in a sale and leaseback transaction that results in an operating lease, if the sale price is above fair value, the excess over fair value should be deferred and amortised over the period for which the asset is expected to be used.

19. However, we proposed that **Method 1 is the appropriate method** as the corresponding entry for the eliminated gain in excess of the carrying amount of an entity's interest in an associate or joint venture from a 'downstream' transaction because this method, compared to other methods, can clearly show how much gain from a 'downstream' transaction is eliminated.

20. The Interpretations Committee agreed that Method 1 would be the appropriate method.

Interpretations Committee's recommendation to the IASB

21. In the paper presented to the Interpretations Committee, we recommended that the Interpretations Committee should not add this issue to its agenda because IAS 28 does not provide general guidance on how to present the corresponding entry for the eliminated gain or loss in 'downstream' and 'upstream' transactions. We thought that in order to add guidance on this specific issue we were concerned that we might also need to add more general guidance on 'downstream' and 'upstream' transactions; and more general guidance would require a broader project.

22. However, the Interpretations Committee thought that it was important to give guidance that would address this particular issue in order to address the diversity in practice. Consequently, the Interpretations Committee decided to recommend that the IASB should address this issue by amending IAS 28 through a narrow-scope amendment project.

23. We have set out proposed amendments in **Appendix B**[7].

Agenda criteria assessment

24. We performed an assessment on whether the Interpretations Committee should take this issue onto its agenda based on the agenda criteria set out in the *IASB and IFRS Interpretations Committee Due Process Handbook*.

[7] The wording of the propose amendments was not reviewed by the Interpretations Committee because staff originally recommended not taking this issue onto the agenda in the paper presented to the May 2013 Interpretations Committee meeting.

25. On the basis of the assessment below, we think that this issue should be addressed by a narrow-scope project.

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	The feedback from outreach activity indicated that the issue has limited impact; three out of twelve respondents stated that this issue is common in their jurisdictions. However, the Interpretations Committee concluded that a narrow-scope amendment should be made in order to provide clear guidance.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	**Yes.** The feedback from outreach activity shows that there is diversity in practice. We think that the amendment would eliminate diverse reporting methods by clarify the requirements.
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**Yes.** We think that IAS 28 clearly states that an entity should eliminate the gain from a 'downstream' transaction to the extent of related investor's interest in its associate or joint venture, even if the amount of the gain to be eliminated exceeds the carrying amount of the entity's interest in its associate or joint venture. With regard to the issue of how to record the corresponding entry for the gain to be eliminated in excess of the carrying amount of the entity's interest in its associate or joint venture, we think that only the method to present it as deferred gain is consistent within the confines of existing IFRSs.
In addition:	
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 IFRSs (5.17)?	**Yes.** We think that the proposed amendments are sufficiently narrow in scope. We also think that they should be addressed by a narrow-scope project rather than an annual improvement project. This is because we believe the issue is not so minor as to be addressed by an annual improvement project (ie the effect on profit or loss account may not be insignificant for those who are affected by these amendments).
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (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).	**Yes.** The proposed amendment will be effective for a reasonable time period. We do not expect that the IASB would set out a project that would deal with IAS 28 comprehensively in a foreseeable future.

Question to the IASB

Question 1
Does the IASB agree with the Interpretations Committee's recommendation to address this issue by amending IAS 28 through a narrow-scope project?

Appendix A—Comparison of Method 1, 2A and 2B

Although the example in paragraph 5 of this paper is based on a finance lease transaction, the following journal entries are made based on a sale transaction between a joint venturer (an entity) and its joint venture for the convenience of understanding and to better illustrate the alternative views.

In this example, the entity invests CU60 to establish a joint venture, in which it has a 60 per cent interest. The entity then sells an item of PPE to the joint venture for CU70,000. The joint venture, pays cash of CU60,000 on receipt of the PPE and agrees to pay the remaining CU10,000 in three years' time (the joint venture borrows from a bank to fund the purchase). The carrying amount of the PPE in the entity's financial statements prior to the sale was CU50,000.

The following example illustrates how the entity would account for the transaction under each method discussed.

Method 1: present as deferred gain

(a) To record the investment to establish a new joint venture.

Dr	Investment	CU60	
Cr	Cash		CU60

The entity acquires 60 per cent of ownership shares of the joint venture.

(b) To record the sale transaction with the joint venture; we assume that the entity receives cash of CU60,000 and receivable of CU10,000 at the inception of the transaction.

Dr	Cash	CU60,000	
Dr	Receivable	CU10,000	
Cr	Property, plant and equipment		CU50,000
Cr	Gain		CU20,000

(c) To record the elimination of the gain from the ‘downstream’ transaction.

Dr	Gain	CU12,000	
Cr	Investment		CU60
Cr	Deferred gain		CU11,940

The entity eliminates 60 per cent of the gain, ie CU12,000 (CU20,000 × 60 per cent), from the ‘downstream’ transaction.

(d) The eliminated gain is recognised in profit or loss when the joint venture generates economic benefits from the transferred asset. Consequently, the deferred gain will be recognised in profit or loss, for example, as the item of property, plant and equipment (‘PPE’) is amortised in the joint venture’s financial statements or when the joint venture sells the PPE to a third party.

Method 2A: reduce the related asset (ie in our example, the receivable), but if the related asset is cash or cash equivalents, recognise the eliminated gain in profit or loss

(a) To record the investment to establish a new joint venture.

Dr	Investment	CU60	
Cr	Cash		CU60

The entity acquires 60 per cent of the ownership shares of the joint venture.

(b) To record the sale transaction with the joint venture; we assume that the entity receives cash of CU60,000 and receivable of CU10,000 at the inception of the transaction.

Dr	Cash	CU60,000
	Receivable	CU10,000

	Cr Property, plant and equipment		CU50,000
	Cr Gain		CU20,000

(c) To record the elimination of the gain from the ‘downstream’ transaction.

Dr Gain		CU10,060	
	Cr Investment		CU60
	Cr Receivable		CU10,000

The gain is eliminated until the receivable balance reduces to zero. Consequently, the remaining gain to be eliminated (CU1,940) is recognised in profit or loss.

(d) The eliminated gain is recognised in profit or loss either when the entity receives cash or cash equivalents from the joint venture for repayment of the receivable (which has been eliminated) or when the joint venture generates economic benefits from the transferred asset. Consequently, the entity will recognise the eliminated gain in profit or loss; for example, when it collects receivables from the joint venture; as the PPE is amortised in the joint venture’s financial statements; or when the joint venture sells the PPE to a third party. Assuming that the entity collects the outstanding amount of the receivables after three years, the entity recognises the eliminated gain of CU10,000 in profit or loss to reflect the collection of the receivable. The journal entries would be as follows:

Dr Receivable		CU10,000	
	Cr Gain		CU10,000

The reversal of the elimination of the gain and the reinstatement of the receivable are recorded.

Dr Cash		CU10,000	
	Cr Receivable		CU10,000

The receipt of cash in settlement of the receivable is recorded.

Method 2B: reduce the related asset (ie in our example, the receivable), but if the related asset is cash or cash equivalents, present the eliminated gain as a deferred gain

(a) To record the investment to establish a new joint venture.

Dr	Investment	CU60	
Cr	Cash		CU60

The entity acquires 60 per cent of ownership shares of the joint venture.

(b) To record the sale transaction with the joint venture; we assume that the entity receives cash of CU60,000 and receivable of CU10,000 at the inception of the transaction.

Dr	Cash	CU60,000	
Dr	Receivable	CU10,000	
Cr	Property, plant and equipment		CU50,000
Cr	Gain		CU20,000

(c) To record the elimination of the gain from the ‘downstream’ transaction.

Dr	Gain	CU12,000	
Cr	Investment		CU60
Cr	Receivable		CU10,000
Cr	Deferred gain		CU1,940

The gain is eliminated until the receivable balance reduces to zero and then the remaining gain to be eliminated is presented as deferred gain.

(d) The eliminated gain is recognised in profit or loss when the joint venture generates economic benefits from the transferred asset. Consequently, the

eliminated gain will be recognised in profit or loss, for example, as the amortisation is amortised on the PPE in the joint venture's financial statements or when the joint venture sells the PPE to a third party. When the entity collects receivables, the eliminated gain is presented as deferred gain. Assuming that the entity collects the outstanding amount of the receivables after three years, the entity recognises the eliminated gain of CU10,000 as deferred gain to reflect the collection of the receivable. The journal entries would be as follows:

Dr	Receivable	CU10,000	
	Cr Deferred Gain		CU10,000

The eliminated gain is reversed and presented as deferred gain, and the reinstatement of the receivable is recorded. The deferred gain is recognised in profit or loss as the PPE is consumed by the joint venture, or when the joint venture sells the PPE to a third party.

Dr	Cash	CU10,000	
	Cr Receivable		CU10,000

The receipt of cash in settlement of the receivable is recorded.

Appendix B—Proposed amendments

A1. The proposed amendment in IAS 28 is presented below. New text is underlined.

28 Gains and losses resulting from 'upstream' and 'downstream' transactions between an entity (including its consolidated subsidiaries) and its associate or joint venture are recognised in the entity's financial statements only to the extent of unrelated investors' interests in the associate or joint venture. 'Upstream' transactions are, for example, sales of assets from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or its joint venture. The investor's share in the associate's or joint venture's gains or losses resulting from these transactions is eliminated.

28A When a gain to be eliminated from a 'downstream' transaction in the entity's financial statements exceeds the entity's interest in its associate or joint venture, the amount of the gain that exceeds the entity's interest is presented as deferred gain in the entity's financial statements. The deferred gain is recognised in profit or loss in the entity's financial statements, as the asset that was transferred to the associate or joint venture in the 'downstream' transaction is used by the associate or joint venture, or when the asset is sold by the associate or joint venture to a third party.

Basis for Conclusions on proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

BC1 The IASB received a request to clarify the accounting for a 'downstream' transaction between an entity and its joint venture. The issue relates to a circumstance in which the amount of the gain to eliminate from the transaction exceeds

the amount of the entity's interest in the joint venture. The IASB was informed that there was diversity in practice over whether all of the entity's share of the gain should be eliminated in such circumstances, and if so, how the eliminated gain should be presented.

BC2 The IASB noted that the entity should eliminate the gain from a 'downstream' transaction to the extent of related investors' interest in its associate or joint venture, even if the gain to be eliminated exceeds the carrying amount of the entity's interest in the associate or joint venture, as required by paragraph 28 of IAS 28. The IASB also noted that presenting the eliminated gain in excess of the carrying amount of the entity's interest in the associate or joint venture as a deferred gain in the statement of financial position would be appropriate. Presenting the eliminated gain as a deferred gain in these circumstances achieves the objective of partial gain elimination in a transparent manner.

BC3 The IASB decided to propose adding paragraph 28A to clarify that the eliminated gain in excess of the carrying amount of the entity's interest in the associate or joint venture should be presented as deferred gain because IAS 28 does not provide sufficient guidance on this issue.

Appendix C—May 2013 IFRIC Update

Issues recommended for a narrow-scope amendment

IAS 28 *Investments in Associates and Joint Ventures*—Elimination of gains arising from a transaction between a joint venturer and its joint venture

The IFRS Interpretations Committee received a request to clarify the accounting for a transaction between a joint venturer (an entity) and its joint venture. The request describes a circumstance in which the amount of gains to eliminate in a 'downstream' transaction in accordance with paragraph 28 of IAS 28 exceeds the amount of the entity's interest in the joint venture. Specifically, the submitter requested that the Interpretations Committee should clarify whether:

a. the gain from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's interest in the joint venture; or

b. the remaining gain in excess of the carrying amount of the entity's interest in the joint venture should also be eliminated and if so, what it should be eliminated against.

At the March 2013 meeting, the Interpretations Committee noted that the entity should eliminate the gain from a 'downstream' transaction to the extent of related investors' interest in the joint venture, even if the gain to be eliminated exceeds the carrying amount of the entity's interest in the joint venture, as required by paragraph 28 of IAS 28.

The Interpretations Committee also noted that presenting the eliminated gain in excess of the carrying amount of the entity's interest in the joint venture as a deferred gain would be appropriate because other alternative accounting treatments are not consistent with the principle described in IAS 28. However, the Interpretations Committee observed that IAS 28 does not provide sufficient guidance on this issue.

Consequently, the Interpretations Committee decided to recommend to the IASB that

it should propose to amend IAS 28 in a narrow-scope amendment project by adding specific guidance on how to account for the corresponding entry for the eliminated gain in excess of the carrying amount of the entity's interest in the joint venture in a 'downstream' transaction.

Appendix D—March 2013 IFRIC Update

Interpretations Committee work in progress

IAS 28 *Investments in Associates and Joint Ventures*—Elimination of gains arising from a transaction between a joint venturer and its joint venture

The Interpretations Committee received a request to clarify the accounting for a finance lease transaction in which a joint venturer (an entity) leases an item of property, plant and equipment to its joint venture. The request describes a situation in which the amount of the entity's share of the gain from the transaction to be eliminated in accordance with paragraph 28 of IAS 28 exceeds the amount of the entity's interest in the joint venture. Specifically, the submitter is seeking a clarification on whether:

a. the gain from the transaction should be eliminated only to the extent that it does not exceed the carrying amount of the entity's interest in the joint venture, similarly to the requirement in paragraph 39 of IAS 28; or

b. the remaining gain in excess of the carrying amount of the entity's interest in the joint venture should also be eliminated and, if so, against what.

In addition, the submitter asked a further question about whether the lease transaction would qualify as a finance lease in a circumstance in which two joint venturers have a 50 per cent ownership interest in the joint venture respectively.

The Interpretations Committee discussed whether the entity should eliminate the whole of its share of the gain from a 'downstream' transaction when the entity's share of the gain exceeds the carrying amount of the entity's interest in the joint venture. The Interpretations Committee observed that paragraph 28 of IAS 28 states that, referring to 'downstream' and 'upstream' transactions, "the investor's share in the associate's or joint venture's gains and losses resulting from those transactions is eliminated". Consequently, the Interpretations Committee observed that the entity should eliminate all of its share of the gain from the transaction even if the entity's share of the gain exceeds the carrying amount of the entity's interest in the joint venture. The Interpretations Committee noted that its observations would apply to all

'downstream' transactions and not only to the finance lease example in the submission.

The Interpretations Committee also discussed how to present the corresponding entry for the amount of the eliminated gain that exceeds the carrying amount of the entity's interest in the joint venture. The Interpretations Committee, taking into consideration various types of 'downstream' transactions, noted that the accounting may change depending on the details of the 'downstream' transaction. Consequently, the Interpretations Committee requested the staff to bring further analysis and any proposed amendments to IAS 28 to the next meeting so that the Interpretations Committee can consider whether amendments could or should be made.

The Interpretations Committee did not discuss the submitter's further question about whether a lease from a joint venturer to a 50 per cent joint venture could qualify as a finance lease at this meeting. This issue will be brought back to the next meeting.