STAFF PAPER

June 2014

IASB Meeting

Project	**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**
Paper topic	Due process considerations

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Purpose

1. In November 2013, the IASB tentatively decided to finalise the proposed amendments *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28). One member of the IASB communicated his intention to dissent from the final amendments.

2. In January 2014, the IASB considered a sweep issue and decided to provide guidance on how the amendments to IFRS 10 should be applied when a parent loses control of a subsidiary (that does not contain a business) but retains an interest in that former subsidiary that is accounted for using the equity method. The IASB also confirmed the finalisation of the amendments to IFRS 10 and IAS 28. Subsequently, three more members of the IASB communicated their intention to dissent from the final amendment and another one has indicated to us that she is also thinking of dissenting. This increase in the number of IASB members planning to dissent, or considering it, has prompted us to bring this paper to you.

Background

3. The objective of the proposed amendments is to address the conflict between the requirements of IFRS 10 and IAS 28. The conflict identified is that IFRS 10 requires a full gain or loss recognition on the loss of control of a subsidiary (even though the parent retains joint control of, or significant influence over, the

investee), whereas IAS 28 requires a partial gain or loss recognition in transactions between an investor and its associate or joint venture.

4. In order to address this conflict the IASB tentatively decided to amend IFRS 10 and IAS 28 so that:

   (a) when an entity sells or contributes assets that do not constitute a business to a joint venture or associate, or when an entity loses control of a subsidiary that does not contain a business whilst retaining joint control or significant influence, the gain or loss recognised by the entity is limited to the unrelated investors' interests in the associate or joint venture; and

   (b) when an entity sells or contributes assets that constitute a business to a joint venture or associate, or when an entity loses control of a subsidiary that contains a business whilst retaining joint control or significant influence, the gain or loss recognised by the entity is recognised in full.

5. In January 2014, the IASB:

   (a) specified that the gain or loss resulting from the loss of control of a subsidiary (that does not contain a business) includes the part of the gain or loss resulting from the remeasurement of the investment retained in a former subsidiary. The IASB noted that if the former subsidiary is now an associate or a joint venture that is accounted for using the equity method, the parent will recognise this part of the gain or loss in its profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture. This is because the IASB had previously decided that when a subsidiary is not a business, the requirements of IAS 28 for the partial gain or loss recognition should be applied. However, if the parent retains an investment in the former subsidiary that is now accounted for in accordance with IFRS 9, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former subsidiary is recognised in full in the parent's profit or loss. This is because, in this case, the requirements of

IFRS 9, rather than the requirements of IAS 28, apply for the partial gain or loss recognition; and

(b) tentatively decided to proceed with the finalisation of the amendments.

Due process considerations

6. In November 2013, the IASB reviewed the due process steps that it has taken since the publication of the Exposure Draft *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Proposed amendments to IFRS 10 and IAS 28) and tentatively decided to finalise the proposed amendments. During the November 2013 IASB meeting one member of the IASB communicated his intention to dissent from the final amendments.

7. During the editorial review of the amendments to IFRS 10 and IAS 28, some reviewers asked the IASB to provide guidance on how the amendments to IFRS 10 should be applied when a parent loses control of a subsidiary (that does not contain a business) but retains an interest in that former subsidiary that is accounted for using the equity method. The issue was whether the gain or loss related to the remeasurement at fair value of the retained interest in the former subsidiary should be recognised:

   (a) in full;

   (b) only to the extent of the unrelated investors' interests in the former subsidiary; or

   (c) should not be recognised.

8. The IASB addressed this issue in its January 2014 meeting (ie it decided that the gain should be recognised only to the extent of the unrelated investors' interests in the former subsidiary). As a consequence of the changes made because of the decision taken by the IASB in January 2014, three more members of the IASB communicated their intention to dissent from the final amendment and another one has indicated to us that she is also thinking of dissenting. We understand that they intend to dissent (or are considering dissenting) because they disagree with the decision summarised in paragraph 5(a) of this paper.

9. We are required to formally ask whether any IASB members intend to dissent to the amendments to IFRS 10 and IAS 28. Consequently, we are asking the following question.

Question for the IASB
1. Which IASB members intend to dissent from the final amendments to IFRS 10 and IAS 28?