STAFF PAPER

October 2013

IASB Meeting

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	Cover note

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

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 amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates and Joint ventures*. At its meeting in July 2013, the IFRS Interpretations Committee ('the Interpretations Committee') analysed the comments received and recommended that the IASB should proceed with the amendments to IFRS 10 and IAS 28.
3. The agenda papers for this meeting are as follows:
   (a) **Agenda Paper 12AA** includes a summary of the issues discussed by the Interpretations Committee at the July 2013 meeting.
   (b) **Agenda Paper 12AB** includes the proposed wording for the final amendments to IFRS 10 and IAS 28 that is planned to be issued in Q4 2013. It shows marked-up changes based on the text included in the Bound Volume as of 1 January 2013. New text is <u>underlined</u> and deleted text is ~~struck through~~.
   (c) **Agenda paper 12AC** presumes all changes proposed in the Exposure Draft published in December 2012 were accepted and **only shows**

incremental changes newly recommended by the Interpretations Committee based on an analysis of the comment letters received. Incremental new text is underlined and deleted text is ~~struck through~~.

STAFF PAPER

October 2013

IASB Meeting

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 comment letter analysis

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

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 amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates and Joint Ventures*. At its meeting in July 2013, the IFRS Interpretations Committee ('the Interpretations Committee') recommended that the IASB should proceed with the amendments to IFRS 10 and IAS 28.

Purpose of this paper

3. The objective of this paper is:
   (a) to present to the IASB the Interpretations Committee's recommendations on the proposed amendments to IFRS 10 and IAS 28, including:
      (i) a summary of changes made in response to comments received; and
      (ii) the proposed wording for the final amendments to IFRS 10 and IAS 28 as set out in Agenda Papers 12AB and 12AC; and

(b) to obtain a IASB decision on the finalisation of the proposed amendments to IFRS 10 and IAS 28.

4. This paper presents a summary of the feedback received from respondents. The details can be found in Appendix A of this paper, which is a copy of Agenda Paper 3 presented at the July 2013 Interpretations Committee meeting.

Structure of the paper

5. The structure of the paper is the following:

   (a) summary of proposed amendments to IFRS 10 and IAS 28;

   (b) summary of comments received from the respondents to the ED;

   (c) changes recommended by the Interpretations Committee in response to the comments received.

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.

Summary of main comments received

12. Two-thirds of the respondents broadly support the proposed amendments to IFRS 10 and IAS 28 . They think that the proposed amendments are a short-term pragmatic solution that will address the diversity in practice resulting from the conflict between the requirements in IFRS 10 and those in IAS 28 (2011).

13. However, a majority of those respondents observe that the proposed amendments will require an entity to determine whether the sale or contribution of assets meets the definition of a 'business' (as defined in IFRS 3). As a result, they note that the proposals put more emphasis on the definition of a business. They consider that the current definition of a business is not sufficiently clear and they suggest that the IASB should provide additional guidance on this topic.

14. One-third of the respondents disagree with the proposals. Some of those respondents think that:

    (a) The proposals are not operational because the definition of a business is not sufficiently clear.

    (b) The proposals are not conceptually sound. They think that all sales or contributions should be dealt with the same way irrespective of whether the assets sold or contributed meet the definition of a business.

    (c) Introducing short-term solutions is not the way forward. They think that the IASB should instead perform a broad review of the equity method of accounting and clarify its conceptual basis.

(d) This issue should not be finalised before the IASB has fully considered the results of its forthcoming Post-implementation Review (PiR) of IFRS 3 (which they think should also include the review of the revised IAS 27 *Consolidated and Separate Financial Statements (2008)* that was developed as part of the Business Combinations project).

15. A detailed description of the comments received can be found in Appendix A of this paper.

The Interpretations Committee's recommendations

The IASB should finalise the proposed amendments

16. The Interpretations Committee recommended to the IASB that it should finalise the proposed amendments to IFRS 10 and IAS 28. The Interpretations Committee thinks that the proposed amendments would reduce diversity even if judgement will still be required in some cases to determine whether the assets sold or contributed constitute a business. Although the Interpretations Committee agrees that the definition of a business should be discussed as part of the PiR of IFRS 3, it thinks that the IASB should not wait for this review and should proceed now with the proposed amendments. It thinks that the proposed amendments are still the best way forward in the meantime in order to resolve the conflict, reduce diversity and minimise structuring opportunities.

The wording of the proposed amendments to IFRS 10 should be modified

Scope of paragraph B99A of IFRS 10

17. Some respondents note that paragraph B99A of IFRS 10 as worded in the ED deals with the accounting for the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business. They note that transactions other than sales or contributions may result in the loss of control of a subsidiary. They wonder whether this paragraph would also apply in the following cases:

(a) a portion of the interest in the subsidiary is sold or contributed to an associate or joint venture resulting in the loss of control of the subsidiary; or

(b) new shares of the subsidiary are issued so that the former subsidiary becomes an associate or joint venture.

They think that all of the transactions that result in the loss of control of a subsidiary should be accounted for similarly.

18. The Interpretations Committee agreed that all the transactions between an investor and its associate or joint venture that result in the loss of control of a subsidiary (that does not constitute a business) should be accounted for similarly. In our view, this decision minimises structuring opportunities and is consistent with the fact that paragraphs B97-B99 of IFRS 10 deal with the loss of control of a subsidiary.

19. As a result, the Interpretations Committee recommended that paragraph B99A should refer to the loss of control of a subsidiary (rather than to the sale or contribution of a subsidiary).

20. Our proposed wording for paragraph B99A of IFRS 10 is presented in Agenda Papers 12AB and 12AC.

Reclassification of other comprehensive income reserves relating to former subsidiary (paragraph B99 of IFRS 10)

21. Paragraph B99 of IFRS 10 requires amounts previously recognised in other comprehensive income in relation to a subsidiary to be reclassified and recognised in profit or loss when control of that subsidiary is lost. Some respondents note that the proposed amendment to IFRS 10 does not specifically state how an investor should treat any amounts recognised in other comprehensive income that relate to the subsidiary being sold or contributed to an associate or joint venture. Those respondents think that the IASB should clarify that paragraph B99A of IFRS 10 applies to the 'full' gain or loss (ie including reclassification adjustment as described in paragraph B99 of IFRS 10).

22. The Interpretations Committee agreed with the respondents that the gain or loss resulting from the loss of control of a subsidiary referred to in paragraph B99A of

IFRS 10 includes any reclassification adjustments, as described in paragraph B99 of IFRS 10. Indeed, those reclassification adjustments are part of the gain or loss recognised on the disposal of the subsidiary.

23. Our proposed wording for paragraph B99A of IFRS 10 is presented in Agenda Papers 12AB and 12AC.

Sale or contribution of a subsidiary made by an investor that is a venture capital organisation, mutual fund, unit trust or similar entity

24. One respondent thinks that the requirement to eliminate part of the gain or loss as required in paragraph B99A of IFRS 10 should not apply to an investor that sells or contributes a subsidiary that does not constitute a business, when that investor is a venture capital organisation, mutual fund, unit trust or similar entity that elects to measure investments in associates and joint ventures at fair value in accordance with paragraph 18 of IAS 28.

25. The Interpretations Committee agreed that the requirement to eliminate part of the gain or loss is linked to equity method accounting. It recommended that paragraph B99A of IFRS 10 should clarify that the requirement to eliminate part of the gain or loss applies only when the investor accounts for its investment in the associate or joint venture using the equity method.

26. Our proposed wording for paragraph B99A of IFRS 10 is presented in Agenda Papers 12AB and 12AC.

Early application

27. Some respondents ask the IASB to allow users to early apply the proposed amendments.

28. The Interpretations Committee agreed with those respondents that users should be allowed to early apply the proposed amendments to IFRS 10 and IAS 28

29. Our proposed wording is presented in Agenda Papers 12AB and 12AC.

First-time adoption

30. Some respondents think that the proposals of the ED should also be applied prospectively by first-time adopters. They note that according to paragraph B7(c)

of IFRS 1, a first-time adopter shall apply prospectively from the date of transition to IFRSs the requirements in paragraphs B97–B99 of IFRS 10 regarding the accounting for the loss of control of a subsidiary. They ask the IASB to make a consequential amendment to IFRS 1 so that the amendments to IFRS 10 are applied prospectively by first-time adopters.

31. The Interpretations Committee agreed that transitional requirements as proposed in the ED should apply both to entities already applying IFRSs and entities that are first-time adopters. As a result, it recommended a consequential amendment to IFRS 1 that provides relief from retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters.

32. Our proposed consequential amendment is presented in Agenda Papers 12AB and 12AC.

Questions for the IASB
1 Does the IASB agree with the Interpretations Committee's recommendation to finalise the amendments to IFRS 10 and IAS 28?
2 Does the IASB agree with the Interpretations Committee's recommendation to amend paragraph B99A of IFRS 10 as described in Agenda papers 12AB and 12AC?
3 Does the IASB agree with the Interpretations Committee's recommendation to allow early application of the proposed amendments to IFRS 10 and IAS 28?
4 Does the IASB agree with the Interpretations Committee's recommendation to amend IFRS 1 to provide relief from retrospective application of the amendments to IFRS 10 and IAS 28 for first-time adopters?

STAFF PAPER

October 2013

IASB Meeting

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	Proposed wording for final amendments—changes tracked to Bound Volume

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

Introduction

1. This paper sets out the proposed wording for the amendments to IFRS 10 and IAS 28 that have been discussed and recommended by the IFRS Interpretations Committee (‘the Interpretations Committee’) for finalisation. These amendments are planned to be issued in Q4 2013.

2. In this paper, changes are marked-up based on the text included in the (red) Bound Volume as of 1 January 2013. New text is <u>underlined</u> and deleted text is ~~struck through~~.

Amendment to IFRS 10 *Consolidated Financial Statements*

Paragraphs 25–26 are amended and paragraphs B99A and C1C are added. New text is underlined.

Loss of control

25 If a parent loses control of a subsidiary, the parent:

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

(b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest <u>except as specified in paragraph B99A</u>.

26 Paragraphs B97–B99<u>A</u> set out guidance for the accounting for the loss of control of a subsidiary.

…

Loss of control

...

<u>B99A</u> <u>If a parent loses control of a subsidiary that does not constitute a business, as defined in IFRS 3, the parent's interest in the gain or loss (determined in accordance with paragraphs B98-99) resulting from that transaction is eliminated when:</u>

<u>(a) the parent retains an investment in the former subsidiary that is accounted for using the equity method: or</u>

<u>(b) the parent sells or contributes an interest in the former subsidiary to an associate or joint venture that is accounted for using the equity method.</u>

…

Effective date

...

<u>C1C</u> <u>*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 25-26 and added paragraph B99A. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after [date]. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.</u>

Basis for Conclusions on the amendment to IFRS 10 *Consolidated Financial Statements*

After paragraph BCZ190 a heading and paragraphs BC190A–BC190I are added.

Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28

BC190A The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) apply where a business is contributed to a jointly controlled entity (as defined in IAS 31 *Interests in Joint Ventures*), a joint venture (as defined in IFRS 11 *Joint Arrangements*), or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC190B The IASB and the Interpretations Committee noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 *Consolidated and*

Separate Financial Statements (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). 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 attributable to the unrelated equity holders in the jointly controlled entity. However, IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

BC190C This inconsistency between IAS 27 and SIC-13 would remain now that IFRS 10 *Consolidated Financial Statements* has replaced IAS 27 and SIC-13 which has now been 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 into paragraphs 28 and 30 of IAS 28 (2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 and SIC-13 have been superseded at the time when the amendments become effective, the IASB and the Interpretations Committee decided to amend IFRS 10 and IAS 28 (2011) only.

BC190D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (2011), the IASB and the Interpretations Committee were concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in asset or ownership interest form;

(b) sold in exchange for cash; or

(c) contributed in exchange for an equity interest.

BC190E The IASB and the Interpretations Committee concluded that:

(a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the latest thinking developed in the Business Combinations project; and

(b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

BC190F Because assets that do not constitute a business were not part of the Business Combinations project, the IASB and the Interpretations Committee concluded that:

(a) the current requirements in IAS 28 (2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

(b) a partial gain or loss should also be recognised in accounting for the loss of control of a subsidiary that does not constitute a business between an investor and its associate or joint venture.

BC190G The IASB and the Interpretations Committee discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. Although they considered this alternative to be the most robust from a conceptual point of view, they noted that this would require addressing multiple cross-cutting issues. The IASB was concerned that the Interpretations Committee would not be able to address those cross-cutting issues on a timely basis and agreed that the conclusions described in paragraphs BC190E-BC190F were the best way to address this issue.

BC190H The IASB and the Interpretations Committee decided that both ‘upstream’ and ‘downstream’ transactions should be affected by the amendments to IFRS 10 and IAS 28 (2011). The IASB and the Interpretations Committee noted that if assets that constitute a business were to be sold by an associate or joint venture to the investor (in an ‘upstream’ transaction), with the result that the investor takes control of that business, the investor would account for this transaction as a business combination in accordance with IFRS 3. In that case, the IASB and the Interpretations Committee concluded that the investor should:

(a) recognise the assets and liabilities acquired at their fair values; and

(b) recognise its share in the associate’s or joint venture’s gains or losses resulting from the disposal of the business.

The IASB and the Interpretations Committee noted that the accounting treatment in the investor's financial statements resulting from the application of the requirements in IAS 28 (as amended) is consistent with the requirements in IFRS 3 for a business combination that is achieved in stages.

BC190I The IASB decided that the amendments to IFRS 10 and IAS 28 (2011) should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments would become effective. The IASB observed that the IAS 27 (2008) requirements for the loss of control of a subsidiary (paragraphs 34–37) were applied prospectively. The IASB also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the IASB concluded that the benefits of comparative information would not exceed the cost of providing it. The IASB also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (2011).

Amendment to IAS 28 *Investments in Associates and Joint Ventures*

In IAS 28 (2011), paragraphs 28 and 30–31 are amended. Paragraphs 31A–31B and 45A are added. New text is underlined and deleted text is struck through. Paragraph 29 is reproduced for ease of reference, but is not amended.

28 Gains and losses resulting from 'upstream' and 'downstream' transactions involving assets that do not constitute a business, as defined in IFRS 3 *Business Combinations*, between an ~~entity~~ investor (including its consolidated subsidiaries) and its associate or joint venture are recognised in the ~~entity's~~ investor'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 that do not constitute a business, as defined in IFRS 3, from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets that do not constitute a business, as defined in IFRS 3, 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.

29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The gain or loss resulting from the ~~The~~ contribution of ~~a~~ non-monetary assets that do not constitute a business, as defined in IFRS 3, to an associate or a joint venture in exchange for an equity interest in that ~~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.

31 If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit the portion of the gain or loss on the ~~non-monetary~~ contribution relating to the monetary or non-monetary assets received.

31A The gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements (ie the investor's interest in the gains or losses resulting from these transactions is not eliminated).

31B An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in IFRS 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of IFRS 10.

Effective date and transition

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45A *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 28 and 30–31 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after [date]. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Basis for Conclusions on the amendment to IAS 28 *Investments in Associates and Joint Ventures*

After paragraph BC37 a heading and paragraphs BC37A–BC37I are added.

Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28

BC37A The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) apply where a business is contributed to a jointly controlled entity (as defined in IAS 31 *Interests in Joint Ventures*), a joint venture (as defined in IFRS 11 *Joint Arrangements*), or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC37B The IASB and the Interpretations Committee noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). 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 attributable to the unrelated equity holders in the jointly controlled entity. However, IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

BC37C This inconsistency between IAS 27 and SIC-13 would remain now that IFRS 10 *Consolidated Financial Statements* has replaced IAS 27 and SIC-13 which has now been 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 into paragraphs 28 and 30 of IAS 28 (2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 and SIC-13 have been superseded at the time when the amendments become effective, the IASB and the Interpretations Committee decided to amend IFRS 10 and IAS 28 (2011) only.

BC37D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (2011), the IASB and the Interpretations Committee were concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in asset or ownership interest form;

(b) sold in exchange for cash; or

(c) contributed in exchange for an equity interest.

BC37E The IASB and the Interpretations Committee concluded that:

(a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the latest thinking developed in the Business Combinations project; and

(b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

BC37F Because assets that do not constitute a business were not part of the Business Combinations project, the IASB and the Interpretations Committee concluded that:

(a) the current requirements in IAS 28 (2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

(b) a partial gain or loss should also be recognised in accounting for the loss of control of a subsidiary that does not constitute a business between an investor and its associate or joint venture.

BC37G The IASB and the Interpretations Committee discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. Although they considered this alternative to be the most robust from a conceptual point of view, they noted that this would require addressing multiple cross-cutting issues. The IASB was concerned that the Interpretations Committee would not be able to address those cross-cutting issues on a timely basis and agreed that the conclusions described in paragraphs BC190E-BC190F were the best way to address this issue.

BC37H The IASB and the Interpretations Committee decided that both 'upstream' and 'downstream' transactions should be affected by the amendments to IFRS 10 and IAS 28 (2011). The IASB and the Interpretations Committee noted that if assets that constitute a business were to be sold by an associate or joint venture to the investor (in an 'upstream' transaction), with the result that the investor takes control of that business, the investor would account for this transaction as a business combination in accordance with IFRS 3. In that case, the IASB and the Interpretations Committee concluded that the investor should:

(a) recognise the assets and liabilities acquired at their fair values; and

(b) recognise its share in the associate's or joint venture's gains or losses resulting from the disposal of the business.

The IASB and the Interpretations Committee noted that the accounting treatment in the investor's financial statements resulting from the application of the requirements in IAS 28 (as amended) is consistent with the requirements in IFRS 3 for a business combination that is achieved in stages.

BC37I The IASB decided that the amendments to IFRS 10 and IAS 28 (2011) should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments would become effective. The IASB observed that the IAS 27 (2008) requirements for the loss of control of a subsidiary (paragraphs 34–37) were applied prospectively. The IASB also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the IASB concluded that the benefits of comparative information would not exceed the cost of providing it. The IASB also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (2011).

Consequential amendment to IFRS 1 *First Time Adoption of International Reporting Standards*

Paragraph 39U is added. New text is underlined

Effective date

…

39U *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs B7(c). An entity shall apply this amendment when it applies the Amendments to IFRS 10 and IAS 28.

In Appendix B, paragraph B7(c) is amended. New text is underlined.

Non-controlling interests

B7 A first-time adopter shall apply the following requirements of IFRS 10 prospectively from the date of transition to IFRSs:

(a) …

(c) the requirements in paragraphs B97-B99A for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Consequential amendment to the Basis for Conclusion on IFRS 1 *First Time Adoption of International Reporting Standards*

After paragraph BC80E a heading and paragraph BC80F are added.

Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28

BC80F *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended the requirements in IFRS 10 regarding the accounting for the loss of control of a subsidiary. The IASB observed that the amendments to IFRS 10 and IAS 28 should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments would become effective. The IASB also observed that according to paragraph B7(c) of IFRS 1 a first-time adopter should apply prospectively from the date of transition to IFRSs the requirements in B97-B99 of IFRS 10 for accounting for a loss of control over a subsidiary. Consequently, the IASB amended paragraph B7(c) of IFRS 1 to require first-time adopters to apply prospectively from the date of transition to IFRSs the amended requirements regarding the accounting for the loss of control of a subsidiary in paragraph B97-B99A of IFRS 10.

STAFF PAPER

October 2013

IASB Meeting

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	Proposed wording for final amendments—changes tracked to Exposure Draft

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

Introduction

1. This paper sets out the proposed wording for the amendments to IFRS 10 and IAS 28 that have been discussed and recommended by the IFRS Interpretations Committee ('the Interpretations Committee') for finalisation. These amendments are planned to be issued in Q4 2013.

2. This paper presumes that all changes proposed in the Exposure Draft published in December 2012 were accepted and **only shows incremental changes newly recommended by the Interpretations Committee** based on an analysis of the comment letters received. Incremental new text is underlined and deleted text is ~~struck through~~.

~~[Draft]~~ Amendment to IFRS 10 *Consolidated Financial Statements*

Paragraphs 25–26 are amended and paragraphs B99A and C1C are added. New text is underlined and deleted text is struck through.

Loss of control

25 If a parent loses control of a subsidiary, the parent:

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

(b) recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest <u>except as specified in paragraph B99A</u>.

26 Paragraphs B97–B99A set out guidance for the accounting for the loss of control of a subsidiary.

…

Loss of control

...

B99A ~~The gain or loss resulting from the sale or contribution of~~ <u>If a parent loses control of</u> a subsidiary that does not constitute a business, as defined in IFRS 3, <u>the parent's interest in the gain or loss (determined in accordance with paragraphs B98-99) resulting from that transaction is eliminated when:</u>
<u>(a) the parent retains an investment in the former subsidiary that is accounted for using the equity method: or</u>
<u>(b) the parent sells or contributes an interest in the former subsidiary to an associate or joint venture that is accounted for using the equity method.</u> ~~between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in the investor's financial statements only to the extent of the unrelated investors' interests in that associate or joint venture (ie the investor's interest in the gains or losses resulting from these transactions is eliminated).~~

…

Effective date

...

C1~~B~~<u>C</u> ~~[Draft]~~ *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraph<u>s 25-</u>26 and added paragraph B99A. An entity shall apply those amendments prospectively to ~~the sale or contribution of a subsidiary~~ <u>transactions</u> occurring in annual periods beginning on or after [date]. <u>Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.</u>

Basis for Conclusions on the amendment to IFRS 10 *Consolidated Financial Statements*

<u>After paragraph BCZ190 a heading and paragraphs BC190A–BC190I are added. New text is underlined and deleted text is struck through.</u>

<u>Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28</u>

BC~~1~~<u>190A</u> The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) apply where a business is contributed to a jointly controlled entity (as defined in IAS 31 *Interests in Joint Ventures*), a joint venture (as defined in IFRS 11 *Joint Arrangements*), or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC~~2~~190B The IASB and the Interpretations Committee noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). 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 attributable to the unrelated equity holders in the jointly controlled entity. However, IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

BC~~3~~190C This inconsistency between IAS 27 and SIC-13 ~~will remain when~~ would remain now that IFRS 10 *Consolidated Financial Statements* ~~replaces~~ has replaced IAS 27 and SIC-13 ~~is~~ which has now been 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 into paragraphs 28 and 30 of IAS 28 (2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 and SIC-13 ~~will be~~ have been superseded at the time when the ~~proposed~~ amendments ~~would~~ become effective, the IASB and the Interpretations Committee ~~propose~~ decided to amend IFRS 10 and IAS 28 (2011) only.

BC~~4~~190D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (2011), the IASB and the Interpretations Committee were concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in asset or ownership interest form;

(b) sold in exchange for cash; or

(c) contributed in exchange for an equity interest.

BC~~5~~190E The IASB and the Interpretations Committee concluded that:

(a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the latest thinking developed in the Business Combinations project; and

(b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

BC~~6~~190F Because assets that do not constitute a business were not part of the Business Combinations project, the IASB and the Interpretations Committee concluded that:

(a) the current requirements in IAS 28 (2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

(b) a partial gain or loss should also be recognised in accounting for the ~~sale or contribution~~ loss of control of a subsidiary that does not constitute a business between an investor and its associate or joint venture.

BC~~7~~190G The IASB and the Interpretations Committee discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. Although they considered this alternative to be the most robust from a conceptual point of view, they noted that this would require addressing multiple cross-cutting issues. The IASB was concerned that the Interpretations Committee would not be able to address those cross-cutting issues on a timely basis and ~~concluded~~ agreed that the ~~proposed amendments~~ conclusions described in paragraphs BC190E-BC190F were the best way to address this issue.

BC~~8~~190H The IASB and the Interpretations Committee decided that both ‘upstream’ and ‘downstream’ transactions should be affected by the ~~proposed~~ amendments to IFRS 10 and IAS 28 (2011). The IASB and the Interpretations Committee noted that if assets that constitute a business were to be sold by an associate or joint venture to the investor (in an ‘upstream’ transaction), with the result that the investor takes control of that business, the investor would account for this transaction as a business combination in accordance with IFRS 3. In that case, the IASB and the Interpretations Committee concluded that the investor should:

(a) recognise the assets and liabilities acquired at their fair values; and

(b) recognise its share in the associate's or joint venture's gains or losses resulting from the disposal of the business.

The IASB and the Interpretations Committee noted that the accounting treatment in the investor's financial statements resulting from the application of the requirements in IAS 28 (as amended ~~proposed in this Exposure Draft~~) is consistent with the requirements in IFRS 3 for a business combination that is achieved in stages.

BC~~9~~Z190I The IASB decided that the ~~proposed~~ amendments to IFRS 10 and IAS 28 (2011) should apply prospectively to ~~contributions or sales~~ transactions that occur in annual periods beginning on or after the date that the ~~proposed~~ amendments would become effective. The IASB observed that the IAS 27 (2008) requirements for the loss of control of a subsidiary (paragraphs 34–37) were applied prospectively. The IASB also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the IASB concluded that the benefits of comparative information would not exceed the cost of providing it. The IASB also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (2011).

~~[Draft]~~ Amendment to IAS 28 *Investments in Associates and Joint Ventures*

In IAS 28 (2011), paragraphs 28 and 30–31 are amended. Paragraphs 31A–31B and 45A are added. New text is underlined and deleted text is struck through. Paragraph 29 is reproduced for ease of reference, but is not amended ~~proposed for amendment~~.

28 Gains and losses resulting from 'upstream' and 'downstream' transactions involving assets that do not constitute a business, as defined in IFRS 3 *Business Combinations*, between an investor (including its consolidated subsidiaries) and its associate or joint venture are recognised in the investor'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 that do not constitute a business, as defined in IFRS 3, from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets that do not constitute a business, as defined in IFRS 3, 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.

29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The gain or loss resulting from the contribution of ~~a~~ non-monetary assets that do not constitute a business, as defined in IFRS 3, to an associate or a joint venture in exchange for an equity interest in that 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.

31 If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit the portion of the gain or loss on the contribution relating to the monetary or non-monetary assets received.

31A The gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements (ie the investor's interest in the gains or losses resulting from these transactions is not eliminated).

31B An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in IFRS 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of IFRS 10.

Effective date and transition

...

45A ~~[Draft]~~ *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 28 and 30–31 and added paragraphs 31A–31B. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after [date]. Early application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

Basis for Conclusions on the amendment to IAS 28 *Investments in Associates and Joint Ventures*

After paragraph BC37 a heading and paragraphs BC37A–BC37I are added. New text is underlined and deleted text is struck through.

Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28

BC~~1~~37A The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify whether a business meets the definition of a 'non-monetary asset'. The question was asked within the context of identifying whether the requirements of SIC-13 *Jointly Controlled Entities—Non-Monetary Contributions by Venturers* and IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011) apply where a business is contributed to a jointly controlled entity (as defined in IAS 31 *Interests in Joint Ventures*), a joint venture (as defined in IFRS 11 *Joint Arrangements*), or an associate, in exchange for an equity interest in that jointly controlled entity, joint venture or associate. The business may be contributed either when the jointly controlled entity, joint venture or associate is established or thereafter.

BC~~2~~37B The IASB and the Interpretations Committee noted that this matter is related to the issues arising from the acknowledged inconsistency between the requirements in IAS 27 *Consolidated and Separate Financial Statements* (as revised in 2008) and SIC-13, when accounting for the contribution of a subsidiary to a jointly controlled entity, joint venture or associate (resulting in the loss of control of the subsidiary). 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 attributable to the unrelated equity holders in the jointly controlled entity. However, IAS 27 requires full profit or loss recognition on the loss of control of the subsidiary.

BC~~3~~37C This inconsistency between IAS 27 and SIC-13 ~~will remain when~~ would remain now that IFRS 10 *Consolidated Financial Statements* ~~replaces~~ has replaced IAS 27 and SIC-13 ~~is~~ which has now been 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 into paragraphs 28 and 30 of IAS 28 (2011) and apply to the sale or contribution of assets between an investor and its associate or joint venture. Because IAS 27 and SIC-13 ~~will be~~ have been superseded at the time when the ~~proposed~~ amendments ~~would~~ become effective, the IASB and the Interpretations Committee ~~propose~~ decided to amend IFRS 10 and IAS 28 (2011) only.

BC~~4~~37D In dealing with the conflict between the requirements in IFRS 10 and IAS 28 (2011), the IASB and the Interpretations Committee were concerned that the existing requirements could result in the accounting for a transaction being driven by its form rather than by its substance. For example, different accounting might be applied to a transaction involving the same underlying assets depending on whether those assets were:

(a) transferred in asset or ownership interest form;

(b) sold in exchange for cash; or

(c) contributed in exchange for an equity interest.

BC~~5~~37E The IASB and the Interpretations Committee concluded that:

(a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the latest thinking developed in the Business Combinations project; and

(b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

BC~~6~~37F Because assets that do not constitute a business were not part of the Business Combinations project, the IASB and the Interpretations Committee concluded that:

(a) the current requirements in IAS 28 (2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

(b) a partial gain or loss should also be recognised in accounting for the ~~sale or contribution~~ loss of control of a subsidiary that does not constitute a business between an investor and its associate or joint venture.

BC~~7~~37G The IASB and the Interpretations Committee discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. Although they considered this alternative to be the most robust from a conceptual point of view, they noted that this would require addressing multiple cross-cutting issues. The IASB was concerned that the Interpretations Committee would not be able to address those cross-cutting issues on a timely basis and ~~concluded~~ agreed that the ~~proposed amendments~~ conclusions described in paragraphs BC190E-BC190F were the best way to address this issue.

BC~~8~~37H The IASB and the Interpretations Committee decided that both 'upstream' and 'downstream' transactions should be affected by the ~~proposed~~ amendments to IFRS 10 and IAS 28 (2011). The IASB and the Interpretations Committee noted that if assets that constitute a business were to be sold by an associate or joint venture to the investor (in an 'upstream' transaction), with the result that the investor takes control of that business, the investor would account for this transaction as a business combination in accordance with IFRS 3. In that case, the IASB and the Interpretations Committee concluded that the investor should:

(a) recognise the assets and liabilities acquired at their fair values; and

(b) recognise its share in the associate's or joint venture's gains or losses resulting from the disposal of the business.

The IASB and the Interpretations Committee noted that the accounting treatment in the investor's financial statements resulting from the application of the requirements in IAS 28 (as amended ~~proposed in this Exposure Draft~~) is consistent with the requirements in IFRS 3 for a business combination that is achieved in stages.

BC~~9~~37I The IASB decided that the ~~proposed~~ amendments to IFRS 10 and IAS 28 (2011) should apply prospectively to ~~contributions or sales~~ transactions that occur in annual periods beginning on or after the date that the ~~proposed~~ amendments would become effective. The IASB observed that the IAS 27 (2008) requirements for the loss of control of a subsidiary (paragraphs 34–37) were applied prospectively. The IASB also noted that transactions dealing with the loss of control of a subsidiary or a business between an investor and its associate or joint venture are discrete non-recurring transactions. Consequently, the IASB concluded that the benefits of comparative information would not exceed the cost of providing it. The IASB also decided to allow entities to early apply the amendments to IFRS 10 and IAS 28 (2011).

Consequential amendment to IFRS 1 *First Time Adoption of International Reporting Standards*

Paragraph 39U is added.

Effective date

…

39U *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs B7(c). An entity shall apply this amendment when it applies the Amendments to IFRS 10 and IAS 28.

In Appendix B, paragraph B7(c) is amended. New text is underlined.

Non-controlling interests

B7 A first-time adopter shall apply the following requirements of IFRS 10 prospectively from the date of transition to IFRSs:

(a) …

(c) the requirements in paragraphs B97-B99A for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Consequential amendment to the Basis for Conclusion on IFRS 1 *First Time Adoption of International Reporting Standards*

After paragraph BC80E a heading and paragraph BC80F are added. New text is underlined.

Sale or contribution of assets between an investor and its associate or joint venture-Amendments to IFRS 10 and IAS 28

BC80F *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended the requirements in IFRS 10 regarding the accounting for the loss of control of a subsidiary. The IASB observed that the amendments to IFRS 10 and IAS 28 should apply prospectively to transactions that occur in annual periods beginning on or after the date that the amendments would become effective. The IASB also observed that according to paragraph B7(c) of IFRS 1 a first-time adopter should apply prospectively from the date of transition to IFRSs the requirements in B97-B99 of IFRS 10 for accounting for a loss of control over a subsidiary. Consequently, the IASB amended paragraph B7(c) of IFRS 1 to require first-time adopters to apply prospectively from the date of transition to IFRSs the amended requirements regarding the accounting for the loss of control of a subsidiary in paragraph B97-B99A of IFRS 10.

STAFF PAPER

October 2013

IASB Meeting

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 comment letter analysis

CONTACT(S) Leonardo Piombino lpiombino@ifrs.org +44 (0)20 7246 0571

This paper is a copy of Staff Paper 3 presented at the July 2013 IFRS Interpretations Committee meeting. This paper is presented as additional information in support of Staff Paper 12AA about the project *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*—Proposed amendments to IFRS 10 and IAS 28, for the October 2013 IASB meeting.

STAFF PAPER

July 2013

IFRS Interpretations Committee Meeting

Project	**IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investment in Associates and Joint ventures***		
Paper topic	Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*		
CONTACT(S)	Patrick Le Flao	pleflao@ifrs.org	+44 (0)20 7246 6935

Introduction

1. In December 2012, the IASB published for comment the Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the 'ED'). The comment period ended on 23 April 2013. We have received 65 comment letters.
2. The purpose of this paper is:
   (a) to present a summary of the comments received on the ED; and
   (b) to analyse the comments received and discuss the next steps.

Structure of the paper

3. The structure of the paper is the following:
   (a) summary of proposed amendments to IFRS 10 and IAS 28;
   (b) summary of general comments received;
   (c) other individual comments received; and

(d) staff analysis and recommendations.

Summary of proposed amendments to IFRS 10 and IAS 28

4. The IASB published Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* in December 2012. The IASB proposed to amend IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011). The objective of these proposed amendments 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 the control is lost.

5. 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.

6. 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).

7. 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.

8. 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.

9. 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.

Summary of general comments received

10. Two thirds of the respondents are broadly supportive of the proposals (for example EFRAG, Grant Thornton, Deloitte, Mazars, AcSB, GLASS, EY, AASB, AOSSG). They believe that the proposed amendments are a short-term pragmatic solution that will address the diversity in practice resulting from the conflict between the requirements in IFRS 10 and IAS 28 (2011).

11. However, a majority of those respondents (for example EFRAG, The Hong Kong Association of Banks, Moore Stephens, Deloitte, ESMA) observe that the proposed amendments will require an entity to determine whether the sale or contribution of assets meet the definition of a 'business' (as defined in IFRS 3). As a result, they note that the proposals put more emphasis on the definition of a business. They also note that the proposals of the Exposure Draft *Acquisition of an Interest in a Joint Operation* put more emphasis on the definition of a business. They consider that the current definition of a business is not sufficiently clear and they suggest that the IASB provides additional guidance on this topic.

12. Some of the respondents that agree with the proposals (for example Grant Thornton, SAICA) think that the issue addressed stems at least in part from the lack of principles underlying the application of the equity method (ie whether it is considered a 'one line consolidation' or a 'valuation approach'). They ask the IASB to consider in the longer term a broader review of the equity method and note that this has been identified as a priority research project during the 2011 Agenda Consultation. Those respondents think that a fundamental review of the appropriateness of partial gain or loss recognition for upstream and downstream transactions should be dealt with as part of the priority research project for equity method (and not as part of this narrow scope project).

13. One third of the respondents disagree with the proposals. A majority of those respondents think that:

    (a) the proposals are not operational as the definition of a business is not sufficiently clear (for example Roche, Orange, Petrobras, SwissHoldings, BDO). Some respondents note that this issue should not be finalised before the IASB has fully considered the results of its forthcoming Post-implementation Review (PIR) of IFRS 3. They ask the IASB to clarify the definition of a business as part of this PIR.

(b) the proposals are not conceptually sound (for example FEI Canada). They think that all sales or contributions should be dealt with the same way, whether it is a sale/contribution of a business or not.

(c) introducing short-term solutions is not the way forward (for example ANC, Baker Tilly). They note that the proposed amendments in the ED, the Exposure Draft *Acquisition of an Interest in a Joint Operation* and the Exposure Draft *Equity method: Share of Other Net Asset Changes* touch upon a number of fundamental concepts that underlie the equity method accounting. They think that the IASB should instead perform a broad review of equity method accounting and provide a clear conceptual basis for equity accounting.

(d) the issue is at least partially linked with the 'loss of control' thinking that was developed by the IASB in the Business Combinations project and the requirement in IAS 27/IFRS 10 to recognise a full gain or loss on the loss of control of a subsidiary, even when the investor retains an interest in an associate or joint venture. They consider this issue to not be finalised before the IASB has fully considered the results of its forthcoming PIR of IFRS 3 (which should also include the review of the revised IAS 27 (2008) that was developed as part of the Business Combinations project).

14. Some of the respondents that disagree with the proposals suggest other alternatives for the accounting for the sale or contribution of assets between an investor and its associate or joint venture. However, those respondents suggest different alternatives:

(a) some think (for example Orange) that a full gain should be recognised when there is a loss of control (whether it is an asset, a business or a subsidiary). They think that the proposals to limit the recognition of a full gain contradict and undermine the decisions taken in recent accounting developments (including the Business Combinations project). Indeed, they note that all of the recent developments in IFRS place emphasis on the concept of control and loss of control.

(b) some think (for example CRUF, SwissHoldings, ICAC) that a partial gain should be recognised for all transactions with associates and joint ventures (including for the loss of control of a subsidiary when the investor retains an interest in an associate or joint venture). They think that a sale or contribution between an entity and a third party should be accounted for differently from the sale or contribution between an investor and its associate or joint venture. This would require amending the requirements in IFRS 10 regarding the loss of control of a subsidiary in cases where the investor retains an interest in an associate or joint venture.

(c) some think (for example Statoil) that a partial gain should be recognised in transactions with joint ventures and that a full gain should be recognised in transactions with associates. They consider that a sale or contribution to an associate is similar to a sale or contribution to a third party.

15. It should be noted that among the respondents that disagree, there are several oil and gas companies (for example Petrobras, Statoil, BP). All of those companies think that the definition of a business is not sufficiently clear, in particular with oil and gas activities.

16. Some of the respondents that disagree also note that numerous amendments to Standards as part of narrow scope projects make them more difficult and costly to apply in practice.

17. Lastly, nearly all of the respondents agree that the proposed amendments should be applied prospectively. Some respondents ask the IASB to allow users to early apply the proposed amendments. A few respondents ask the IASB to allow retrospective application.

Other individual comments received

Scope of new paragraph B99A of IFRS 10

18. Some respondents (for example SAICA, Deloitte) note that paragraph B99A of IFRS 10 as worded in the ED deals with the accounting for the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business. They note that transactions other than sales or contributions may result in the loss of control of a subsidiary. They wonder whether this paragraph would also apply in the following cases:

    (a) a portion of the interest in the subsidiary is sold or contributed to an associate or joint venture resulting in the loss of control of the subsidiary;

    (b) new shares of the subsidiary are issued so that the former subsidiary becomes an associate or joint venture.

19. They think that all of the transactions that result in the loss of control of the subsidiary should be accounted for similarly.

Reclassification of other comprehensive income reserves relating to former subsidiary (paragraph B99 of IFRS 10)

20. Paragraph B99 of IFRS 10 requires amounts that were previously recognised in other comprehensive income in relation to a subsidiary to be reclassified and recognised in profit or loss when control of that subsidiary is lost. Some respondents (for example EFRAG) note that the proposed amendment to IFRS 10 does not specifically state how an investor should treat any amounts recognised in other comprehensive income that relate to the subsidiary being sold or contributed to an associate or joint venture. Those respondents think that the IASB should clarify that paragraph B99A of IFRS 10 applies to the 'full' gain or loss (including reclassification adjustment as described in paragraph B99 of IFRS 10).

Sale or contribution of a subsidiary made by an investor that is a venture capital organisation, mutual fund, unit trust or similar entity

21. One respondent (Grant Thornton) thinks that the requirement to eliminate part of the gain or loss as required in paragraph B99A of IFRS 10 should not apply to an investor that sells or contributes a subsidiary that does not constitute a business to an associate or joint venture, when that investor is a venture capital organisation, mutual fund, unit trust or similar entity that elects to measure investments in associates and joint ventures at fair value in accordance with paragraph 18 of IAS 28.

Interaction between paragraph B99A of IFRS 10 and paragraph 29 of IAS 28

22. Paragraph 29 of IAS 28 states that when downstream transactions provide evidence of a reduction in the net realisable value of the assets that are to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor.
23. One respondent wonders whether there should be a similar paragraph accompanying paragraph B99A of IFRS 10. They note that paragraph B99A may result in recognising a partial loss when selling or contributing a subsidiary to an associate or joint venture, although there may be evidence of an impairment loss of the investment in the associate or joint venture that was retained by the investor.

Paragraph 30–31 of IAS 28

24. Some respondents (for example AOSSG) think that paragraphs 30–31 of IAS 28 are not consistent with the proposals in the ED. Paragraph 30 specifies that the gain or loss resulting from the contribution of non-monetary assets is not recognised if the transaction lacks commercial substance. Paragraph 31 specifies that an investor recognises in full in profit the portion of the gain or loss on a contribution relating to monetary or non-monetary assets received, if that investor receives monetary or non-monetary assets in addition to receiving an equity interest in an associate or joint venture.

25. Those respondents think that the IASB should amend paragraphs 30–31 of IAS 28 and should require partial gain or loss recognition for all sales and contributions of assets that do not constitute a business (whether those assets are monetary or non-monetary assets and whether the contribution is made in exchange for an equity interest in the investee or in exchange for other assets). In particular, they do not think that the nature of the assets received should warrant a different accounting.

Interaction between paragraph B99A of IFRS 10 and IFRS 5

26. One respondent (Yoshinaga Yuko) thinks that some may misinterpret the reference in paragraph B99A of IFRS 10 for an entity to recognise partial (gain or) loss when a subsidiary does not constitute a business to imply that this paragraph takes precedence over the requirements of IFRS 5 Non-currents assets Held for Sale and Discontinued Operations.

Interaction between paragraph B99A of IFRS 10 and the derecognition requirements of IFRS 9

27. One respondent (Yoshinaga Yuko) notes that it is not clear whether the sale of a subsidiary that contains only financial assets (such as loans) should be accounted for under the derecognition requirements of IFRS 9 *Financial Instruments* or under the requirements of IFRS 10.

28. This respondent thinks that some may misinterpret paragraph B99A to mean that when an entity sells its non-business subsidiary, the guidance for the loss of control in IFRS 10 takes precedence over the derecognition requirements in other Standards, for example, in IFRS 9.

Separate financial statements

29. Some respondents (for example EFRAG, Deloitte) note that the IASB has not addressed the issue of sales and contributions of assets between an investor and its associate or joint venture from the separate financial statements' point of view. Those respondents recommend the IASB to address this issue and clarify that a full gain or loss should always be recognised in the separate financial statements.

Sales or contributions of assets to a joint operation

30. Many respondents (for example EFRAG, ANC, Statoil, EY) note that the IASB has not addressed the issue of sales and contributions of assets between an investor and its joint operation. They note that an inconsistency also exists between the requirements of IFRS 10 and those of IFRS 11. Paragraph B34 of IFRS 11 limits the recognition of gains and losses resulting from the sale or contribution of assets to a joint operation. Those respondents recommend the IASB to address this issue.

Elimination of gains in a downstream transaction resulting in a negative investment

31. A few respondents (for example Moore Stephens) ask the IASB to address an issue that relates to the elimination of gains in a downstream transaction involving assets that do not constitute a business. When the equity investment has little value in the investor's financial statements, the investor may not be able to eliminate the gain (against the equity investment) because the amount of gain to be eliminated is in excess of the carrying value of the investment, resulting in a negative investment. Those respondents ask the IASB to provide guidance on how to account for the elimination of the gain in such situations.

First time adopters of IFRSs

32. Some respondents (for example EY) think that the proposals of the Exposure Draft should be applied prospectively by first-time adopters. They note that according to paragraph B7(c) of IFRS 1, a first-time adopter shall apply prospectively from the date of transition to IFRSs the requirements in paragraphs B97–B99. They ask the IASB to make a consequential amendment to IFRS 1 so that the amendments to IFRS 10 are applied prospectively by first-time adopters.

Staff analysis and recommendations

33. The objective of this section is:

(a) to discuss general comments received and decide whether to proceed with the proposed amendments to IFRS 10 and IAS 28 (2011);

(b) to discuss individual comments received and decide whether the drafting of the proposed amendments should be clarified; and

(c) to discuss agenda requests received and decide whether those requests should be addressed as part of this narrow scope project or as part of other projects.

Staff analysis of general comments received

34. This section discusses the general comments received as described in the section 'Summary of general comments received'. Individual comments are analysed in the section below.

35. We note that two thirds of the respondents are broadly supportive of the proposals. They believe that the proposed amendments are a short-term pragmatic solution that will address the diversity in practice resulting from the conflict between the requirements in IFRS 10 and IAS 28.

36. However, one third of the respondents disagree with the proposals. A majority of those respondents think that:

(a) the proposals are not operational as the definition of a business is not sufficiently clear;

(b) the proposals are not conceptually sound. They think that all sales or contributions should be dealt with the same way whether it is a sale or contribution of a business or not;

(c) introducing short-term solutions is not the way forward. They think that the IASB should instead perform a broad review of equity method accounting and provide a clear conceptual basis for equity accounting;

(d) the IASB should propose other alternatives for the accounting for the sale and contribution of assets between an investor and its associate or joint venture.

37. We think that the main concern of the IASB and the IFRS Interpretations Committee (the 'Interpretations Committee') when dealing with the conflict between IFRS 10 and IAS 28 was to propose an accounting that does not depend on whether:

   (a) the assets are transferred in an asset or an ownership interest form (ie the assets are housed in a subsidiary or not); and

   (b) the assets are sold in exchange for cash or contributed in exchange for an equity interest.

38. The IASB and the Interpretations Committee concluded that:

   (a) the accounting for the loss of control of a business, as defined in IFRS 3, should be consistent with the latest 'loss of control' thinking developed in the Business Combinations project; and

   (b) a full gain or loss should therefore be recognised on the loss of control of a business, regardless of whether that business is housed in a subsidiary or not.

39. Because assets that do not constitute a business were not part of the Business Combinations project, the IASB and the Interpretations Committee concluded that:

   (a) the current requirements in IAS 28 (2011) for the partial gain or loss recognition for transactions between an investor and its associate or joint venture should only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business; and

   (b) a partial gain or loss should also be recognised in accounting for the sale or contribution of a subsidiary that does not constitute a business between an investor and its associate or joint venture.

40. The IASB and the Interpretations Committee discussed whether all sales and contributions (including the sale or contribution of assets that do not constitute a business) should follow the thinking in the Business Combinations project. Although they considered this alternative to be the most robust from a conceptual point of view, they noted that this would require addressing multiple cross-cutting

issues. The IASB was concerned that the Interpretations Committee would not be able to address those cross-cutting issues on a timely basis and concluded that the proposed amendments were the best way to address this issue.

41. Those cross-cutting issues include:

(a) the equity method accounting and the definition of a group. We think that the issues relating to equity method accounting, and in particular the appropriateness of partial gain or loss recognition for upstream and downstream transactions in IAS 28, would be best dealt with as part of the priority research project for equity method (rather than in this ED).

(b) the 'loss of control' thinking when applied to the sale or contribution of assets that do not constitute a business. In particular, it should be noted that the current requirements in IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 regarding the derecognition of financial assets is not solely based on the loss of control, but mainly on whether the entity retains substantially all of the risk and rewards of ownership of the financial asset. We note that the IASB published in April 2009 an Exposure Draft dealing with the derecognition of financial assets. The IASB had originally proposed to replace the current derecognition model in IAS 39 with a model that is based on the 'loss of control' thinking (rather than on risks and rewards). However, in the light of feedback received, the IASB decided to retain the existing derecognition requirements and to finalise improved disclosure requirements.

42. We also note that nearly all of the respondents consider that the current definition of a 'business' is not sufficiently clear and they suggest that the IASB provides additional guidance on this topic as part of the PIR of IFRS 3. We acknowledge that applying the definition of a business in IFRS 3 might require judgement in certain circumstances.

43. However, we think that the proposed amendments would still reduce diversity in all cases where it is clear whether a business is involved or not. Although we agree that the definition of a business should be discussed as part of the PIR of IFRS 3, we think that the IASB and the Interpretations Committee should not wait

for this review and should proceed with the amendments to IFRS 10 and IAS 28 (2011) as proposed in this paper (see Appendix A). We think that the proposed amendments are still the best way forward in the meantime in order to resolve the conflict, reduce diversity and minimise structuring opportunities.

44. However, it should be noted that we recommend making changes to the wording of the proposed amendments in the light of individual comments received. Those changes are discussed in the section below and are shown in Appendix B of this paper. It should also be noted that we recommend deleting paragraph 31 of IAS 28.

Questions for the Interpretations Committee
1. Does the Interpretations Committee agree in principle with the staff recommendation to finalise the amendments to IFRS 10 and IAS 28 (subject to changes as shown in Appendix B of this paper)? In particular, does the Interpretations Committee agree with the staff recommendation not to wait for the results of the PIR of IFRS 3?

Staff analysis of individual comments received

Scope of paragraph B99A of IFRS 10

45. Some respondents note that paragraph B99A of IFRS 10 as worded in the ED deals with the accounting for the gain or loss resulting from the sale or contribution of a subsidiary that does not constitute a business. . They note that transactions other than sales or contributions may result in the loss of control of a subsidiary. They wonder whether this paragraph would also apply in the following cases:

(a) a portion of the interest in the subsidiary is sold or contributed to an associate or joint venture resulting in the loss of control of the subsidiary;

(b) new shares of the subsidiary are issued so that the former subsidiary becomes an associate or joint venture.

They think that all of the transactions that result in the loss of control of a subsidiary should be accounted for similarly.

46. We agree with those respondents that all of the transactions that result in the loss of control of a subsidiary should be accounted for similarly. This is consistent with the Interpretations Committee's decision to minimise structuring opportunities and with the fact that paragraphs B97-B99 of IFRS 10 deal with the loss of control of a subsidiary. As a result, we think that paragraph B99A should refer to the loss of control of a subsidiary (rather than to the sale or contribution of a subsidiary). Consequently, all the transactions resulting in the loss of control of a subsidiary that does not constitute a business would be accounted for consistently, as specified in paragraph B99A of IFRS 10. See changes made to paragraph B99A of IFRS 10 in Appendix B of this paper.

Reclassification of other comprehensive income reserves relating to former subsidiary (paragraph B99 of IFRS 10)

47. Paragraph B99 of IFRS 10 requires amounts previously recognised in other comprehensive income in relation to a subsidiary to be reclassified and recognised in profit or loss when control of that subsidiary is lost. Some respondents note that the proposed amendment to IFRS 10 does not specifically state how an investor should treat any amounts recognised in other comprehensive income that relate to the subsidiary being sold or contributed to an associate or joint venture. Those respondents think that the IASB should clarify that paragraph B99A of IFRS 10 applies to the 'full' gain or loss (ie including reclassification adjustment as described in paragraph B99 of IFRS 10).

48. We agree with the respondents that the gain or loss resulting from the loss of control of a subsidiary referred to in paragraph B99A of IFRS 10 includes any reclassification adjustments, as described in paragraph B99 of IFRS 10. Indeed, those reclassification adjustments are part of the gain or loss recognised on the disposal of the subsidiary. See changes made to paragraph B99A of IFRS 10 in Appendix B of this paper.

49. One respondent questions whether there should be a consequential amendment to IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Paragraphs 48 and

48A(a) of IAS 21 specify that, on the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognised in other comprehensive income and accumulated in the separate component of equity, shall be reclassified from equity to profit or loss (as a reclassification adjustment) when the gain or loss on disposal is recognised. We do not think that a consequential amendment to IAS 21 is needed. We think that an entity should first apply the requirements of IAS 21 (paragraphs 48 and 48A(a)) and then apply the requirements of IFRS 10 (paragraphs B99 and B99A if needed).

50. As a result, if paragraph B99A of IFRS 10 applies, the gain or loss resulting from the loss of control of a subsidiary that does not constitute a business (including any reclassification adjustments such as the cumulative amount of the exchange differences previously recognised in other comprehensive income) would be recognised only to the extent of the unrelated investors' interests in the associate or joint venture.

Sale or contribution of a subsidiary made by an investor that is a venture capital organisation, mutual fund, unit trust or similar entity

51. One respondent thinks that the requirement to eliminate part of the gain or loss as required in paragraph B99A of IFRS 10 should not apply to an investor that sells or contributes a subsidiary that does not constitute a business, when that investor is a venture capital organisation, mutual fund, unit trust or similar entity that elects to measure investments in associates and joint ventures at fair value in accordance with paragraph 18 of IAS 28.

52. We agree that the requirement to eliminate part of the gain or loss is linked to equity method accounting. We think that paragraph B99A of IFRS 10 should clarify that the requirement to eliminate part of the gain or loss applies only when the investor accounts for its investment in the associate or joint venture using the equity method. See changes made to paragraph B99A of IFRS 10 in Appendix B of this paper.

Interaction between paragraph B99A of IFRS 10 and paragraph 29 of IAS 28

53. Paragraph 29 of IAS 28 states that when downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor.

54. One respondent wonders whether there should be a similar paragraph accompanying paragraph B99A of IFRS 10. They note that paragraph B99A may result in recognising a partial loss when selling or contributing a subsidiary to an associate or joint venture, although there may be evidence of an impairment loss of the investment in the associate or joint venture retained by the investor.

55. We agree with this respondent that a paragraph similar to paragraph 29 of IAS 28 should accompany paragraph B99A of IFRS 10. We think that when a transaction resulting in the loss of control of a subsidiary provides evidence of an impairment loss of the investment retained in an associate or joint venture, that loss should be recognised in full by the investor. We suggest using a wording as similar as possible as the wording used in paragraph 29 of IAS 28. See changes made to paragraph B99A of IFRS 10 in Appendix B of this paper.

Paragraph 30–31 of IAS 28

56. Some respondents think that paragraphs 30–31 of IAS 28 are not consistent with the proposals in the ED. Paragraph 30 specifies that the gain or loss resulting from the contribution of non-monetary assets is not recognised if the transaction lacks commercial substance. Paragraph 31 specifies that an investor recognises in full in profit the portion of the gain or loss on a contribution relating to monetary or non-monetary assets received, if they are received in addition to receiving an equity interest in an associate or joint venture.

57. Those respondents think that the IASB should amend paragraphs 30–31 of IAS 28 and should require partial gain or loss recognition for all sales and contributions of assets that do not constitute a business (whether those assets are monetary or non-monetary assets and whether the contribution is made in exchange for an equity interest in the investee or in exchange for other assets). In particular, they

do not think that the nature of the assets received should warrant a different accounting.

58. We note that paragraph 30 of IAS 28 provides an exception to the recognition of a partial gain or loss for the contribution of non-monetary assets in exchange for an equity interest when that contribution lacks commercial substance. We think that this exception (that applies only to non-monetary assets) should be kept. If a contribution lacks commercial substance, we agree that the gain or loss should not be recognised. As a result, we do not think that the Interpretations Committee should change this requirement.

59. With regards to paragraph 31 of IAS 28, we agree with the respondents that this paragraph is not consistent with the proposed amendments and the decisions made by the IASB and the Interpretations Committee. The outcome of paragraph 31 of IAS 28 is that the accounting for the gain or loss resulting from the contribution of non-monetary assets depends on whether an equity interest is received in exchange or whether other assets (such as cash) are received in exchange. We think that the IASB and the Interpretations Committee tentatively decided that all sales and contributions of assets involving assets that do not constitute a business should be accounted for consistently, ie a partial gain should be recognised in those cases (except when the contribution lack commercial substance). We do not think that the accounting for a contribution should depend on whether cash, assets or an equity interest are received in exchange for that contribution. We agree with those respondents that recognising a full gain as required by paragraph 31 is not consistent with the accounting for sales of assets that do not constitute a business as required by paragraph 28 and creates structuring opportunities. For example, the outcome of the current requirements is that an investor would recognise:

(a) a partial gain on the sale of non-monetary assets to an associate or joint venture (in exchange for cash); and

(b) a full gain on the contribution of non-monetary assets for the portion relating to cash received, if cash is received in addition to receiving an equity interest in the associate or joint venture.

60. As a result, we recommend deleting paragraph 31 of IAS 28. This would result in all sales and contributions of assets that do not constitute a business being accounted for similarly (except for contributions that lack commercial substance).

Transition requirements and first time adopters of IFRSs

61. Some respondents ask the IASB to allow users to early apply the proposed amendments. We agree with those respondents that users should be allowed to early apply the proposed amendments. See changes made to paragraph C1B of IFRS 10 and paragraph 45A of IAS 28 in Appendix B of this paper.

62. Some respondents think that the proposals of the Exposure Draft should also be applied prospectively by first-time adopters. They note that according to paragraph B7(c) of IFRS 1, a first-time adopter shall apply prospectively from the date of transition to IFRSs the requirements in paragraphs B97–B99 of IFRS 10 regarding the accounting for the loss of control of a subsidiary. They ask the IASB to make a consequential amendment to IFRS 1 so that the amendments to IFRS 10 are applied prospectively by first-time adopters.

63. We agree with the respondents that transitional requirements as proposed in the ED should apply both to entities already applying IFRSs and entities that are first-time adopters. As a result, we think that there should be a consequential amendment to paragraph B7(c) of IFRS 1 that requires first-time adopters to apply prospectively from the date of transition to IFRSs the requirements in paragraphs B97–B99A of IFRS 10. See the proposed consequential amendment in Appendix B of this paper.

Interaction between paragraph B99A of IFRS 10 and IFRS 5

64. One respondent thinks that some may misinterpret the reference in paragraph B99A of IFRS 10 for an entity to recognise partial (gain or) loss when a subsidiary does not constitute a business to imply that this paragraph takes precedence over the requirements of IFRS 5.

65. We do not agree with this respondent. We think that it is clear that an entity should also apply the requirements in IFRS 5. Paragraph B99A deals with the accounting for the gain or loss resulting from the loss of control of a subsidiary

that does not constitute a business. It does not affect how an entity should apply the requirements of IFRS 5.

Interaction between paragraph B99A of IFRS 10 and the derecognition requirements of IFRS 9

66. One respondent notes that it is not clear whether the sale of a subsidiary that contains only financial assets (such as loans) should be accounted for under the derecognition requirements of IFRS 9 or IFRS 10.
67. This respondent thinks that some may misinterpret paragraph B99A as meaning that when an entity sells its non-business subsidiary , the guidance for loss of control in IFRS 10 takes precedence over the derecognition requirements in other Standards, for example, in IFRS 9.
68. We note that IFRS 10 currently addresses the accounting for the loss of control of a subsidiary and that IFRS 9 addresses the derecognition of financial assets. We do not think that the introduction of paragraph B99A of IFRS 10 affects how an entity should account for the loss of control of a subsidiary that contains only financial assets.

Questions for the Interpretations Committee
2. Does the Interpretations Committee agree with the staff recommendation: (a) to amend paragraph B99A of IFRS 10 as shown in Appendix B of this paper? (b) to delete paragraph 31 of IAS 28? (c) to permit an early adoption of the amendments to IFRS 10 and IAS 28? (d) to propose a consequential amendment to IFRS 1 as shown in Appendix B of this paper? 3. Does the Interpretations Committee agree with the staff recommendation not to make changes to the amendments presented in Appendix A of this paper with regards to the following issues: (a) the interaction between paragraph B99A of IFRS 10 and IFRS 5? (b) the interaction between paragraph B99A of IFRS 10 and the derecognition requirements in IFRS 9?

Staff analysis of agenda requests

Separate financial statements

69. Some respondents note that the IASB has not addressed the issue of sales and contributions of assets between an investor and its associate or joint venture from the separate financial statements' point of view. We do not think that the Interpretations Committee should address this topic as part of this narrow scope project.
70. According to paragraph 44 of IAS 28, an investment in an associate or a joint venture shall be accounted for in the entity's separate financial statements in accordance with paragraph 10 of IAS 27 (as amended in 2011), ie either at cost or in accordance with IFRS 9 at fair value through profit or loss. An investor cannot currently use the equity method to account for its investment in an associate or joint venture.
71. We note that the partial recognition of gains and losses as described in paragraph 28-30 of IAS 28 is linked to the equity method accounting and that equity method accounting is currently used by an investor in its consolidated financial statements to account for an investment in an associate or joint venture. We also think that the partial recognition of gains and losses is a consolidation procedure. Paragraph 26 of IAS 28 indicates that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10. As a result, we think that it is clear that a full gain or loss should always be recognised in the investor's separate financial statements for transactions between an investor and its associate or joint venture when that associate or joint venture is recognised at cost or at fair value through profit or loss.
72. We note that following the 2011 Agenda Consultation, the IASB is considering a proposal to amend IAS 27 to allow an entity to use equity method of accounting in its separate financial statements.

Sale or contribution of assets to a joint operation

73. Many respondents note that the IASB has not addressed the issue of sales and contributions of assets between an investor and its joint operation. They note that an inconsistency also exists between the requirements of IFRS 10 and IFRS 11. Paragraph B34 of IFRS 11 limits the recognition of gains and losses resulting from the sale or contribution of assets to a joint operation.

74. Those respondents note that there is diversity in accounting for sales or contributions of businesses by investors to joint operations in the consolidated financial statements of the joint operators:

    (a) View 1: sale or contribution of assets that constitute a business by a joint operator to its joint operation causes a change in the relationship between the joint operator and the underlying assets, representing a significant economic event. Therefore, the same principles as those proposed in the ED should apply to the sale or contribution of assets that constitute a business by a joint operator to its joint operation, ie full gain or loss recognition. The proponents of this view believe that paragraph B34 of IFRS 11 should apply only to sale or contribution of assets that do not constitute a business.

    (b) View 2: sale or contribution of assets that constitute a business by a joint operator to its joint operation will affect the joint operator's right to the underlying assets. There was and continues to be a direct interest in the underlying assets themselves, therefore the gain or loss shall be recognised only to the extent of the unrelated investors' share in the underlying assets. The proponents of this view believe that paragraph B34 of IFRS 11 is applicable to sale or contribution of all kinds of assets, including those that constitute a business.

75. We do not think that the Interpretations Committee should address this topic as part of this narrow scope project. We note that this question is linked to the accounting for joint operations and not to equity method accounting. We think that this topic would be better addressed as part of a broader project relating to the accounting for joint operations or as part of the PIR of IFRS 11.

Elimination of gains in a downstream transaction resulting in a negative investment

76. A few respondents ask the IASB to address an issue that relates to the elimination of gains in a downstream transaction involving assets that do not constitute a business. When the equity investment has little value in the investor's financial statements, the investor may not be able to eliminate the gain against the carrying amount of the equity investment because the amount of gain to be eliminated is in excess of the carrying value of the investment, resulting in a negative investment. These respondents ask the IASB to provide guidance on how to account for the elimination of the gain in such situations.

77. We do not think that the Interpretations Committee should address this topic as part of this narrow scope project. We note that the Interpretations Committee discussed this issue at its March 2013 meeting and recommended the IASB to amend IAS 28 as part of a narrow scope project. We expect to present the Interpretations Committee's recommendations to the IASB at the July meeting.

Questions for the Interpretations Committee
4. Does the Interpretations Committee agree with the staff recommendation to not address the following topics as part of this narrow scope project: (a) the sales and contributions of assets between an investor and its associate or joint venture from the separate financial statements' point of view? (b) the sales and contributions of assets between an investor and its joint operation? (c) the elimination of gains in a downstream transaction resulting in a negative investment ?

Appendix A: Amendments to IFRS 10 and IAS 28 showing changes from current IFRSs

Amendment to IFRS 10 *Consolidated Financial Statements*

In IFRS 10, paragraphs 25–26 are amended and paragraphs B99A and C1B are added. New text is underlined.

Loss of control

25 If a parent loses control of a subsidiary, the parent:

(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.

(b) recognises any investment retained in the former subsidiary at its fair value when control is lost, except as specified in paragraph B99A, and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest, except as specified in paragraph B99A.

26 Paragraphs B97–B99A set out guidance for the accounting for the loss of control of a subsidiary.

…

Loss of control

...

B99A The gain or loss (including any reclassification adjustment) resulting from the loss of control of a subsidiary that does not constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in the investor's financial statements only to the extent of the unrelated investors' interests in that associate or joint venture (ie the investor's interest in the gains or losses resulting from these transactions is eliminated), if the investor accounts for its investment in that associate or joint venture using the equity method. When a transaction resulting in the loss of control of a subsidiary provides evidence of an impairment loss of the investment retained in an associate or joint venture, that loss shall be recognised in full by the investor.

…

Effective date

...

C1B *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 25–26 and added paragraph B99A. An entity shall apply those amendments prospectively to the sale or contribution of a subsidiary occurring in annual periods beginning on or after [date]. Early adoption is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Amendment to IAS 28 *Investments in Associates and Joint Ventures* (2011)

In IAS 28 (2011), paragraphs 28 and 30 are amended. Paragraph 31 is deleted. Paragraphs 30A–30B and 45A are added. New text is underlined and deleted text is struck through. Paragraph 29 is reproduced for ease of reference, but is not proposed for amendment.

Equity method procedures

…

28 Gains and losses resulting from 'upstream' and 'downstream' transactions involving assets that do not constitute a business, as defined in IFRS 3 *Business Combinations*, between an ~~entity~~ investor (including its consolidated subsidiaries) and its associate or joint venture are recognised in the ~~entity's~~ investor'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 that do not constitute a business, as defined in IFRS 3, from an associate or a joint venture to the investor. 'Downstream' transactions are, for example, sales or contributions of assets that do not constitute a business, as defined in IFRS 3, 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.

29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The gain or loss resulting from the contribution of ~~a~~ non-monetary assets that do not constitute a business, as defined in IFRS 3, to an associate or a joint venture in exchange for an equity interest in that ~~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.

30A The gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements (ie the investor's interest in the gains or losses resulting from these transactions is not eliminated).

30B An entity may sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in IFRS 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of IFRS 10.

31 [Deleted] ~~If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.~~

…

Effective date and transition

...

45A *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 28 and 30, added paragraphs 30A–30B and deleted paragraph 31. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after [date]. Early adoption is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Consequential amendment to IFRS 1 *First Time Adoption of International Reporting Standards*

In IFRS 1, paragraph B7(c) is amended. New text is underlined.

Non-controlling interests

B7 A first-time adopter shall apply the following requirements of IFRS 10 prospectively from the date of transition to IFRSs:

(a) …

(c) the requirements in paragraphs B97–B99A for accounting for a loss of control over a subsidiary, and the related requirements of paragraph 8A of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Appendix B: Amendments to IFRS 10 and IAS 28 showing changes from the exposure draft published in December 2012

Amendment to IFRS 10 *Consolidated Financial Statements*

In IFRS 10, paragraphs 25–26 are amended and paragraphs B99A and C1B are added. New text is underlined.

Loss of control

25 If a parent loses control of a subsidiary, the parent:
(a) derecognises the assets and liabilities of the former subsidiary from the consolidated statement of financial position.
(b) recognises any investment retained in the former subsidiary at its fair value when control is lost except as specified in paragraph B99A and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That fair value shall be regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.
(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest except as specified in paragraph B99A.

26 Paragraphs B97–B99A set out guidance for the accounting for the loss of control of a subsidiary.

…

Loss of control

...

B99A The gain or loss (including any reclassification adjustment) resulting from the ~~sale or contribution~~ loss of control of a subsidiary that does not constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in the investor's financial statements only to the extent of the unrelated investors' interests in that associate or joint venture (ie the investor's interest in the gains or losses resulting from these transactions is eliminated) if the investor accounts for its investment in that associate or joint venture using the equity method. When a transaction resulting in the loss of control of a subsidiary provides evidence of an impairment loss of the investment retained in an associate or joint venture, that loss shall be recognised in full by the investor.

…

Effective date

...

C1B ~~[Draft]~~ *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraph 26 and added paragraph B99A. An entity shall apply those amendments prospectively to the sale or contribution of a subsidiary occurring in annual periods beginning on or after [date]. Early adoption is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Amendment to IAS 28 *Investments in Associates and Joint Ventures* (2011)

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Equity method procedures

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29 When downstream transactions provide evidence of a reduction in the net realisable value of the assets to be sold or contributed, or of an impairment loss of those assets, those losses shall be recognised in full

by the investor. When upstream transactions provide evidence of a reduction in the net realisable value of the assets to be purchased or of an impairment loss of those assets, the investor shall recognise its share in those losses.

30 The gain or loss resulting from the contribution of non-monetary assets that do not constitute a business, as defined in IFRS 3, to an associate or a joint venture in exchange for an equity interest in that 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.

30A The gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor (including its consolidated subsidiaries) and its associate or joint venture is recognised in full in the investor's financial statements (ie the investor's interest in the gains or losses resulting from these transactions is not eliminated).

30B An entity might sell or contribute assets in two or more arrangements (transactions). When determining whether assets that are sold or contributed constitute a business, as defined in IFRS 3, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction in accordance with the requirements in paragraph B97 of IFRS 10.

31 [Deleted] ~~If, in addition to receiving an equity interest in an associate or a joint venture, an entity receives monetary or non-monetary assets, the entity recognises in full in profit the portion of the gain or loss on the non-monetary contribution relating to the monetary or non-monetary assets received.~~

…

Effective date and transition

...

45A ~~[Draft]~~ *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28), issued in [date], amended paragraphs 28 and 30~~–31~~, added paragraphs 30~~1~~A–30~~1~~B and deleted paragraph 31. An entity shall apply those amendments prospectively to the sale or contribution of assets occurring in annual periods beginning on or after [date]. Early adoption is permitted. If an entity applies the amendments for an earlier period, it shall disclose that fact.

Consequential amendment to IFRS 1 *First Time Adoption of International Reporting Standards*

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