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)

Peter Zimniok

Public Discussion

Frankfurt, 5 February 2013

Outline

1. Background of ED/2012/6
2. Content of ED/2012/6
3. EFRAG´s Draft Comment Letter
4. IASB´s Questions

1. Background of ED/2012/6 (1/2)

- Initially request to IFRS IC to clarify, whether a business meets the definition of a ´non-monetary asset´
- Inconsistency between SIC-13 / IAS 28 (2011) and IAS 27 (2008) / IFRS 10, 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)
- SIC-13: Restriction of the gain or 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, to the extent of the interests that are attributable to the unrelated equity holders in the jointly controlled entity. (incorporated into IAS 28 (2011))
- IAS 27 (2008): full profit or loss recognition on the loss of control of the subsidiary (similar to the requirements in IFRS 10)

1. Background of ED/2012/6 (2/2)

- Development of three alternative solutions:
  - Alternative 1: account for all contributions in accordance with IFRS 10 / IAS 27 (2008)
  - Alternative 2: Apply IFRS 10 / IAS 27 (2008) to contributions of businesses and apply IAS 28 (2011) / SIC-13 to other contributions
  - Alternative 3: account for all contributions in accordance with IAS 28 (2011) / SIC-13
- Majority of IASB-members conceptually preferred Alternative 1, but had concerns in regards to multiple cross-cutting issues, so they supported Alternative 2
  - Existing definition can be used as a distinguishing feature (IFRS 3 ´business´)
  - Accounting for the loss of control of a business is consistent with the latest thinking developed in the business combinations-project
  - Full gain or loss recognition on the gain or loss of control of a business
  - Partial gain or loss recognition in accordance with IAS 28 (2011) only for transactions of assets that do not constitute a business

2. Content of ED/2012/6 (1/4)

- Amendments published on 13 December 2012
- Comments to be received by 23 April 2013
- Only amendment of IFRS 10 and IAS 28 (2011)
- Proposed amendments apply to ´upstream´- and ´downstream´-transactions
- Unanimous approval, no alternative views
- Proposed amendments would be applied prospectively
- Effective date will be determined after evaluating the comments received

2. Content of ED/2012/6 (2/4)

Proposed amendments to IFRS 10 in detail:

- Addition of a clarification for the partial gain or loss recognition for transactions of assets that do not constitute a business:
  - IFRS 10.B99A: *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).*

2. Content of ED/2012/6 (3/4)

Proposed amendments to IAS 28 (2011) in detail:

- Clarification that IAS 28.28 and IAS 28.30 apply to transactions of assets that do not constitute a business, as defined in IFRS 3
- Addition of a clarification for the full gain or loss recognition for transactions with assets that constitute a business:
  - IAS 28.31A: *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).*

2. Content of ED/2012/6 (4/4)

Proposed amendments to IAS 28 (2011) in detail:

- Addition of a clarification that the existence of a linked-transaction has to be considered when determining whether the assets transferred constitute a business:
  - IAS 28.31B: *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.*

3. EFRAG´s Draft Comment Letter

- Principal support of the proposed amendments
- Different concerns are set out
  - Piecemeal changes to IFRS 10, accounting for a loss of control will depend on whether subsidiary is a business or not
  - Approach of the ED puts stress on the definition of a ´business´ in IFRS 3, IASB should consider if the definition is sufficiently robust
  - Post-implementation review of IFRS 3 should include cross-cutting issues that led to the rejection of Alternative 1

4. IASB´s Questions (1/3)

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?

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed amendment

4. IASB´s Questions (2/3)

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?

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed amendment

4. IASB´s Questions (3/3)

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?

Tentative view of ASCG´s IFRS-Committee

- Agrees with the proposed transition requirements

Thank you!

Peter Zimniok

DRSC e.V.
Zimmerstr. 30
10969 Berlin

Tel. 030 / 20 64 12 19
Fax 030 / 20 64 12 15

www.drsc.de
zimniok@drsc.de