AASB Exposure Draft

ED 232
December 2012

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(proposed amendments to AASB 10 and AASB 128)

Comments to the AASB by 22 March 2013

Australian Government

Australian Accounting Standards Board

Commenting on this AASB Exposure Draft

Constituents are strongly encouraged to respond to the AASB and the IASB. The AASB is seeking comment by 22 March 2013. This will enable the AASB to consider Australian constituents' comments in the process of formulating its own comments to the IASB, which are due by 23 April 2013. Comments should be addressed to:

The Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West Victoria 8007
AUSTRALIA
E-mail: standard@aasb.gov.au

Respondents to the IASB are asked to send their comments electronically to the IFRS Foundation website (www.ifrs.org), using the 'Comment on a proposal' page.

All submissions on possible, proposed or existing financial reporting requirements, or on the standard-setting process, will be placed on the public record unless the Chairman of the AASB agrees to submissions being treated as confidential. The latter will occur only if the public interest warrants such treatment.

Obtaining a Copy of this AASB Exposure Draft

This AASB Exposure Draft is available on the AASB website: www.aasb.gov.au. Alternatively, printed copies of this AASB Exposure Draft are available by contacting:

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AASB REQUEST FOR COMMENTS

In light of the Australian Accounting Standards Board's (AASB's) policy of incorporating International Financial Reporting Standards (IFRSs) into Australian Accounting Standards, the AASB is inviting comments on:

(a) any of the proposals in the attached International Accounting Standards Board (IASB) Exposure Draft, including the specific questions on the proposals as listed in the Invitation to Comment section of the attached IASB Exposure Draft; and

(b) the 'AASB Specific Matters for Comment' listed below.

Submissions play an important role in the decisions that the AASB will make in regard to a Standard. The AASB would prefer that respondents supplement their opinions with detailed comments, whether supportive or critical, on the major issues. The AASB regards both critical and supportive comments as essential to a balanced review and will consider all submissions, whether they address all specific matters, additional issues or only one issue.

Due Date for Comments to the AASB

Comments should be submitted to the AASB by 22 March 2013. This will enable the AASB to consider those comments in the process of formulating its own comments to the IASB. Constituents are also strongly encouraged to send their response to the IASB.

Reduced Disclosure Requirements

AASB 1053 *Application of Tiers of Australian Accounting Standards* establishes a differential reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:

(a) Tier 1: Australian Accounting Standards; and

(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements.

Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.

The proposals in this Exposure Draft would not amend the disclosure requirements in AASB 12 *Disclosure of Interests in Other Entities*. Accordingly, this Exposure Draft does not give rise to any particular implications for Tier 2 disclosures.

AASB Specific Matters for Comment

The AASB would particularly value comments on the following:

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:

   (a) not-for-profit entities; and

   (b) public sector entities, including GAAP/GFS implications;

2. whether, overall, the proposals would result in financial statements that would be useful to users;

3. whether the proposals are in the best interests of the Australian economy; and

4. unless already provided in response to specific matters for comment 1 – 3 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative.

December 2012

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

Comments to be received by 23 April 2013

IFRS®

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

(Proposed amendments to IFRS 10 and IAS 28)

Comments to be received by 23 April 2013

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) is published by the International Accounting Standards Board (IASB) for comment only. The proposals may be modified in the light of the comments received before being issued in final form as amendments to IFRSs. Comments on the Exposure Draft and the Basis for Conclusions should be submitted in writing so as to be received by **23 April 2013**. Respondents are asked to send their comments electronically to the IASB website (www.ifrs.org), using the 'Comment on a proposal' page.

All responses will be put on the public record unless the respondent requests confidentiality. However, such requests will not normally be granted unless supported by good reason, such as commercial confidence.

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Introduction

The IASB proposes 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.

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.

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 conflict between the requirements in IAS 27 and SIC-13 will remain when IFRS 10 replaces IAS 27 and SIC-13 is withdrawn. In fact, 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 IASB proposes 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.

The IASB also proposes 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.

The IASB also proposes 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.

Next steps

The IASB will consider the comments that it receives on the proposals and will decide whether to proceed with amendments to IFRS 10 and IAS 28 (2011).

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated;

(b) indicate the specific paragraph or group of paragraphs to which they relate;

(c) contain a clear rationale; and

(d) include any alternative the IASB should consider, if applicable.

The IASB is not requesting comments on matters that are not addressed in this Exposure Draft. Comments should be submitted in writing so as to be received no later than **23 April 2013**.

Questions for respondents

Question 1: proposed amendment to IFRS 10
The IASB proposes 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 is recognised on the loss of control of a subsidiary that constitutes a business, as defined in IFRS 3, including cases in which the investor retains joint control of, or significant influence over, the investee. Do you agree with the amendment proposed? Why or why not? If not, what alternative do you propose?

Question 2: proposed amendment to IAS 28 (2011)
The IASB proposes 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; 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. Do you agree with the amendment proposed? Why or why not? If not, what alternative do you propose?

Question 3: transition requirements
The IASB proposes to apply the proposed amendments to IFRS 10 and IAS 28 (2011) prospectively to sales or contributions occurring in annual periods beginning on or after the date that the proposed amendments would become effective. Do you agree with the proposed transition requirements? Why or why not? If not, what alternative do you propose?

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

In IFRS 10, paragraph 26 is amended and paragraphs B99A and C1B are added. New text is underlined. Paragraph 25 is reproduced for ease of reference, but is not proposed for amendment.

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.

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>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 (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).</u>

Effective date

...

<u>C1B</u> <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 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].</u>

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

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 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 ~~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~~e~~ 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

...

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].

Approval by the Board of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28) published in December 2012

The Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* was approved for publication by the fifteen members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Ian Mackintosh	Vice-Chairman
Stephen Cooper	
Philippe Danjou	
Martin Edelmann	
Jan Engström	
Patrick Finnegan	
Amaro Luiz de Oliveira Gomes	
Prabhakar Kalavacherla	
Patricia McConnell	
Takatsugu Ochi	
Paul Pacter	
Darrel Scott	
Chungwoo Suh	
Wei-Guo Zhang	

Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed amendments.

BC1 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.

BC2 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.

BC3 This inconsistency between IAS 27 and SIC-13 will remain when IFRS 10 *Consolidated Financial Statements* replaces IAS 27 and SIC-13 is 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 superseded at the time when the proposed amendments would become effective, the IASB and the Interpretations Committee propose to amend IFRS 10 and IAS 28 (2011) only.

BC4 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.

BC5 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.

BC6 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.

BC7 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.

BC8 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 proposed in this Exposure Draft) is consistent with the requirements in IFRS 3 for a business combination that is achieved in stages.

BC9 The IASB decided that the proposed amendments to IFRS 10 and IAS 28 (2011) should apply prospectively to contributions or sales 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.