



To:	AASB members	Date:	26 November 2013
From:	Christina Ng	Agenda Item:	4.4
Subject:	Sale or Contribution of Assets between an Investor and Associates or Joint Ventures – Project Update	File:	

Action

Receive an update on recent tentative decisions made by the IASB in its Sale or Contribution of Assets between an Investor and Associates or Joint Ventures project and consider whether there are any issues that need to be raised with the IASB on those tentative decisions at this stage.

Overview of the project

- 1 [IASB ED/2012/6 Sale or Contribution of Assets between an Investor and Associates or Joint Ventures](#) (incorporated in AASB ED 232 of the same name) was issued in December 2012. The comment period on ED 232 and ED/2012/6 ended on 22 March 2013 and 23 April 2013 respectively. The AASB provided comments on ED/2012/6 to the IASB on 25 April 2013¹.
- 2 ED/2012/6 is one of three related IASB narrow-scope amendments project which commenced as an IFRS Interpretations Committee project (Agenda papers 4.5 and 4.6 deal with the other related narrow-scope projects). ED/2012/6 addresses the inconsistency between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates* in relation to the gain or loss resulting from the sale or contribution of assets between an investor and its associate or joint venture. ED/2012/6 includes proposals to:
 - (a) 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 *Business Combinations*, 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.
 - (b) amend IAS 28 so that:
 - (i) 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; and

1 The AASB submission on ED/2012/6 is available on the [AASB website](http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_ED-2012-6_Sale_or_Contribution_of_Assets_between_Investor_and_Assoc_or_JV.pdf) (http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_ED-2012-6_Sale_or_Contribution_of_Assets_between_Investor_and_Assoc_or_JV.pdf)

- (ii) 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.
- (c) apply the proposed amendments to IFRS 10 and IAS 28 prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective.

Summary of feedback on ED/2012/6²

- 3 Two-thirds of respondents (including the AASB) broadly supported the proposals as a short-term pragmatic solution to the diversity in practice. Other feedback made by some respondents (including the AASB) included:
 - (a) the proposals would require an entity to determine whether the sale or contribution of assets meet the definition of a 'business' (as defined in IFRS 3); however, the current definition of a 'business' is not sufficiently clear³.
 - (b) the proposals are not conceptually sound as the outcome of a sale or contribution of an asset, business or subsidiary that results in the loss of control of the subsidiary should be consistent. AASB staff note that the IASB's tentative decision outlined in paragraph 6(a) below addresses this concern.
- 4 Nearly all of the respondents agreed that the proposed amendments should be applied prospectively. Some respondents recommended the IASB to permit early application of the proposed amendments.

IASB tentative decisions

- 5 At its July 2013 meeting, the Interpretations Committee decided to recommend that the IASB proceed with the proposed amendments as they would reduce diversity even if judgement will still be required in some cases to determine whether the assets sold or contributed constitute a business (the issue identified in paragraph 3(a) above), and would minimise structuring opportunities.
- 6 At its October 2013 meeting, the IASB tentatively decided to finalise the proposed amendments and clarify that:
 - (a) the proposed amendments to IFRS 10 should refer to the 'loss of control of a subsidiary', instead of 'the sale or contribution of an asset' so as to address the concern expressed in paragraph 3(b) above;
 - (b) any related amounts previously recognised in Other Comprehensive Income should be reclassified to profit or loss when the investor loses control of its subsidiary, consistent with paragraph B99 of IFRS 10;
 - (c) the requirement to eliminate part of the gain or loss as proposed in paragraph B99A of IFRS 10 would apply only when the investor accounts for its investment in associates or

² The summary feedback is outlined in IASB Paper 12AA of the October 2013 meeting available at www.ifrs.org.

³ The IFRS Interpretations Committee has recommended that the IASB address this issue as part of its IFRS 3 Post-implementation Review project (the IASB Work Plan dated 5 November 2013 indicates that a Request for Information is expected to be issued by Q1 of 2014)

joint venture using the equity method of accounting, and not when the investor (in the case of venture capital organisations, mutual funds, unit trusts, or similar entities including investment-linked insurance funds) elects to measure investments in associates and joint ventures at fair value through profit or loss in accordance with paragraph 18 of IAS 28;

- (d) early application of the proposed amendments would be permitted; and
- (e) consequential amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards* would be made to provide relief to first-time adopters from retrospective application of the proposed amendments.

7 At its November 2013 meeting, the IASB tentatively decided the proposed amendments would have a mandatory effective date of 1 January 2015 and would be required to be applied prospectively to transactions occurring in annual periods beginning on or after the effective date. One IASB member expressed an intention to dissent from issuing the proposed amendments. The IASB Work Plan dated 5 November indicates a target standard by Q1 2014.

AASB staff recommendation

8 In the light of the IASB's intention to address the two key issues raised by the AASB (as outlined in paragraph 3, above), AASB staff have not identified any issues that are significant enough to warrant them being raised in relation to the IASB tentative decisions outlined in paragraphs 5(a)-(e) above at this stage. Accordingly, AASB staff do not think there are any issues arising from the October 2013 or November 2013 IASB meetings that need to be raised with the IASB at this stage.

Question for the Board

Do members agree with AASB staff recommendation in paragraph 8 above?
