IASB Meeting

STAFF PAPER

November 2013

Project	***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*—Proposed amendments to IFRS 10 and IAS 28**
Paper topic	Summary of due process followed

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Introduction

1. In December 2012 the IASB published for comment the Exposure Draft ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*—Proposed amendments to IFRS 10 and IAS 28 (the 'ED'). The comment period ended on 23 April 2013. We have received 65 comment letters.

2. The ED proposed narrow-scope amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment 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.

3. At its meeting in July 2013, the IFRS Interpretations Committee (the 'Interpretations Committee') analysed the comments received and recommended that the IASB should finalise the proposed amendments to IFRS 10 and IAS 28.

4. At its meeting in October 2013, the IASB considered the comments received from respondents and the recommendations of the IFRS Interpretations Committee and tentatively decided to finalise the proposed amendments to IFRS 10 and IAS 28.

5. The purpose of this paper is therefore to:

    (a) provide the IASB with a brief summary of the proposed amendments to IFRS 10 and IAS 28;

    (b) assess whether the final amendments can be finalised or need to be re-exposed before finalisation;

    (c) discuss the mandatory effective dates of the final amendments;

    (d) explain the steps in the due process that the IASB has taken since the publication of the ED in Appendix A to this staff paper; and

    (e) ask questions to the IASB.

Summary of the proposed amendments to IFRS 10 and IAS 28

6. The objective of the proposed amendments to IFRS 10 and IAS 28 is to address the issues related to the changes made in IAS 27 *Consolidated and Separate Financial Statements* (as issued in 2008) 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.

7. 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 interested parties noted that this guidance appears to conflict with the gain or loss guidance in SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers*. In accordance with SIC-13, 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 that jointly controlled entity is restricted to the extent of the interests that are 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.

8. 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 *Investments in Associates* (as issued in 2003) and SIC-13 and is also effective for annual periods beginning on or after 1 January 2013; and

   (c) the requirements in IFRS 10 for 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 into IAS 28 (2011) and apply to the sale or contribution of assets to an associate or joint venture in exchange for an equity interest in that associate or joint venture. As a result, the conflict identified above also exists between the requirements in IFRS 10 and the requirements in IAS 28 (2011).

9. As a result, the IASB proposed to amend IAS 28 (2011) so that:

   (a) the current requirements for 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 *Business Combinations*; 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.

10. The IASB also proposed 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, including cases in which the investor retains joint control of, or significant influence over, the investee.

11. The IASB also proposed to specify that when determining whether a group of assets that is sold or contributed is a business, as defined in IFRS 3, an entity should consider whether that sale or contribution is part of multiple arrangements that should be accounted for as a single transaction in accordance with the current requirements in paragraph B97 of IFRS 10.

Finalisation or re-exposure

12. Paragraph 6.25 of the *Due Process Handbook* specifies the criteria by which the IASB assesses whether the proposals can be finalised or whether they should be re-exposed.

13. In considering whether there is a need for re-exposure, the IASB:

    (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;

    (b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

14. In its October 2013 meeting, the IASB tentatively decided to finalise the proposed amendments with the following additional clarifications:

(a) the proposed amendments to IFRS 10 should refer to the loss of control of a subsidiary, rather than to the sale or contribution of a subsidiary;

(b) the gain or loss resulting from the loss of control of a subsidiary should include any reclassification adjustments, as described in paragraph B99 of IFRS 10; and

(c) the requirement to eliminate part of the gain or loss as proposed in paragraph B99A of IFRS 10 applies only when the investor accounts for its investment in the associate or joint venture using the equity method.

The IASB also tentatively decided to:

(a) permit early application of the amendments to IFRS 10 and IAS 28; and

(b) make consequential amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* to provide relief from the retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters.

15. We think that the changes mentioned above are not fundamental and respond to the feedback received. Consequently, we think that, on the basis of the re-exposure criteria in paragraphs 6.25–6.29 of the updated *Due Process Handbook*, the proposed amendments to IFRS 10 and IAS 28 should be finalised without re-exposure.

Intention to dissent

16. At its meeting in October 2013, the IASB tentatively decided to finalise the proposed amendments to IFRS 10 and IAS 28 as recommended by the Interpretations Committee. Fourteen IASB members agreed and two disagreed. We are required to formally ask whether any IASB members intend to dissent to the proposed amendments before we ballot.

Question for IASB members
Do any IASB members intend to dissent to the finalisation of the proposed amendments to IFRS 10 and IAS 28?

Effective date

17. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.
18. The amendments to IFRS 10 and IAS 28 are narrow in scope. In addition, entities are required to apply those amendments prospectively to transactions occurring in annual period beginning on or after the effective date. We therefore recommend that the mandatory effective date for the amendments should be 1 January 2015.
19. We expect to issue the final amendments in Q1 of 2014.

Confirmation of due process steps

20. In Appendix A we have summarised the due process steps that we have taken since publishing the ED. In order to summarise these steps and thereby

demonstrate that we have met all the due process requirements to date, we used the Due Process Protocol 'Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter' that is consistent with the updated *Due Process Handbook*.

21. We note that the required due process steps applicable for the publication of the final amendments have been completed, as documented in Appendix A.

Questions for the IASB on compliance with due process

1. Is the IASB satisfied that all required due process steps that pertain to the publication of final amendments have been complied with?
2. Does the IASB agree that the proposed amendments to IFRS 10 and IAS 28 should be finalised without re-exposure?
3. Does the IASB agree that the mandatory effective date of the amendments to IFRS 10 and IAS 28 should be 1 January 2015?

Appendix A—Confirmation of Due Process Steps followed in the Finalisation of a Standard, Practice Guidance or *Conceptual Framework* chapter

General IASB requirements: The development of a Standard is carried out during IASB meetings, when the IASB considers the comments received on the Exposure Draft (ED). The IASB will consider whether to expose its revisions for public comment, for example, a second ED. The IASB needs to consider transitional provisions and the effective date (Due Process Handbook, paragraphs 6.19–6.39).

Due Process Oversight Committee (DPOC) objective: To satisfy the DPOC that the consultation process has been sufficient for the IASB to justify its decisions. The DPOC needs to be assured that the IASB has appropriately considered views of stakeholders before concluding its deliberations, including the scope of the Standard and its technical content. The DPOC must also be assured that the IASB has appropriately considered the need to re-expose changes before finalising a Standard. The DPOC responds to the comments received on the IASB due process in developing a Standard.

Step	***Required/ Optional***	***Actions***
Consideration of information gathered during consultation		
The IASB posts all of the comment letters that are received in relation to the ED on the project pages.	Required if request issued	All comment letters that the IASB has received on the ED were posted on the project webpages.
Round-tables between external participants and members of the IASB.	Optional	Not applicable
IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	Required	The comment letter analyses prepared by the staff were discussed by the Interpretations Committee on the basis of publicly available agenda papers in the July 2013 Interpretations Committee meeting. In the meeting, the Interpretations Committee recommended that the IASB should finalise the proposed amendments to IFRS 10 and IAS 28. The IASB discussed comment letter analyses and recommendations from the Interpretations Committee at its October 2013 meeting. (see Agenda Paper 12AA). It tentatively decided to finalise the proposed amendments to IFRS 10 and IAS 28.

Step	***Required/ Optional***	***Actions***
		The project webpage was updated by the staff after every Interpretations Committee meeting or IASB meeting. The results of the discussions of the Interpretations Committee and the IASB are also summarised in the *IFRS IC Update* and the *IASB Update* for each meeting.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	Required	An effect analysis is not required for these amendments, because they are narrow in scope (ie they are not major amendments). However, the consequences of these narrow-scope amendments have been considered as part of the IASB and Interpretations Committee's discussions. The likely effects of these amendments are the following: • resolve the conflict between the requirements in IFRS 10 and IAS 28; • reduce divergence in practice; and • minimise structuring opportunities.
Email alerts are issued to registered recipients.	Optional	Not applicable.
Outreach meetings to promote debate and hear views on proposals that are published for public comment.	Optional	Not applicable.
Regional discussion forums are organised with national standard-setters and the IASB.	Optional	Not applicable.
Finalisation		
Due process steps are reviewed by the IASB.	Required	This step will be met by this staff paper.

Step	***Required/ Optional***	***Actions***
Need for re-exposure of a Standard is considered.	Required	Analysis of the need to re-expose is included in the main body of this paper.
The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.	Required	Analysis of the effective date is included in the main body of this paper.
Drafting		
Drafting quality assurance steps are adequate.	Required	The Translations team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Optional	The Editorial team will review the drafts during the ballot process. We will perform an editorial review of the pre-ballot draft with external parties. The pre-ballot draft will be made available to members of the IFASS.
Publication		
Press release to announce final Standard.	Required	A press release will be published with the final amendments and made available to the DPOC together with a summary of the media coverage.

Step	*Required/ Optional*	*Actions*
A Feedback Statement is provided, which provides high level executive summaries of the Standard and explains how the IASB has responded to the comments received.	Required	A Feedback Statement is not needed because the amendments are narrow in scope.
Podcast to provide interested parties with high level updates or other useful information about the Standard.	Optional	Not applicable.
Standard is published.	Required	Final amendments will be made available on eIFRS on publication date. The DPOC will be informed of the official release.