KPMG
cutting through complexity

Transfer of assets between an investor and its associate or JV

Amendments introduce a dividing line

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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.

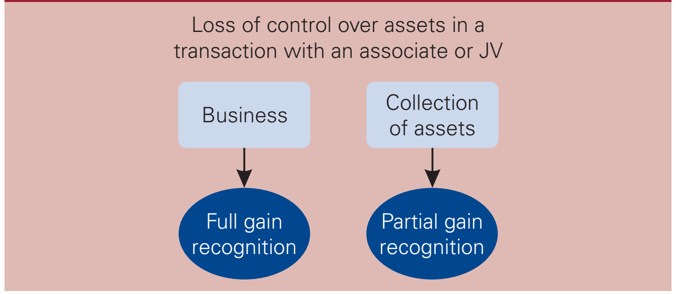
Existing guidance	
Consolidation standard	**Standard on associates and JVs**
Parent recognises the full gain on the loss of control.	Parent recognises the gain only to the extent of unrelated investors' interests in the associate or JV.
Note: A loss is recognised in full if the underlying assets are impaired.	

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)*.

Drawing a line based on the definition of a business

While the original conflict arose from the transfer of subsidiaries, the amendments are broader and cover the transfer of assets involving an associate or a JV. The amendments require the full gain to be recognised when the assets transferred meet the definition of a 'business' under IFRS 3 *Business Combinations*.

New requirements on loss of control



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	*S is a collection of assets*
• P recognises a gain in profit or loss of 200 on the loss of control (300 - 100).	• 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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