

STAFF PAPER

February 2015

IASB Meeting

Project	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Proposed Amendments to IFRS 10 and IAS 28 (2015))</i>		
Paper topic	Summary of due process		
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Purpose

1. The purpose of this paper is to explain the steps in due process that the IASB has taken before publication of the Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28 (2015)) and to ask the IASB whether it thinks that the proposed amendments have been subject to adequate due process.

Structure of the paper

2. The paper is organised as follows:
 - (a) background;
 - (b) meeting when the amendments to IFRS 10 and IAS 28, proposed in 2015, were discussed;
 - (c) summary of the amendments to IFRS 10 and IAS 28 proposed in January 2015;
 - (d) interaction of the January 2015 proposals with other due process documents;
 - (e) transition arrangements;
 - (f) intention to dissent;

- (g) comment period;
- (h) proposed timetable for balloting and publication of the 2015 Exposure Draft; and
- (i) confirmation of due process.

Background

3. The amendments proposed in this Exposure Draft relate to a narrow-scope amendment ‘Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*’, issued in September 2014, (the ‘September 2014 Amendment’). The September 2014 Amendment deals with transactions in which an entity:
 - (a) loses control of a subsidiary by selling part of its interest in a subsidiary to an entity that is an associate or joint venture of the entity; and
 - (b) retains an investment in the former subsidiary that is now accounted for using the equity method.
4. The September 2014 Amendment requires that gains or losses on the loss of control of a former subsidiary are restricted to an amount that reflects the unrelated investors’ interests in the new associate or joint venture if the former subsidiary did not contain a business. These requirements would appear to conflict with the requirements of paragraph 32(b) in IAS 28 with respect to accounting for a difference between the cost of the associate and the investor’s share of the fair value of the net assets acquired.

Meeting when the amendments to IFRS 10 and IAS 28, proposed in 2015, were discussed

5. The proposed amendments to IFRS 10 and IAS 28 were discussed by the IASB at its meeting in January 2015. For convenience, links to the Agenda Paper and *IASB Update* are included below:

- (a) Agenda Paper 12E:
<http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/AP12E-IFRS%20Implementation%20Issues.pdf>
- (b) January 2015 *IASB Update*:
<http://media.ifrs.org/2015/IASB/January/IASB-Update-January-2015.html>

Summary of the amendments to IFRS 10 and IAS 28 proposed in January 2015

6. At its January 2015 meeting, the IASB agreed with the staff recommendation to amend IFRS 10 and IAS 28 to explain that, in the limited circumstances described in paragraph 3 of this paper, the cost on initial recognition of the equity-accounted investment is fair value when applying either paragraph 32 of IAS 28 or paragraph 25 of IFRS 10. Any gains or losses eliminated in accordance with the September 2014 Amendment are a later adjustment, not affecting cost on initial recognition.

Interaction of the January 2015 proposals with other due process documents

The September 2014 Amendment

7. The amendments proposed in January 2015, described in paragraph 6 above, relate to the September 2014 Amendment. A narrow-scope amendment which was balloted in November 2014 also includes a proposal that interacts with the September 2014 Amendment.

The balloted November 2014 proposals

8. In November 2014, the balloting process was completed on the Exposure Draft *Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture*: Proposed amendments to IAS 28, (the ‘balloted November 2014 proposals’).

9. The balloted November 2014 proposals clarify how gains eliminated against the carrying amount of those investments should be recognised and presented:
- (a) an entity should eliminate its share of the gain from a ‘downstream’ transaction with its associate or joint venture, even if the gain that is eliminated exceeds the carrying amount of the entity’s investment in the associate or joint venture;
 - (b) the amount of the gain that is eliminated that exceeds the carrying amount of the entity’s investment in the associate or joint venture is presented as a deferred gain; and
 - (c) when an entity contributes an asset to its associate or joint venture in exchange for both equity and other assets, the portion of the gain or loss relating to the assets received should be recognised only to the extent of unrelated investors’ interests in the associate or joint venture.
10. The IASB reviewed the due process relating to these proposals at its January 2014 meeting. For convenience, links to the Agenda Paper and IASB *Update* are included below:
- Agenda paper:
- [http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/January/AP12B-
IAS%2028.pdf](http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/January/AP12B-
IAS%2028.pdf)
- IASB Update:
- <http://media.ifrs.org/2014/IASB/January/IASB-Update-January-2014.html>
11. At its January 2015 meeting, the IASB tentatively decided to combine the January 2015 proposed amendments with the balloted November 2014 proposals, because:
- (a) both relate to the elimination of gains or losses arising from transactions with associates or joint ventures;
 - (b) both interact with the requirements of the September 2014 Amendment; and

- (c) it will be more efficient for constituents who must manage changes in their financial reporting processes if both sets of proposals are issued together.
12. Together, these combined proposals form the basis for the 2015 Exposure Draft.

Effective date of the September 2014 Amendment

13. The proposals in the 2015 Exposure Draft remedy unintended consequences of applying the September 2014 Amendment. At its January 2015 meeting, the IASB noted that the September 2014 Amendment has an effective date of 1 January 2016, with earlier application permitted. The IASB was concerned that the September 2014 Amendment would be effective before the proposals in the 2015 Exposure Draft.
14. Accordingly, at its January 2015 meeting the IASB tentatively decided that the effective date of the September 2014 Amendment should be postponed so that its effective date will be the same as the effective date of the 2015 Exposure Draft. Consequently, a proposal to defer the effective date of the September 2014 Amendment will be included in the 2015 Exposure Draft.
15. For clarity, the proposals to be contained in the 2015 Exposure Draft, and their interaction with existing due process documents, are summarised below:

Document	Description	Status	Proposal in 2015 ED
September 2014 Amendment	Clarified how an equity-accounted residual interest in a subsidiary, created when control has been transferred to an associate or joint venture, is measured	Issued September 2014	Postpone effective date to coincide with that of other proposals in the 2015 ED
November 2014 proposals	Presentation and recognition of eliminated gains or losses on transactions with associates and joint ventures	Balloted November 2014	Combine the balloted November 2014 proposals, without alteration, with January 2015 proposals for public consultation in the 2015 ED
January proposals	Removes perceived conflict between the September 2014 Amendment and IAS 28 with respect to measurement on initial recognition of the retained equity-accounted investment	Discussed by IASB, January 2015	Expose January 2015 proposals for public consultation in the 2015 ED.

Transition arrangements

16. The September 2014 Amendment and the balloted November 2014 proposals were required / proposed to be applied prospectively. We propose that the amendments proposed in this paper, namely the January 2015 proposals, should also be applied prospectively.
17. We propose that early application should be permitted.
18. We considered the effects of the amendments when an entity adopts IFRS for the first time and do not think that an exemption to the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is required.

Intention to dissent

19. Paragraph 6.9 of the *Due Process Handbook* requires that we formally ask whether any members intend to dissent from the proposals in the ED.

Comment period

20. We propose a comment period of 120 days, in accordance with paragraph 6.7 of the *Due Process Handbook*.

Proposed timetable for balloting and publication of the 2015 Exposure Draft

21. The balloting process of the Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed Amendments to IFRS 10 and IAS 28 (2015)) will start in February 2015 and its publication is scheduled for May 2015.

Confirmation of due process

22. The *Due Process Handbook* sets out the due process steps that should be taken in developing a proposed amendment. We note that the required due process steps applicable to date for the publication of the proposals have been completed, as documented in Appendix A.

Questions for the IASB

1. Do any IASB members intend to dissent from the proposed amendment?
2. Do the IASB members agree with the staff recommendation that the proposals should be applied prospectively? Do the IASB members agree that earlier application should be permitted?
3. Do the IASB members agree that no specific additional relief is required for first-time adoption?
4. Are the IASB members satisfied that all required due process steps to date that pertain to the publication of the Exposure Draft: 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Proposed Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2015)' have been complied with?
5. Do the staff have permission to ballot the Exposure Draft 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Proposed Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2015)'?

Appendix A

Confirmation of due process steps followed in the development of the 2015 proposals included in the 2015 Exposure Draft.

The following table sets out the due process steps followed by the IASB before the publication of the 2015 Exposure Draft.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	<p>This issue was discussed by the IASB at its January 2015 meeting.</p> <p>An <i>IASB Update</i> was posted after the IASB meeting at which the issues were discussed.</p> <p>A project webpage is available on the website.</p>
Consultation with the Trustees and the Advisory Council.	Required	<p>Because of the narrow-scope nature of the amendments, consultation was considered to be unnecessary.</p> <p>The matter was raised at the February 2015 meeting of the DPOC.</p>
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	<p>This is a narrow-scope amendment and its objective is to remove a perceived inconsistency between the September 2014 Amendment and paragraph 32 of IAS 28.</p> <p>We assessed the likely effects of the proposed amendment as being limited, because the scope of the proposed amendment is narrow and the proposed amendment represents a clarification of existing requirements rather than the introduction of new requirements.</p>
Finalisation		
Due process steps reviewed by the IASB.	Required	The IASB will review the due process steps in its February 2015 meeting.
IASB members asked whether they intend to dissent from the proposals.	Required	The IASB will be asked this question in its February 2015 meeting.
The ED has an appropriate comment period.	Required	The IASB proposes a comment period of 120 days, in accordance with paragraph 6.7 of the <i>Due Process Handbook</i> .
Drafting		
Drafting quality assurance steps are adequate.	Required	The editorial team will be asked to review the pre-ballot draft.

<i>Step</i>	<i>Required/ Optional</i>	<i>Actions</i>
Drafting quality assurance steps are adequate.	Required	The translation team will be asked to review the pre-ballot draft.
Drafting quality assurance steps are adequate.	Required	The XBRL team will be asked to review the pre-ballot draft.
Publication		
ED published.	Required	The ED will be made available on the public website on the publication date. The DPOC will be informed of publication.
Press release to announce publication of ED.	Required	A press release will be published announcing the ED.
<p>Please refer to Agenda Paper 12B of the IASB’s January 2014 meeting for the detailed due process steps followed for the balloted November 2014 proposals, also included in the 2015 Exposure Draft.</p> <p><a href="http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/January/AP12B-
IAS%2028.pdf">http://www.ifrs.org/Meetings/MeetingDocs/IASB/2014/January/AP12B- IAS%2028.pdf</p>		