IFRS Global office
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IFRS in Focus

IASB issues exposure draft on accounting for the sale or contribution of assets between an investor and its associate or joint venture

Contents

The Bottom Line

- The proposals, if finalised, are intended to clarify the accounting for the sale or contribution of assets by an investor to its associate or joint venture: requiring full gain or loss recognition in relation to transactions involving businesses, but requiring partial elimination in the case of asset sales or contributions.
- The proposals would be applied prospectively from the effective date of the amendments.
- Comments on the proposals are due by 23 April 2013.

Introduction

The International Accounting Standards Board (IASB) has published 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) ('the ED') to clarify the accounting for the sale or contribution of assets by an investor to its associate or joint venture.

The proposals are intended to eliminate inconsistencies between IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) in accounting for the loss of control of a subsidiary and the restrictions on recognising gains or losses arising from contributions of non-monetary assets to an associate or joint venture. IAS 28 (2011) restricts recognition of gains and losses arising from contributions of non-monetary assets to an associate or joint venture to the extent of the interest attributable to the other equity holders in the associate or joint venture. However, IFRS 10 requires full recognition of gains and losses on the loss of control of the subsidiary, including unrealised holding gains or losses on the retained interest.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Observation

The ED proposes amendments to IFRS 10 and IAS 28 (2011) to eliminate the inconsistency between these standards. The IASB acknowledged this same inconsistency exists between IAS 27 *Consolidated and Separate Financial Statements* (2008) and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers* in dealing with the loss of control of a subsidiary that is contributed to a jointly controlled entity/joint venture or an associate. However, the IASB does not propose to amend those standards given that both standards would be replaced/superseded before any proposed amendment became effective.

The proposals

The ED proposes that all non-monetary assets sold or contributed to an associate or joint venture which constitute a business (as defined in IFRS 3 *Business Combinations*) would follow the existing principles in IFRS 10 – that being full gain or loss recognition by the investor. Conversely, any gains or losses on assets sold or contributed that do not meet the definition of a business would be recognised only to the extent of the other investors' interests in the associate or joint venture (i.e., the investor's interest in the gains or losses on assets sold or contributed would be eliminated). This is consistent with the current accounting treatment under IAS 28 (2011).

Observation

The IASB and the IFRS Interpretations Committee applied the conceptual basis utilised in the development of IFRS 3 when drafting the proposals. Specifically, gain or loss of control is considered a significant event that changes the nature of and accounting for an investment; thereby triggering re-measurement and gain or loss recognition.

For assets sold or contributed that do not meet the definition of a business, and thus, were not part of the IASB's Business Combinations project, the IASB and the Interpretations Committee concluded that 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 apply.

The ED notes that the determination of whether the sale or contribution represents assets or a business should consider whether the sale or contribution is part of two or more transactions that should be accounted for as a single transaction. An entity should consider the requirements in paragraph B97 of IFRS 10 in making this determination.

Observation

The above proposals place increased tension on the determination of whether assets sold or contributed constitute a business – an area where practice issues have been noted in the past by the IFRS Interpretations Committee. As a result, the Committee has conducted outreach activities on this subject. The results of this outreach are due to be discussed at the Committee's meeting in March.

Effective date and comment period

The ED does not specify an effective date. The IASB will determine the effective date after considering the comments received on the ED.

The proposals, if finalised, would be applied on a prospective basis.

Comments on the ED are due by 23 April 2013.

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