Transfer of assets between an investor and its associate or JV

Amendments introduce a dividing line

September 2014, Issue 2014/17

IN THE HEADLINES

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This addresses a long-standing conflict on transactions with JVs, by creating a new dividing line – namely whether a business has been sold – with an occasionally surprising approach to step-ups.

– Mike Metcalf
KPMG’s global IFRS business combinations and consolidation leader

A long-standing conflict

When a parent loses control of a subsidiary in a transaction with an associate or joint venture (JV), there is a conflict between the existing guidance on consolidation and equity accounting.

In response to this conflict and the resulting diversity in practice, on 11 September 2014 the IASB issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

New requirements on loss of control

Loss of control over assets in a transaction with an associate or JV

<table>
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<th>Full gain recognition</th>
<th>Partial gain recognition</th>
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Fact pattern

- Company P sells its wholly owned subsidiary S to its 44% JV for cash of 300. As a result, P loses control of S.
- The carrying amount of S’s net assets (including goodwill, if any) in P’s consolidated financial statements is 100.

How the amendments apply

- S is a business
  - P recognises a gain in profit or loss of 200 on the loss of control (300 - 100).
- S is a collection of assets
  - Because P has a 44% interest in the JV, it eliminates 44% of the gain – i.e. a gain of only 112 is recognised.

Is it a business?

Similar to the recent amendments on the acquisition of an interest in a joint operation (see our In the Headlines 2014/07), the amendments place the focus firmly on the definition of a business. This definition is key to determining the extent of the gain to be recognised, which places pressure on the judgement applied in making this determination.

New complexity

The amendments also introduce new, unexpected accounting that involves neither cost nor full step-up of certain retained interests in assets that are not businesses. IFRS 10 Consolidated Financial Statements now includes an example in which 70% of a subsidiary is sold to an existing associate, but the retained 30% is also stepped up for part, but not all, of the fair value of that 30% holding. Although complex and conceptually difficult to grasp, this sort of transaction is not frequent.

Effective date

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

Find out more

For more information on the amendments, please go to the IASB press release or speak to your usual KPMG contact.

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Publication name: In the Headlines – Transfer of a subsidiary to an associate or JV
Publication number: Issue 2014/17
Publication date: September 2014

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