STAFF PAPER

28 October – 1 November 2013

IASB Meeting

Project	**Joint redeliberation of three proposed amendments related to the accounting for joint arrangements:** • **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;** • **Acquisition of an Interest in a Joint Operation; and** • **Equity Method: Share of Other Net Asset Changes**
Paper topic	Cover note

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Introduction and purpose of this paper

1. In November and December 2012, the IASB published for comment three Exposure Drafts (‘the EDs’):

   (a) 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 Contribution’);[1]

   (b) ED/2012/7 *Acquisition of an Interest in a Joint Operation* (proposed amendment to IFRS 11) (‘the ED Acquisition’);[2] and

   (c) ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (proposed amendments to IAS 28) (‘the ED Other Changes’).[3]

[1] http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-10-IAS-28/Exposure-Draft-December-2012/Pages/ED-and-Comment-Letters-December-2012.aspx

[2] http://www.ifrs.org/Current-Projects/IASB-Projects/Acquisition-Joint-Operation/Exposure-Draft-December-2012/Pages/Exposure-Draft-and-Comment-letters.aspx

[3] http://www.ifrs.org/Current-Projects/IASB-Projects/equity-accounting/Exposure-Draft-November-2012/Pages/Open-for-comment-Exposure-Draft-Equity-Method-November-2012.aspx

2. During the comment periods of these Exposure Drafts, several respondents raised concerns about developing guidance related to the accounting for joint arrangements in three separate limited-scope projects at the same time:

   (a) several amendments developed in separate projects on the same or related accounting topic(s) (some of the respondents called these 'piecemeal' changes) might result in inconsistent amendments to the Standards;

   (b) several separate changes to the Standards on the same or similar accounting topic(s) within a short time may unduly impair comparability of financial statements; and

   (c) constituents might be confused by the separate publication of several amendments on the same or related accounting topic(s). It might be a problem for them to identify what guidance is relevant for them in a specific period.

3. In order to address these concerns, we propose to redeliberate the three proposed amendments together and intend to publish the final amendments in a single document. Publication in a single document also improves the efficiency of our processes.

4. It is the first time that we have presented several amendments for joint redeliberation since we amended the 'toolkit' of the IFRS Interpretations Committee (the Interpretations Committee) for limited-scope projects on behalf of the IASB.

5. We also applied the approach of joint redeliberation to the Interpretations Committee's discussion on how to proceed with the proposed amendments. Summaries of the comment letters received on the EDs and staff recommendations of how to proceed with the proposed amendments were discussed at the Interpretations Committee meeting in July 2013.[4]

6. The purpose of this Staff Paper is to introduce the three proposed amendments into the October 2013 IASB meeting in order to enable the joint redeliberation.

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[4] see Staff Papers 3, 4 and 5 presented at the July 2013 Interpretations Committee meeting: http://www.ifrs.org/Meetings/Pages/InterpretationsJuly2013.aspx

7. This Staff Paper does *not* include:

   (a) a detailed description and analysis of the proposed amendments in the EDs;

   (b) a summary of the comments received on the EDs;

   (c) the staff recommendation on how proceed with each of the proposed amendments; or

   (d) a detailed description of the results from the Interpretations Committee's discussion at its meeting in July 2013.

8. Instead, this information is included in the following Staff Papers and the appendices to these Staff Papers:

   (a) Staff Paper 12A: Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*;

   (b) Staff Paper 12B: Exposure Draft *Acquisition of an Interest in a Joint Operation*; and

   (c) Staff Paper 12C: Exposure Draft *Equity Method: Share of Other Net Assets Changes*.

9. However, in order to enable the joint redeliberation of the three proposed amendments, this Staff Paper analyses the interrelations of the three proposed amendments which includes brief summaries of the proposed amendments and the results from the Interpretations Committee's discussions at its meeting in July 2013. In particular, this Staff Paper analyses whether the three proposed amendments are consistent.

Summaries of the proposals in the EDs and results from the Interpretations Committee's discussions

ED Contribution

10. The objective of the proposed amendment in the ED Contribution is to solve a conflict in the guidance between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. While paragraphs 25 and B97-B99 of IFRS 10 provide general guidance on the loss of control over a

subsidiary (including cases in which the investor retains joint control of, or significant influence over the investee) and require a *full* gain or loss recognition on the loss of control of a subsidiary, paragraphs 28 and following of IAS 28 require a *partial* gain or loss recognition in transactions between an investor and its associate or joint venture.

11. As a result, the ED Contribution proposes to amend IAS 28 so that:

    (a) the current requirements for 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.

12. The ED Contribution 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.

13. 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.

14. In other words, the ED Contribution only addresses transactions between an investor and its associate or joint venture.

15. At its meeting in July, the Interpretations Committee decided to recommend that the IASB should proceed with the amendment, subject to changes in the wording.

ED Acquisition

16. IFRS 11 *Joint Arrangements* does not give guidance on the accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business as defined in IFRS 3.

17. The ED Acquisition proposes to address these transactions by requiring the acquirer of such an interest to apply the relevant principles on business combinations accounting in IFRS 3 and other IFRSs and to disclose the relevant information required by those IFRSs for business combinations.

18. At the Interpretations Committee meeting in July 2013, a majority of its members supported finalising the amendment. A minority disagreed because they think that further research and analysis should be done on the issue to develop more comprehensive and detailed guidance.

19. In the light of these differing views, the Interpretations Committee decided not to merely make a recommendation on how to proceed with the proposed amendment. Instead, it decided to present the IASB with a summary of its discussions and views on the proposed amendment in the ED Acquisition and the comments received.

ED Other Changes

20. IAS 28 does not explain whether, and if so, where, an investor should account for its share of net asset changes of the investee that are not recognised in profit or loss or other comprehensive income (OCI) of the investee, or that are not distributions received (‘other net asset changes’).

21. The ED Other Changes proposes to amend IAS 28 to require an investor to:

    (a) recognise in the investor’s equity its share of other net asset changes; and

    (b) reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

22. At its meeting in July 2013, the Interpretations Committee decided to resubmit its original proposal to the IASB:

    (a) if an investor’s ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognised in profit or loss of the investor;

(b) if an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as an incremental purchase of the investment and recognised at cost; and

(c) call option transactions entered into by an investee over its own equity (such as share-based payments) would be excluded from the scope of the proposal.

23. If the IASB is not persuaded by the original proposal again, the Interpretations Committee's preference is to recognise all types of other net asset changes in the investor's profit or loss, because in its view they are income and expenses.

Interrelations of the three proposed amendments

Interrelation between ED Contribution and ED Acquisition

24. The changes in the accounting guidance resulting from the ED Contribution do not affect the accounting for the acquisition of an interest in a joint operation in which the activity constitutes a business (ie the transactions addressed by the ED Acquisition).

25. This is because the ED Contribution only addresses transactions between an investor and its associate or joint venture. It does not address transactions between an investor and its joint operation.

26. There is already a conflict in guidance between IFRS 10 and IFRS 11 for transactions between an investor and its joint operation. While paragraphs 25 and B97-B99 of IFRS 10 provides general guidance on the loss of control over a subsidiary (including cases in which the investor retains joint control of a joint operation), and requires a *full* gain or loss recognition on the loss of control of the a subsidiary, paragraph B34 of IFRS 11 requires a *partial* gain or loss recognition in transactions between a joint operator and its joint operation.

27. This conflict is, however, not affected by the ED Contribution, because this ED does not address transactions between an investor and its joint operation.

28. Furthermore, at its meeting in May 2012 the IASB did not take a decision to include the latter 'conflict' in the project that has resulted in the ED Contribution.[5]

29. Finally, several commentators on the ED Contribution and the ED Acquisition asked for resolution of this conflict, in particular to clarify the accounting on the formation of a joint operation when the joint operators contribute subsidiaries that are businesses to the joint operation.

30. The Interpretations Committee decided at its meeting in July 2013 to address this issue as part of another project.[6]

31. The staff plan to start an Interpretations Committee project in November 2013, which will analyse all the issues related to the accounting for joint arrangements that:

    (a) have been raised with the Interpretations Committee; and

    (b) that have not been addressed so far.

32. We expect that the conflict in guidance for transactions between an investor and its joint operations will be analysed as part of this project.

Interrelation between the ED Contribution and the ED Other Changes

33. The proposals in the ED Contribution and the ED Other Changes are consistent. This applies to both the proposals in the ED Other Changes and the Interpretations Committee's recommendation to the IASB for finalising the project on other net asset changes.

34. The ED Other Changes specifies that changes in an investor's share of the investee's net assets that are not recognised in profit or loss or OCI of the investee, and that are not distributions received are recognised in the investor's equity.

35. Furthermore, the ED Other Changes addresses the reclassification of the amount recognised in equity to profit or loss when the investor discontinues the use of the equity method.

[5] http://www.ifrs.org/Meetings/Documents/IAS27280512b11.pdf

[6] http://media.ifrs.org/2013/IFRIC/July/IFRIC-Update-July-2013.pdf

36. The ED Other Changes does not give guidance about gains and losses resulting from upstream and downstream transactions between an investor and its associate or joint venture. The ED Contribution addresses this instead by clarifying whether and when full or partial gain or loss is recognised on transactions between an investor and its associate or joint venture.

Interrelation between the ED Acquisition and the ED Other Changes

37. The proposals in the ED Acquisition and the ED Other Changes are consistent. This applies to both the proposals in the ED Other Changes and the Interpretations Committee's recommendation to the IASB for finalising the project on other net asset changes.

38. While the ED Other Changes addresses specific aspects in the subsequent application of the equity method, the ED Acquisition gives general principles for the accounting of an interest in a joint operation at the acquisition date. Such an interest in a joint operation might include an interest in an associate or a joint venture, eg when the joint operation holds such an investment.

39. In other words, the ED Acquisition proposes to clarify that an interest in an associate or a joint venture that is included in an acquired interest in a joint operation is measured at its acquisition-date fair value. The guidance arising from the ED Other Changes would clarify where to recognise specific subsequent changes in the net assets of this associate or joint venture in the financial statements of the joint operation.

Staff conclusion

40. Consequently, we think that the proposed amendments in the EDs are consistent. The same conclusion applies if the amendments recommended by the Interpretations Committee are considered.

41. For further details, please see Staff Papers 12A─12C.

Question to the IASB

Question to the IASB
Do the members of the IASB have questions on the joint redeliberation approach or on the interrelations between the proposed amendments?