June 2005

EXPOSURE DRAFT OF PROPOSED

Amendments to

IAS 27 Consolidated and Separate Financial Statements

Comments to be received by 28 October 2005

International Accounting Standards Board®

Exposure Draft of Proposed

AMENDMENTS TO

IAS 27
CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Comments to be received by 28 October 2005

This Exposure Draft of Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements*, together with the Exposure Draft of Proposed Amendments to IFRS 3 *Business Combinations*, 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 as amended Standards. Comments on the Exposure Draft and its accompanying documents should be submitted in writing so as to be received by **28 October 2005**.

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. If commentators respond by fax or email, it would be helpful if they could also send a hard copy of their response by post. Comments should preferably be sent by email to: **CommentLetters@iasb.org** or addressed to:

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BACKGROUND

This Exposure Draft of proposed amendments to IAS 27 *Consolidated and Separate Financial Statements* has been published by the International Accounting Standards Board as part of its project on business combinations. The Board announced in July 2001 that it would undertake the project as part of its initial agenda. The project's objective is to improve the quality of, and achieve international convergence on, the accounting for business combinations and the accounting for goodwill and intangible assets acquired in business combinations.

The project is being undertaken in phases. The first phase resulted in the Board issuing IFRS 3 *Business Combinations* and amending IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets* in March 2004. The second phase is being conducted as a joint project with the US national standard-setter, the Financial Accounting Standards Board (FASB). This phase involves a broad reconsideration of the requirements in International Financial Reporting Standards (IFRSs) and US generally accepted accounting principles (US GAAP) on applying the purchase method (now called the 'acquisition method' in the Exposure Draft of Proposed Amendments to IFRS 3 *Business Combinations*) to the accounting for business combinations.

The second phase has resulted in the Board publishing simultaneously this Exposure Draft, which proposes changes to IAS 27, an Exposure Draft of Proposed Amendments to IFRS 3, and an Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (to be retitled *Non-financial Liabilities*).

The Board's intention in developing this Exposure Draft was to reflect only those changes related to its decisions in the second phase of the Business Combinations project, and not to reconsider all of the requirements in IAS 27. The changes proposed to IAS 27 are concerned primarily with accounting for increases and decreases in ownership interests in subsidiaries after control is obtained and accounting for the loss of control of subsidiaries.

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INVITATION TO COMMENT

The International Accounting Standards Board invites comments on the amendments to IAS 27 proposed 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 the comments relate

(c) contain a clear rationale

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

Respondents need not comment on all of the questions and are encouraged to comment on additional issues in the Exposure Draft.

The Board is not requesting comments on matters in IAS 27 other than those set out in this Exposure Draft.

Respondents should submit comments in writing by **28 October 2005**.

Question 1

Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss (see paragraph BC4 of the Basis for Conclusions).

Do you agree? If not, why not and what alternative would you propose?

Question 2

Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such remeasurement be included in the determination of the gain or loss arising on loss of control (see paragraph BC7 of the Basis for Conclusions).

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

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Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

Question 3

As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The Board is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate (see paragraphs BC9-BC13 of the Basis for Conclusions).

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

Question 4

Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

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Question 5

The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which the Board believes that retrospective application is likely to be impracticable.

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

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SUMMARY OF MAIN CHANGES

The Exposure Draft proposes limited amendments to IAS 27 arising from the Board's project on business combinations.

The main changes proposed are:

- to require changes in the parent's ownership interest that do not result in the loss of control of a subsidiary to be accounted for as transactions with equity holders in their capacity as equity holders. Therefore, such changes would not result in a gain or loss being recognised in profit or loss. (paragraph 30A)
- to specify how an entity measures a gain or loss arising on loss of control of a subsidiary, and to require any such gain or loss to be recognised in profit or loss. (paragraph 30C) The gain or loss arising on loss of control includes the parent's share of gains or losses related to the former subsidiary that were previously recognised in equity. (paragraph 30E)
- to require any remaining non-controlling equity investment in a former subsidiary to be remeasured to its fair value in the consolidated financial statements on the date control of it is lost. (paragraph 30D)
- to provide guidance on determining when two or more transactions or arrangements that result in the loss of control of a subsidiary should be treated as a single transaction when applying paragraphs 30A-30D. (paragraph 30F)
- to require losses applicable to the non-controlling interest to be allocated to the non-controlling interest with any guarantees or other support arrangements from the controlling and non-controlling interests being accounted for separately. (paragraph 35)

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PROPOSED AMENDMENTS TO INTERNATIONAL ACCOUNTING STANDARD 27

Consolidated and Separate Financial Statements

Paragraphs 31, 32, 44 and 45 are deleted. Paragraphs 30, 35, 40 and 43 are amended (new text is underlined and deleted text is struck through) and paragraphs 30A-30F, 43A and 43B are added as indicated.

30 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in IFRS 3. Income and expenses of the subsidiary arising from changes in the values of its assets and liabilities shall be based on the values of those assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated income statement after the acquisition date shall be based on the fair values of those depreciable assets recognised in the parent's consolidated financial statements at the acquisition date. The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. ~~The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.~~

30A Changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control shall be accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss shall be recognised in profit or loss on such changes. The carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent.

30B The non-controlling interest in the subsidiary's net assets comprises:

(a) the proportionate interest in the subsidiary's net identifiable assets based on the non-controlling ownership interest in the subsidiary; and

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(b) that portion of the subsidiary's goodwill, if any, allocated to the non-controlling interest. In accordance with [draft] IFRS 3 *Business Combinations* (as revised in 200X), the portion of a subsidiary's goodwill allocated to the non-controlling interest may not be equal to the total amount recognised as goodwill multiplied by the non-controlling ownership interest in the subsidiary. This would be the case, for example, if an 80 per cent controlling interest in a subsidiary were acquired at an amount that exceeds 80 per cent of the subsidiary's fair value because the acquirer paid a premium to obtain control of the acquiree. In this situation, 80 per cent of the subsidiary's net identifiable assets would be attributed to equity holders of the parent, but more than 80 per cent of goodwill would be attributed to them.

Following a change in the parent's ownership interest in a subsidiary after control is obtained, goodwill is reassigned between the equity holders of the parent and the non-controlling interest on the basis of the relative carrying amounts of goodwill allocated to each of those groups of equity holders on the date control was obtained.

30C If control of a subsidiary is lost, whether through a sale of ownership interests in that subsidiary by the parent or members of the group or through other means, any resulting gain or loss shall be recognised in profit or loss. That gain or loss shall be measured as the difference between:

(a) the aggregate of the fair value of the proceeds, if any, from the transaction or event that resulted in the loss of control and the fair value of any investment remaining in the former subsidiary at the date control is lost; and

(b) the aggregate of the parent's interest in the carrying amount in the consolidated financial statements of the former subsidiary's net assets immediately before control is lost, including the parent's share of gains or losses related to the former subsidiary recognised previously in consolidated equity.

The non-controlling interest's share, if any, of the carrying amount of the net assets of the former subsidiary immediately before control is lost shall be derecognised at the date control is lost with a corresponding derecognition of the carrying amount of non-controlling interest. No gain or loss shall be recognised on derecognition of the non-controlling interest.

30D On the loss of control of a subsidiary, any investment remaining in the former subsidiary shall be accounted for in accordance with IAS 39

Financial Instruments: Recognition and Measurement, IAS 28 or IAS 31, as appropriate, from the date control is lost. The fair value of the remaining non-controlling equity investment at the date control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with IAS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

30E On the loss of control of a subsidiary, the individual assets and liabilities of that former subsidiary are derecognised. From the group's perspective, the loss of control of a subsidiary results in the loss of control and derecognition of some of the individual assets and liabilities of the group. Therefore, the gain or loss arising on loss of control of a subsidiary includes the parent's share of gains or losses that were recognised previously directly in equity. This includes the parent's share of any gains or losses:

(a) on exchange differences that were recognised directly in equity in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*;

(b) on cash flow hedges of a net investment that were recognised directly in equity in accordance with IAS 39; and

(c) related to the individual assets and liabilities: for example, available-for-sale financial assets previously recognised directly in equity, and cash flow hedge on hedging instruments previously recognised directly in equity.

30F Control of a subsidiary may be lost in two or more transactions or arrangements. An entity shall account for each such transaction or arrangement separately unless circumstances indicate that the transactions or arrangements are part of a single transaction or arrangement. In determining whether to account for the transactions or arrangements as a single transaction or arrangement an entity shall consider all of the terms and conditions of the transactions and arrangements and their economic effects. If one or more of the following indicators are present, the transactions or arrangements are to be accounted for as a single transaction or arrangement:

(a) they are entered into at the same time or as part of a continuous sequence and in contemplation of one another.

(b) they form a single arrangement that achieves, or is designed to achieve, an overall commercial effect.

(c) the occurrence of one transaction or arrangement is dependent on the occurrence of the other transaction(s) or arrangement(s).

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(d) one or more of the transactions or arrangements considered on their own is not economically justified, but they are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

The transactions or arrangements are to be accounted for separately if the entity can demonstrate clearly that they are not parts of a single transaction.

35 Losses applicable to the ~~minority~~ non-controlling interest in a consolidated subsidiary may exceed the ~~minority~~ non-controlling interest in the subsidiary's equity. The excess, and any further losses attributable to the ~~minority~~ non-controlling interest, shall be ~~are~~ allocated ~~against~~ to the ~~majority~~ non-controlling interest. ~~except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.~~

40 The following disclosures shall be made in consolidated financial statements:

…

(e) the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; ~~and~~

(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances~~.~~; and

(g) the amount of any gain or loss arising on the loss of control of a subsidiary recognised in profit or loss in accordance with paragraph 30C, showing separately the amount of any gain or loss arising on the remeasurement to fair value of any retained investment in that former subsidiary.

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EFFECTIVE DATE

43 **An entity shall apply ~~this Standard~~ the amendments in paragraphs 30-30F, 35, 40 and 43-43B, for annual periods beginning on or after 1 January 200X~~2005~~. Earlier application is encouraged. However, an entity shall not apply these amendments for annual periods beginning before 1 January 200X unless it also applies [draft] IFRS 3 *Business Combinations* (as revised in 200X) and [draft] IAS 37 *Non-financial Liabilities*. If an entity applies these amendments ~~for a period beginning~~ before 1 January ~~2005~~200X, it shall disclose that fact.**

43A Except as described in paragraph 43B, an entity shall apply the amendments retrospectively.

43B An entity shall apply prospectively:

(a) the requirements in paragraph 30A for accounting for increases in ownership interests in a subsidiary after control is obtained. Therefore, the requirements in paragraph 30A do not apply to increases that occurred before those amendments are applied.

(b) the requirements in paragraphs 30C and 30D for the remeasurement to fair value of any retained investment in a former subsidiary in accounting for decreases in ownership interests in a subsidiary that result in a loss of control. Therefore, an entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before these amendments are applied. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before those amendments are applied.

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Basis for Conclusions

This Basis for Conclusions accompanies, but is not part of, the proposed Amendments to IAS 27.

INTRODUCTION

BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching the conclusions in the Exposure Draft of Proposed Amendments to IAS 27 *Consolidated and Separate Financial Statements*. Individual Board members gave greater weight to some factors than to others.

BC2 The Exposure Draft has been published as part of the second phase of the Board's project on business combinations. This phase is being conducted jointly with the US Financial Accounting Standards Board (FASB). As part of this phase, the Board and the FASB have considered jointly issues related to non-controlling interests. This Basis for Conclusions identifies those decisions reached by the Board that differ from those reached by the FASB.

BC3 The Board's intention in developing these proposals was not to reconsider all of the requirements in IAS 27. The changes proposed are primarily concerned with accounting for non-controlling interests. The Board is reconsidering the other requirements of IAS 27 as part of its project on consolidation policy.

Changes in ownership interests in subsidiaries

BC4 The Board decided that after control of an entity is obtained, changes in a parent's controlling interest in that entity that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. This means that no gain or loss on these changes would be recognised in profit or loss. It also means that no change in the carrying amounts of assets (including goodwill) or liabilities should be recognised as a result of such transactions. The Board rejected the alternative approach of accounting for such transactions as transactions with members outside the consolidated group, with gains or losses recognised in profit or loss.

BC5 The Board reached these conclusions because it believes that the proposed approach is consistent with its previous decision that non-controlling interests are a separate component of equity. This

conclusion was based on the Board's view that non-controlling interests are part of the ownership interest in the consolidated group because they do not meet the definition of a liability in the *Framework for the Preparation and Presentation of Financial Statements*.

BC6 The Board decided that whenever control of a subsidiary is lost, any resulting gain or loss should be recognised in profit or loss for the period. A decrease in ownership interest can result from the sale of an ownership interest or by other means, such as the issue of new ownership interests by a subsidiary to third parties. Loss of control can also occur in the absence of a transaction. It may, for example, occur on the expiry of an agreement that previously allowed an entity to control a subsidiary.

BC7 The Board reached these conclusions because it believes that when a parent's ownership interest in a subsidiary decreases to the point that it no longer controls that subsidiary, a significant economic event occurs. The parent-subsidiary relationship ceases to exist. The parent no longer controls the subsidiary's individual assets and liabilities. If the parent maintains less than a controlling interest, an investor-investee relationship begins; otherwise no relationship with the subsidiary continues. This is consistent with the Board's decision in the Exposure Draft of Proposed Amendments to IFRS 3 that obtaining control in a business combination is a significant economic event that, for example, results in the recognition in profit or loss of any holding gains or losses if a business combination is achieved in stages. As a result, the Board decided that it was appropriate to recognise the following in profit or loss on the loss of control of a subsidiary:

- any gain or loss arising on such loss of control, including any gain or loss on the remeasurement to fair value of any retained investment in that former subsidiary; and
- the parent's share of gains or losses related to the former subsidiary that were previously recognised in equity.

BC8 The Board decided that the loss of control of a subsidiary is, from the group's perspective, the loss of control over some of the group's individual assets and liabilities. Accordingly, the general requirements in IFRSs should be applied in accounting for the derecognition from the group's financial statements of the subsidiary's assets and liabilities. If a gain or loss originally reflected in equity would be recognised as income or expense on the separate disposal of those assets and liabilities, a gain or loss should be recognised on the indirect disposal of those assets and liabilities through loss of control of a subsidiary. For example, if a subsidiary sells one of its available-for-sale financial assets in a separate

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transaction, a gain or loss previously recognised in equity would be recognised in profit or loss. Similarly, on the loss of control of a subsidiary, the entire cumulative gain or loss attributed to the parent on that former subsidiary's available-for-sale financial assets previously recognised in equity would be recognised in profit or loss.

BC9 The Board considered whether its decision that a gain or loss on the disposal of a subsidiary should be recognised only when that disposal results in a loss of control could give rise to opportunities to structure transactions to achieve a particular accounting outcome. For example, would an entity be motivated to structure a transaction or arrangement as multiple steps to maximise gains or minimise losses if an entity was planning to dispose of its controlling interest in a subsidiary? Consider the following example. An entity P (Parent) controls 70 per cent of entity S (Subsidiary). P intends to sell all of its 70 per cent controlling interest in S. On 31 December 2003 the fair value of S as a whole is CU12,000 and its carrying value in consolidated financial statements is CU8,000. P could initially sell 19 per cent of its ownership interest in S without loss of control and then, soon afterwards, sell the remaining 51 per cent and lose control. Alternatively, P could sell all of its 70 per cent interest in S in one transaction. In the first case, the gain on the sale of the 19 per cent interest would be recognised directly in equity, whereas the gain from the sale of the remaining 51 per cent interest would be recognised in profit or loss, resulting in a recognised gain of CU2,040. In the second case, the whole amount of the gain or loss on the sale of the 70 per cent interest would be recognised in profit or loss resulting in a recognised gain of CU2,800.*

BC10 The Board noted that the opportunity to conceal losses through structuring would be reduced by the requirements of IAS 36 *Impairment of Assets* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Paragraph 12 of IAS 36 provides that:

> in assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications: …significant changes …are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date ...

* In the two-step transaction, the gain is calculated as (51% × CU12,000) less (51% × CU8,000), as only the transaction causing actual loss of control is included in the calculation. If the disposal occurred in one step, the gain is calculated as (70% × CU12,000) less (70% × CU8,000).

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B11 Once an asset meets the criteria to be classified as held for sale (or is included in a disposal group that is classified as held for sale), it is excluded from the scope of IAS 36 and is accounted for in accordance with IFRS 5. Under paragraph 20 of IFRS 5 'an entity shall recognise an impairment loss for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell …' Therefore, if appropriate, an impairment loss would be recognised for the goodwill and non-current assets of a subsidiary that will be sold or otherwise disposed of before control of the subsidiary is lost. Accordingly, the Board concluded that the principal risk is the minimising of gains and that entities are unlikely to strive to minimise gains.

B12 The Board decided that the possibility of such structuring could be overcome by requiring entities to consider whether multiple arrangements should be accounted for as a single transaction to ensure that the principles of faithful representation are adhered to. The Board believes that all of the terms and conditions of the arrangements and their effect in practice should be considered in determining whether multiple arrangements should be accounted for as a single arrangement. Accordingly, the Board has included guidance in paragraph 30F of the Exposure Draft to assist in identifying when multiple arrangements that result in the loss of control of a subsidiary should be treated as a single arrangement. In particular, the Board concluded that if the indicators in paragraph 30F of the Exposure Draft are present, it is presumed that two or more disposal transactions or arrangements should be treated as a single transaction or arrangement, unless it can be clearly demonstrated that they are separate. The Board noted that if it or the IFRIC develops a general statement on 'linkage', to address the circumstances when two or more transactions or arrangements should be treated as a single transaction or arrangement, that pronouncement might replace this guidance.

BC13 The Board also concluded that the accounting guidance provided for the loss of control of a subsidiary should be extended to events or transactions in which an investor loses significant influence over an associate or joint control of a joint venture. Thus, upon the loss of significant influence, any retained investment would be remeasured to fair value and a gain or loss would be recognised in profit or loss. The FASB considered whether to address that same issue as part of this project. It concluded that the accounting for investments that no longer qualify for equity method accounting is outside the scope of the project and therefore decided to address the issue in a separate project.

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Attribution of losses

BC14 The current version of IAS 27 states that when losses attributed to the minority (ie non-controlling interest) exceed the minority's interest in the subsidiary's equity, 'the excess, and any further losses applicable to the minority, are allocated against the majority interest except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses'.

BC15 The Board decided that this treatment was inconsistent with its conclusion that non-controlling interests are part of the equity of the group. Although it is true that non-controlling interests have no further obligation to contribute assets to the subsidiary, the parent has no further obligation either. Non-controlling interests participate proportionally in the risks and rewards of an investment in the subsidiary. If a non-controlling interest enters into an arrangement that obligates it to the subsidiary, the Board believes that that arrangement should be accounted for separately and the arrangement should not affect the way losses are attributed to the controlling and non-controlling interests. Thus, the Board concluded that losses applicable to non-controlling interests should be attributed to them, even if doing so would result in a non-controlling interest being reported as a deficit.

Disclosure

BC16 In considering the proposals in the Exposure Draft the Board discussed whether any additional disclosures were necessary. The Board decided that the amount of any gain or loss arising on the loss of control of a subsidiary, including the amount of any gain or loss arising on the remeasurement to fair value of any retained investment in that former subsidiary, should be disclosed. This disclosure will provide information about the effect of the loss of control of a subsidiary on the financial position at the reporting date and the results for the reporting period.

BC17 In addition the Board considered the disclosure that the FASB decided to require. In its deliberations on business combinations, the FASB decided to require entities with one or more partially-owned subsidiaries to disclose in the notes to the consolidated financial statements a schedule showing the effects on the controlling interest's equity of transactions with the non-controlling interests.

BC18 The Board noted that IFRSs require this information to be provided in the statement of changes in equity or in the notes to the financial statements. This is because IAS 1 *Presentation of Financial Statements* requires an

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entity to present, either within the statement of changes in equity or in the notes, a reconciliation between the carrying amount of each component of equity at the beginning and end of the period, disclosing separately each change. Accordingly, requiring an additional schedule is not necessary.

BC19 The Board also considered whether entities that present earnings per share information should be required to disclose an additional per share measure that includes in the numerator the effects of equity transactions with the non-controlling interest. For example, a parent may acquire some of the non-controlling equity interests in a subsidiary at an amount in excess of the carrying amount of those interests. Should the effective premium paid, which is recorded in equity, be required to be reflected in the numerator of that additional per share measure as a transfer of equity from equity holders of the parent to other equity holders? The Board considered this issue in the light of the FASB's decision to require such a measure, but decided not to require this disclosure.

BC20 The Board noted that the objective of earnings per share information as stated in IAS 33 *Earnings per Share* is to provide a measure of the interests of each ordinary share of the parent in the performance of the entity over the reporting period. The Board supported the basic principle in IAS 33 that effects of capital transactions between groups of ordinary equity holders should not be treated as adjustments to the numerator of the earnings per share calculation. Therefore, the effects of transactions with the non-controlling interest (without a change of control) should not affect the calculation of earnings per share. The Board observed that, unlike the effects of transactions *between* groups of ordinary equity holders, IAS 33 requires the numerator to be adjusted for preferred dividends and the effects of other equity transactions between ordinary and preferred equity holders in order to determine the amount of earnings available for distribution to the ordinary equity holders.

BC21 However, the Board decided that an entity should not be precluded from disclosing the additional per share measure if it regards this information as useful. The Board concluded that if an entity discloses, in addition to basic and diluted earnings per share, amounts per share that include in the numerator the effects of equity transactions with the non-controlling interests, such amounts should be calculated in the usual manner using the denominator determined in accordance with IAS 33.

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Transitional provisions

BC22 To improve the comparability of financial information across entities, amendments to IFRSs are usually applied retrospectively. Therefore, the Board decided to require retrospective application of the amendments to IAS 27. The Board believes that the benefits of retrospective application outweigh the costs. However, the Board decided that retrospective application would be impracticable in the following circumstances:

(a) accounting for increases in a parent's controlling ownership interest in a subsidiary that occurred before the effective date of the amendments. Therefore, any previous increase in a parent's controlling ownership interest before the effective date of the amendments should not be restated.

(b) accounting for a parent's retained investment in a former subsidiary over which control was lost before the effective date of the amendments. Therefore, the carrying amount of any investment in a former subsidiary should not be restated to its fair value on the date control was lost. In addition, an entity should not recalculate any gain or loss on loss of control of a subsidiary if the loss of control occurred before the effective date of the amendments.

BC23 In deciding that prospective application should be used in these circumstances the Board applied principles that are consistent with those it generally uses to determine whether IFRSs should be applied retrospectively or prospectively. Specifically, the Board decided that retrospective application would be impracticable in these cases because:

(a) the information needed to restate an amount previously recorded may not exist or may no longer be obtainable.

(b) the accounting for a retained investment in a former subsidiary and recalculating the gain or loss arising on loss of control of a former subsidiary would require the determination of fair values at a prior date. Making that determination raises problems in relation to the role of hindsight: in particular, whether the benefit of hindsight should be included or excluded in determining the fair value and, if excluded, how the effect of hindsight can be separated from the other factors existing at the date for which the valuations are required.

The Board concluded that the implementation difficulties and consequent costs associated with applying the amendments retrospectively in these circumstances outweigh the benefit of improved

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comparability of financial information, and therefore decided to require prospective application. In addition, the Board concluded that identifying those provisions for which retrospective application of the amendments would be impracticable and thus prospective application would be required would reduce implementation costs and result in greater comparability between entities.

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Alternative View

AV1 Three Board members disagree with the proposed treatment of changes in controlling interests in subsidiaries after control is established (paragraphs BC4-BC13). They believe that it is important that the consequences of such changes for the shareholders of the parent entity should be reported clearly in the income statement, as is permitted by current IFRSs.

AV2 The proposed revision of IAS 27 adopts the economic entity view of the consolidated accounts. This treats all equity interests in the group as being homogeneous, so that transactions between controlling and non-controlling interests are regarded as mere transfers within the total equity interest and no gain or loss should be recognised on such transactions. The three Board members observe that the non-controlling interests represent equity claims that are restricted to particular subsidiaries, whereas the controlling interests are affected by the performance of the entire group. The consolidated financial statements should therefore report performance from the perspective of the controlling interest (a parent entity perspective) in addition to the wider perspective provided by the economic entity approach.

AV3 The parent entity perspective implies the recognition of gains or losses on transactions by the parent entity in the equity of a subsidiary which is controlled both before and after the transaction. If, as these Board members would prefer, the full goodwill method were not used, the acquisition of additional equity in a subsidiary would give rise to the recognition of additional purchased goodwill, measured as the excess of the purchase consideration over the book value of the separately identified assets in the subsidiary attributable to the additional interest acquired. On reducing the equity stake in a subsidiary, without loss of control, a gain or loss attributable to the controlling interest would be recognised. This would be measured as the difference between the consideration received and the proportion of the book value of the subsidiary’s assets (including purchased goodwill) attributable to the holding disposed of. This would provide the controlling interest with the relevant information about the gains and losses arising on the partial disposal of holdings in subsidiaries. It would also improve the reporting of gains and losses arising on disposals of subsidiaries that are made in stages.

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Appendix

Amendments to other pronouncements

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after [1 January 200X]. If an entity applies the proposed amendments to IAS 27 for an earlier period, these amendments shall be applied for that earlier period. In amended paragraphs and illustrations, deleted text is struck through and new text is underlined.

A1 In International Financial Reporting Standards, including International Accounting Standards and Interpretations, applicable at [1 January 200X], references to 'minority interest' are amended to 'the non-controlling interest'.

A2 IAS 1 *Presentation of Financial Statements* is amended as described below.

Paragraph 97 of IAS 1 is amended as follows:

97 An entity shall also present, either on the face of the statement of changes in equity or in the notes:

~~(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;~~

~~(b) the balance of retained earnings (ie accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period;and~~

(a)~~(c)~~ a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change~~.~~; and

(b) separately for total equity, equity attributable to equity holders of the parent and non-controlling interest, a reconciliation of the carrying amount at the beginning and at the end of the period, separately disclosing changes resulting from:

(i) profit or loss;

(ii) transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders; and

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(iii) each item of income or expense recognised directly in equity, if any.

The Guidance on implementing IAS 1 is amended as follows:

Illustrative financial statement structure

…

XYZ Group – Income statement for the year ended 31 December 20X2

(illustrating the classification of expenses by function)

(in thousands of currency units)

	20X2	**20X1**
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Share of profit of associates*	X	X
Profit before tax	X	X
Income tax expense	(X)	(X)
Profit for the period	X	X
Attributable to:		
Equity holders of the parent	X	X
~~Minority~~ Non-controlling interest	X	X
	X	X

* This means the share of associates' profit attributable to equity holders of the associates, ie it is after tax and ~~minority interests~~ after the attribution of profit or loss to non-controlling interests in the subsidiaries of associates, if any.

…

…

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XYZ Group - Statement of changes in equity for the year ended 31 December 20X2

(in thousands of currency units)

	~~Attributable to equity holders of the parent~~						
	Share capital	Other reserves*	Translation reserve	Retained earnings	Total	Attributable to equity holders of the parent ~~Minority interest~~	Attributable to non-controlling interest ~~Total Equity~~
Balance at 31 December 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy				(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in equity for 20X1							
Gain on property revaluation		X			X	X	X
Available-for-sale investments:							
Valuation gains/(losses) taken to equity		(X)			(X)	(X)	
Transferred to profit or loss on sale		(X)			(X)	(X)	
Cash flow hedges:							
Gains/(losses) taken to equity		X			X	X	X
Transferred to profit or loss for the period		X			X	X	X
Transferred to initial carrying amount of hedged items		(X)			(X)	(X)	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Tax on items taken directly to or transferred from equity		(X)	X		(X)	(X)	(X)
Net income recognised directly in equity		X	(X)		X	X	X
Profit for the period				X	X	X	X

continued…

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	Share capital	Other reserves*	Translation reserve	Retained earnings	Total	Attributable to equity holders of the parent ~~Minority interest~~	Attributable to non-controlling interest ~~Total equity~~
Total recognised income and expense for the period		X	(X)	X	X	X	X
Dividends				(X)	(X)	(X)	(X)
Issue of share capital	X				X	X	
Decrease in interest in subsidiary		X				(X)	X
Equity share options issued		X			X	X	
Balance at 31 December 20X1 carried forward	X	X	(X)	X	X	X	X

XYZ Group – Statement of changes in equity for the year ended 31 December 20X2 (continued)

(in thousands of currency units)

	~~Attributable to equity holders of the parent~~						
	Share capital	Other reserves*	Translation reserve	Retained earnings	Total	Attributable to equity holders of the parent ~~Minority interest~~	Attributable to non-controlling interest ~~Total equity~~
Balance at 31 December 20X1 brought forward	X	X	(X)	X	X	X	X
Changes in equity for 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Available-for-sale investments:							
Valuation gains/(losses) taken to equity		(X)			(X)	(X)	
Transferred to profit or loss on sale		X			X	X	
Cash flow hedges:							
Gains/(losses) taken to equity		X			X	X	X
Transferred to profit or loss for the period		(X)			(X)	(X)	(X)

continued...

Transferred to initial carrying amount of hedged items		(X)			(X)	(X)	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Tax on items taken directly to or transferred from equity		X	X		X	X	X
Net income recognised directly in equity		(X)	(X)		(X)	(X)	(X)
Profit for the period				X	X	X	X
Total recognised income and expense for the period		(X)	(X)	X	X	X	X
Dividends				(X)	(X)	(X)	(X)
Issue of share capital	X				X	X	
Balance at 31 December 20X2	X	X	(X)	X	X	X	X

* Other reserves are analysed into their components, if material

An alternative method of presenting changes in equity is illustrated on the following page.

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XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X2
(in thousands of currency units)

	20X2	**20X1**
Gain/(loss) on revaluation of properties	(X)	X
Available-for-sale investments:		
Valuation gains/(losses) taken to equity	(X)	(X)
Transferred to profit or loss on sale	X	(X)
Cash flow hedges:		
Gains/(losses) taken to equity	X	X
Transferred to profit or loss for the period	(X)	X
Transferred to the initial carrying amount of hedged items	(X)	(X)
Exchange differences on translation of foreign operations	(X)	(X)
Actuarial gains (losses) on defined benefit plans	X	(X)
Tax on items taken directly to or transferred from equity	X	(X)
Net income recognised directly in equity	(X)	X
Profit for the period	X	X
Total recognised income and expense for the period	X	X
Attributable to:		
Equity holders of the parent	X	X
~~Minority~~ Non-controlling interest	X	X
	X	X
Effect of changes in accounting policy:		
Equity holders of the parent		(X)
~~Minority~~ Non-controlling interest		(X)
		(X)

The above example illustrates an approach that presents changes in equity representing income and expense in a separate component of the financial statements. Under this approach, a reconciliation of opening and closing balances of share capital, retained earnings and other reserves and ~~accumulated profit~~ a reconciliation of equity attributable to

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equity holders of the parent and to the non-controlling interest (as illustrated on the previous page) is given in the notes.

A3 IAS 7 *Cash Flow Statements* is amended as described below.

The heading above paragraph 39 and paragraphs 39-42 are amended as follows:

Changes in ownership interests in ~~Acquisitions and disposals of~~ subsidiaries and other businesses ~~units~~

39 The aggregate cash flows arising from obtaining or losing control ~~acquisitions and from disposals~~ of subsidiaries or other businesses ~~units~~ shall be presented separately and classified as investing activities.

40 An entity shall disclose, in aggregate, in respect of both obtaining and losing control ~~acquisitions and disposals~~ of subsidiaries or other businesses ~~units~~ during the period each of the following:

(a) the total ~~purchase or disposal~~ consideration paid or received;

(b) the portion of the ~~purchase or disposal~~ consideration ~~discharged by means~~ consisting of cash and cash equivalents;

(c) the amount of cash and cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed of~~ over which control is obtained or lost; and

(d) the amount of the assets and liabilities other than cash or cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed of~~ over which control is obtained or lost, summarised by each major category.

41 The separate presentation of the cash flow effects of ~~acquisitions and disposals~~ obtaining or losing control of subsidiaries ~~and~~ or ~~other~~ businesses ~~units~~ as single line items, together with the separate disclosure of the amounts of assets and liabilities thereby acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of ~~disposals~~ losing control are not deducted from those of ~~acquisitions~~ obtaining control.

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42 The aggregate amount of the cash paid or received as ~~purchase or sale~~ consideration for obtaining or losing control of subsidiaries or other businesses is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of as part of such transactions.

Paragraphs 42A and 42B are added as follows:

42A Cash flows arising from changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control shall be classified as cash flows from financing activities.

42B Changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as transactions with equity holders in their capacity as equity holders (see IAS 27 *Consolidated and Separate Financial Statements*). Accordingly, the resulting cash flows are classified in the same way as other transactions with equity holders described in paragraph 17.

In Appendix A, Note A is amended as follows:

A. ~~Acquisition~~ Obtaining control of subsidiary

During the period the Group ~~acquired~~ obtained control of subsidiary X. The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)
Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of X acquired	(40)
Cash ~~flow on acquisition~~ paid to obtain control, net of cash acquired	550

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A4 In IAS 14 *Segment Reporting*, paragraph 16 is amended as follows:

Segment result **is segment revenue less segment expense.** **~~Segment result is determined before any adjustments for minority interest.~~**

A5 IAS 21 *The Effects of Changes in Foreign Exchange Rates* is amended as set out below.

Paragraphs 48 and 49 are amended as follows:

48 ~~On the disposal of a foreign operation,~~ ~~t~~The cumulative amount of the exchange differences deferred in the separate component of equity relating to ~~that~~a foreign operation shall be recognised in profit or loss when the gain or loss on the disposal or reduction in the entity's proportionate ownership interest in that foreign operation is recognised. In the case of a partial disposal or reduction in an entity's proportionate ownership interest in a foreign operation, only the proportionate share of the related accumulated foreign exchange difference is recognised in profit or loss.

49 An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits. Loss of control, joint control or significant influence of a foreign operation is also a disposal of that foreign operation for the purposes of this Standard. ~~In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss.~~ A write-down of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised in profit or loss at the time of a write-down.

Paragraphs 49A and 49B are added as follows:

49A When an investee ceases to be a foreign operation because it is no longer an associate or joint venture, the entire accumulated exchange difference related to that foreign operation is recognised in profit or loss. When an entity's proportionate ownership interest in a foreign operation that is an associate or joint venture is reduced, but the entity continues to have

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significant influence or joint control, only the proportionate share of the related accumulated exchange difference is recognised in profit or loss.

49B IAS 27 requires a gain or loss to be recognised whenever control of a subsidiary is lost. However, a gain or loss is not recognised as a result of any event, including a partial disposal or a reduction in proportionate ownership interest, if control of a subsidiary is not lost. The entire cumulative amount of exchange differences deferred in the separate component of equity relating to a subsidiary that is attributed to equity holders of the parent shall be recognised in profit or loss only if control of that subsidiary is lost.

A6 IAS 28 *Investments in Associates* is amended as set out below.

Paragraphs 18 and 19 are amended as follows:

18 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in IAS 31. On loss of significant influence, any investment remaining in a former associate shall be remeasured to its fair value with a gain or loss recognised in profit or loss.

19 When any remaining investment in a former associate is accounted for in accordance with IAS 39, ~~T~~the ~~carrying amount~~ fair value of the remaining investment at the date it ceases to be an associate shall be regarded as its ~~cost~~ fair value on initial ~~measurement~~ recognition as a financial asset in accordance with IAS 39.

Paragraph 19A is added as follows:

19A If significant influence over an associate is lost, all amounts deferred in equity in relation to that associate shall be recognised in profit or loss in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates* and IAS 39. If an investor's proportionate ownership interest in an associate is reduced but significant influence is retained, only the proportionate share of the amounts deferred in equity in relation to that associate shall be recognised in profit or loss in accordance with IAS 21 and IAS 39. For example, if an associate has available-for-sale financial assets the investor will not recognise those assets separately if the associate is accounted for using the equity

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method. However, if an investor ceases to have significant influence over a former associate the entire cumulative gain or loss recognised previously in equity by the investor in relation to those assets shall be recognised in profit or loss. If an investor's proportionate ownership interest in an associate is reduced, but the investor continues to have significant influence over the investee, a proportionate amount of the cumulative gain or loss on the associate's available-for-sale financial assets previously recognised in equity shall be recognised in profit or loss.

A7 IAS 31 *Interests in Joint Ventures* is amended as set out below.

Paragraph 45 is amended as follows:

45 When a venturer ceases to have joint control over a jointly controlled entity it shall account for any remaining investment in accordance with IAS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date on which a jointly controlled entity becomes a subsidiary of a venturer, the venturer shall account for its interest in accordance with IAS 27. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with IAS 28. On loss of joint control, any investment remaining in a former joint venture shall be remeasured to its fair value with a gain or loss recognised in profit or loss.

Paragraphs 45A and 45B are added as follows:

45A When any remaining investment in a former jointly controlled entity is accounted for in accordance with IAS 39, the fair value of the remaining investment at the date it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. A gain or loss arising on remeasurement of the retained investment shall be recognised in profit or loss.

45B If joint control over a jointly controlled entity is lost, all amounts deferred in equity in relation to that jointly controlled entity shall be recognised in profit or loss in accordance with IFRSs. If an investor's proportionate ownership interest in a jointly controlled entity is reduced but joint control is retained, only the proportionate share of the amounts deferred in equity in relation to that jointly controlled entity shall be recognised in profit or loss in accordance with IAS 21 and IAS 39. For example, if a jointly

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controlled entity has available-for-sale financial assets, the investor will not recognise those assets separately if the jointly controlled entity is accounted for using the equity method. However, if an investor ceases to have joint control over a jointly controlled entity, the entire cumulative gain or loss previously recognised in equity by the investor in relation to those assets shall be recognised in profit or loss. If an investor's proportionate ownership interest in a jointly controlled entity is reduced, but the investor continues to have joint control over the investee, a proportionate amount of the cumulative gain or loss on the jointly controlled entity's available-for-sale financial assets previously recognised in equity shall be recognised in profit or loss.

A8 IAS 33 *Earnings per Share* is amended as set out below.

Paragraph 73 is amended as follows:

73 If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the income statement other than one required by this Standard, such amounts shall be calculated using the ~~weighted average number of ordinary shares~~ denominator determined in accordance with this Standard. Basic …

Paragraph 73B is added as follows:

73B If an entity discloses, in addition to basic and diluted earnings per share, amounts per share that include in the numerator the effects of equity transactions with non-controlling interests, such amounts shall be calculated using the denominator determined in accordance with this Standard.

A9 IAS 39 *Financial Instruments: Recognition and Measurement* is amended as set out below.

The last sentence of paragraph 102 is amended as follows:

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss when the gain or loss is recognised on the disposal of or reduction in the proportionate ownership interest in the foreign operation. For a partial disposal or reduction in an entity's proportionate ownership interest in a foreign operation, only the proportionate share of the related hedging gain or loss is recognised in profit or loss.

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Paragraphs 102A–102C are added as follows:

102A An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that operation. Loss of control, significant influence or joint control of a foreign operation is also a disposal of that foreign operation for the purposes of paragraph 102.

102B When an investee ceases to be a foreign operation because it is no longer an associate or joint venture, the entire gain or loss on the hedging instrument relating to the effective portion of the hedge recognised directly in equity shall be recognised in profit or loss. When an entity's proportionate ownership interest in an associate or joint venture is reduced but the entity continues to have significant influence or joint control, respectively, only the proportionate share of the related hedging gain or loss is recognised in profit or loss.

102C IAS 27 requires a gain or loss to be recognised whenever control of a subsidiary is lost. However, a gain or loss is not recognised as a result of any event, including a partial disposal or a reduction in proportionate ownership interest, if control is not lost. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity that relates to a subsidiary and is attributable to equity holders of the parent, shall be recognised in profit or loss only when control of that subsidiary is lost.

A10 IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended as set out below.

Paragraph 26 is amended as follows:

26 This IFRS prohibits the retrospective application of some aspects of other IFRSs relating to:

….

(c) estimates (paragraphs 31-34); ~~and~~

(d) assets classified as held for sale and discontinued operations~~.~~; and

(e) some aspects of accounting for increases and decreases in ownership interests in a subsidiary after control is obtained (paragraph 34C).

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After paragraph 34B a new heading and paragraph 34C are added as follows:

Changes in ownership interests in subsidiaries

34C A first-time adopter shall apply prospectively:

(a) the requirements in IAS 27 *Consolidated and Separate Financial Statements* (paragraph 30A) for accounting for increases in the ownership interests in a subsidiary after control is obtained, when that increase occurred before the date of transition to IFRSs;

(b) the requirements in IAS 27 (paragraphs 30C and 30D) for accounting for decreases in ownership interests in a subsidiary that result in a loss of control.

A11 Paragraph 33 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* is amended to read as follows:

33 An entity shall disclose:

...

(d) the amount of income from continuing operations and from discontinued operations attributable to shareholders of the parent. These disclosures may be presented either in the notes or on the face of the financial statements.

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Illustrative Examples

These examples accompany but are not part of [draft] IAS 27 (as amended in 200X).

Example 1 – Increase in ownership interest after control is obtained

1.1 Company A acquired previously a controlling interest in Company B with the acquisition of 70 per cent of its ordinary shares.

1.2 On 31 December 20X2 Company A increased its interest in Company B to 85 per cent by purchasing shares in Company B from non-controlling shareholders for cash consideration of CU4,500. Immediately before this transaction, the carrying amount in Company A's consolidated financial statements of the non-controlling interest in Company B was CU7,500. Goodwill was not impaired during 20X2.

1.3 Company A accounts for the acquisition in its consolidated financial statements as follows:

Dr Non-controlling Interest ((15 %/30%) × 7,500)	CU3,750	
Dr Equity	CU750	
Cr Cash		CU4,500

To recognise the additional 15 per cent investment acquired in Company B.

1.4 The excess recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent reflects the premium paid by the parent entity in excess of the carrying amount of the 15 per cent ownership interest acquired.

Example 2 – Decrease in ownership interest without loss of control

2.1 Company C acquired previously a controlling interest in Company D with the acquisition of 70 per cent of its ordinary shares. At the date control was obtained, the net assets of Company D were attributed in proportion to the respective ownership interests, with 70 per cent of the goodwill of Company D attributed to Company C and 30 per cent attributed to the non-controlling shareholders.

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2.2 The carrying amount of the net assets of Company D on 31 December 20X1 was CU25,000 and the carrying amount of the non-controlling interest was CU7,500. Therefore, the carrying amount of the parent's share of net assets was CU17,500. Goodwill was not impaired during 20X1.

2.3 On 1 January 20X2 Company D issues new shares to shareholders other than Company C for CU5,000. The share issue has the effect of reducing Company C's holding to 55 per cent of Company D's ordinary shares. The proportionate ownership interest of non-controlling shareholders in Company D increased from 30 per cent to 45 per cent.

2.4 Following the share issue, the carrying amount of the non-controlling interest increased to CU13,500 (45% × (CU25,000 + CU5,000)). The carrying amount of the parent's interest decreased to CU16,500 (55% × (CU25,000 + CU5,000)). Thus, the amount of the interest transferred to the non-controlling shareholders was CU6,000 (CU13,500 less CU7,500).

2.5 Company C accounts for the decrease in ownership interest in its consolidated financial statements as follows:

Dr Cash	CU5,000	
Dr Equity	CU1,000	
Cr Non-controlling interest		CU6,000

To recognise the decrease in Company C's ownership interest in Company D.

2.6 The amount recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent reflects the difference between the amount paid by the non-controlling interest for its additional 15 per cent ownership interest and the carrying amount of the interest transferred to the non-controlling interest.

Example 3 – Decrease in ownership interest with loss of control

3.1 Company E acquired previously a 70 per cent controlling interest in Company F.

3.2 On 31 December 20X2 the fair value of Company F as a whole was CU15,000 and its carrying amount was CU11,000. The carrying amount of the non-controlling interest was CU3,300. Therefore, the carrying amount of the parent's share of Company F's net assets was CU7,700.

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On 31 December 20X2, Company E reduced its interest in Company F to 10 per cent by selling a portion of its interest in Company F for cash proceeds of CU9,000 (CU15,000 × 60 per cent). As a result of the disposal, Company E lost control of Company F. On 31 December 20X2, the fair value of the retained investment in Company F was CU1,500.

3.3 The consolidated gain on disposal is calculated as follows:

	CU
Cash	9,000
Add retained investment in Company F	1,500
Total	10,500
Less parent's share of net assets	7,700
Gain on disposal	2,800

3.4 Company E accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU9,000	
Dr Investment in Company F	CU1,500	
Cr Parent's share of net assets		CU7,700
Cr Gain on loss of control		CU2,800

Dr Non-controlling interest	CU3,300	
Cr Non-controlling interest's share of net assets		CU3,300

3.5 Company F is no longer a subsidiary of Company E. As a consequence, its net assets and the non-controlling interest in them are derecognised.

3.6 If Company F has a liability through a non-current advance from Company G, the advance would also be remeasured at fair value in Company G. Any gain or loss as a consequence of the remeasurement would be included in determining the gain or loss on loss of control.

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Example 4 – Decrease in ownership without loss of control, with reallocation of existing goodwill between the controlling interest and non-controlling interest

4.1 Company P acquires 90 per cent of the ordinary shares in Company S for consideration of CU915, thereby obtaining control of Company S. At the time of the acquisition, the total fair value of Company S was CU1,000.

4.2 The fair value of Company S's net identifiable assets at the time of the acquisition was CU700. Goodwill of CU300 was recognised as part of the accounting for the business combination. The fair value of Company P's interest in Company S's net identifiable assets on acquisition was CU630 (90% × CU700). Therefore, in accordance with [draft] IFRS 3, the portion of goodwill attributed to Company P was CU285 (CU915 – CU630). The carrying amount of the non-controlling interest was CU85 (CU1,000 – CU915). The fair value of the non-controlling interest in Company S's net identifiable assets was CU70 (10% × CU700). Therefore, the non-controlling interest in Company S's goodwill was CU15 (CU85 – CU70).

4.3 Company S subsequently issued additional shares to the non-controlling shareholders, increasing their ownership interest from 10 per cent to 15 per cent. The non-controlling shareholders paid Company S CU70 cash for the additional shares. Immediately before the share issue the carrying amount in the consolidated financial statements of Company S's net identifiable assets and goodwill continued to be CU1,000, increasing to CU1,070 as a result of the consideration received by Company S for the share issue.

4.4 As a result of the share issue, the non-controlling shareholders will have an interest in 15 per cent of Company S's net identifiable assets, having a carrying amount of CU115.5 (15% × CU770). In addition, the minority shareholders will have an increased interest in Company S's goodwill. In accordance with paragraph 30B of [draft] IAS 27, the existing goodwill is reallocated between the equity holders of Company P and the non-controlling interest based on the relative carrying amounts of goodwill allocated to each of those groups of equity holders on the date control was obtained. Therefore, the amount of goodwill attributed to the non-controlling interest will be CU22.5 ((15%/10%) × CU15). The carrying amount of the non-controlling interest is a total of CU138 (CU115.5 + CU22.5) compared with the previous carrying amount of CU85. Thus the non-controlling interest in Company S has increased by CU53 as a result of the transaction.

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4.5 Company P accounts for the transaction in its consolidated financial statements as follows:

Dr Cash	CU70	
Cr Non-controlling interest		CU53
Cr Equity		CU17

To recognise the decrease in Company P's ownership interest in Company S.

4.6 The amount recognised in equity reflects the difference between the amount paid by the non-controlling interest for its additional 5 per cent ownership interest and the carrying amount of the interest transferred to the non-controlling shareholders as a result of its acquisition. It is recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent.

Example 5 – Loss of control of subsidiary with available-for-sale financial assets

5.1 Company G previously acquired 70 per cent of Company H for CU7,000. At the time control was obtained, the fair value of the whole of Company H was CU10,000 and Company H had an available-for-sale financial asset with a fair value of CU6,000.

5.2 From the time control was obtained until 31 December 20X1, the cumulative change in the fair value of Company H's available-for-sale financial asset was an increase of CU1,000. Accordingly, the carrying value of the available-for-sale asset in Company H's and Company G's consolidated financial statements on 31 December 20X1 was CU7,000.

5.3 On 31 December 20X1, the carrying amount of Company H's net assets in G's consolidated financial statements was CU11,000 and the carrying amount of the non-controlling interest was CU3,300. Therefore, the carrying amount of the parent's share of Company H's net assets was CU7,700 (CU11,000 – CU3,300).

5.4 On 31 December 20X1, the fair value of Company H as a whole was CU11,500. On 1 January 20X2 Company G sold its entire interest in Company H for cash consideration of CU8,050.

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5.5 Company G accounts for the disposal in its consolidated financial statements as follows:

Dr Cash	CU8,050	
Dr Parent's share of changes in available-for-sale assets recognised directly in equity	CU700	
Cr Parent's share of Company H's net assets (including available-for-sale assets)		CU7,700
Cr Gain on loss of control		CU1,050
Dr Non-controlling interest	CU3,300	
Cr Non-controlling interest's share of net assets		CU3,300

To recognise the disposal in the consolidated financial statements.

5.6 Because Company H is no longer a subsidiary, its net assets are derecognised on 1 January 20X2. Company G recognises in its consolidated financial statements a gain on disposal of CU1,050. The gain on disposal includes Company G's portion of the gain on Company H's available-for-sale financial asset of CU700 (70% × CU1,000) previously recorded in equity.

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