Staff paper

Agenda reference: 30C

IASB® meeting

Date	**May 2024**
Project	**Second Comprehensive Review of the *IFRS for SMEs*® Accounting Standard**
Topic	**Section 9 *Consolidated and Separate Financial Statements*—Other matter raised in feedback**
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to:
   (a) consider feedback on the disclosure proposed in paragraph 9.23B(a) of the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft); and
   (b) decide whether to make any changes to Section 9 *Consolidated and Separate Financial Statements*.

2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Staff recommendation

3. The staff recommend the IASB confirm its proposed amendments in paragraph 9.23B(a) of the Exposure Draft.

Structure of this paper

4. This paper is structured as follows:

   (a) background (paragraphs 5–7);

   (b) feedback from comment letters (paragraph 7);

   (c) staff analysis (paragraphs 8–16);

   (d) staff recommendation and question for the IASB (paragraph 17); and

   (e) Appendix A—Extract from the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard.

Background

5. In the Exposure Draft the IASB proposed recognition, measurement and disclosure requirements in Section 9 when a parent loses control but retains an investment in a former subsidiary (see paragraphs 9.18–9.19 and paragraph 9.23B of the Exposure Draft), to align with IFRS 10 *Consolidated Financial Statements.* The IASB's reasoning is explained in paragraphs BC61–BC62 of the Basis for Conclusions on the Exposure Draft (see Appendix A to this paper).

6. Proposed paragraph 9.23B states:

> An entity shall disclose the gain or loss, if any, calculated in accordance with paragraphs 9.18–9.19, and:
>
> (a) the portion of that gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value at the date when control is lost; and
>
> (b) the line items in profit or loss in which the gain or loss is recognised (if not presented separately).

Feedback from comment letters

7. One respondent disagreed with the proposed requirement in paragraph 9.23B(a) of the Exposure Draft. The respondent acknowledged that disclosing the total gain or loss when a parent loses control may be useful to users of SMEs' financial statements, however, questioned the benefit of disaggregating this gain or loss into the portion that is attributable to measuring the retained interest in a former subsidiary at its fair value. The respondent said the benefit of this disclosure may be disproportionate with the effort required.

Staff analysis

8. In considering the feedback, the staff analysis is set out as follows:

   (a) benefits to users of SMEs' financial statements (paragraphs 9–11); and

   (b) costs (effort) to SMEs (paragraphs 12–16).

Benefits to users of SMEs' financial statements

9. In assessing the benefits of the disclosure proposed in paragraph 9.23B(a) of the Exposure Draft, the staff have considered the principles that the IASB is guided by when deciding whether to make amendments to disclosure requirements in the *IFRS for SMEs* Accounting Standard (see Appendix A of Agenda Paper 30D *Disclosures* of this meeting).

10. The staff think the disclosure meets the following principles:

    (a) *Disaggregation of amounts presented in SMEs' financial statements are important for an understanding of those statements*. Disclosing the portion of the gain or loss that is attributable to measuring the retained investment in a former subsidiary at fair value disaggregates the total gain or loss which is useful to the users of SMEs' financial statements to understand the composition of the total gain or loss. The total gain or loss associated with the loss of control is a result of a transaction with a third party. The consideration could be cash (received or receivable). The portion of the gain or loss that is attributable to measuring the retained investment in a former subsidiary is a result of the valuation of the retained investment (non-cash). In situations where the consideration received is cash, this disaggregation provides users of SMEs' financial statements with information about the SMEs' cash-flows. In situations where the consideration is non-cash, the disaggregation provides users of SMEs' financial statements with information on the effect of the loss of control, that is, the portion of the gain or loss that is a result of the consideration (if any) and the portion of the gain or loss arising from the valuation.

(b) *Information on measurement uncertainties is important for SMEs.* The retained investment in a former subsidiary is measured at fair value on the date control is lost (either as a financial asset or an investment in associate or jointly controlled entity). Such a fair value measurement usually involves estimation and as such the disclosure of the portion of the gain or loss attributable to measuring any investment retained in the former subsidiary at its fair value is useful for users of SMEs' financial statements to understand the associated uncertainties.

11. The staff think that the information proposed to be disclosed by paragraph 9.23B(a) of the Exposure Draft is useful to users of SMEs' financial statements as it provides information about the effect of the loss of control of a subsidiary on the financial position at the end of, and performance for, the reporting period.

Costs (efforts) to SMEs

12. Paragraph 9.18A of the Exposure Draft states if a parent loses control of a subsidiary, the parent:

(a) derecognises:

(i) the assets (including any goodwill) and liabilities at their carrying amounts at the date control is lost in the former subsidiary from the consolidated statement of financial position; and

(ii) the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them).

(b) recognises:

(i) the fair value of the consideration received, if any, from the transaction or event that resulted in the loss of control; and

(ii) any investment retained in the former subsidiary at its fair value on the date control is lost; and

(c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

13. To provide the disclosure in paragraph 9.23B(a) of the Exposure Draft, the SME is required to allocate the total gain or loss associated with the loss of control (in paragraph 12(c) of this paper) to the portion attributable to measuring the investment retained in the former subsidiary at its fair value at the date when control is lost.

14. In applying the requirements in paragraph 9.18–9.19 of the Exposure Draft, the SME would either:

(a) derecognise the portion of the investment that is disposed of and then determine the fair value of the investment retained; or

(b) determine the fair value of the total investment (before control is lost) and apportion it to the investment retained.

15. In providing the disclosure in paragraph 9.23B(a) of the Exposure Draft, the SME does not require additional information beyond what is already needed in applying the recognition and measurement requirements in paragraphs 9.18–9.19 of the Exposure Draft.

16. On balance the staff think that the effort (apportioning the total gain or loss in paragraph 14(b) of this paper) required to provide the disclosure in paragraph 9.23B(a) does not outweigh the benefits to the users of SMEs' financial statements.

Staff recommendation and question for the IASB

17. The staff recommend the IASB confirm its proposed amendments in paragraph 9.23B(a) of the Exposure Draft.

Question for the IASB
1. Does the IASB agree with the staff recommendation in paragraph 17 of this paper?

Appendix A—Extract from the Basis for Conclusions on the *IFRS for SMEs* Accounting Standard

A1. The following extract summarises the considerations of the IASB when developing the proposals for the alignment of Section 9 of the Standard with IFRS 10 (for the loss of control).

Loss of control

BC61. When a parent entity loses control but retains an investment in a former subsidiary, paragraph 9.19 of the Standard requires the carrying amount of the investment at the date control is lost to be the cost on initial measurement of the retained investment.

BC62. The IASB is proposing to align paragraph 9.19 with paragraph 25(b) of IFRS 10 to require an entity to measure its retained interest in the former subsidiary at fair value at the date control is lost, with any resulting gain or loss recognised in profit or loss. Measuring the investment at fair value reflects the IASB's view that losing control of a subsidiary is a significant economic event. The parent–subsidiary relationship ceases to exist and an investor–investee relationship that differs significantly from the former parent–subsidiary relationship begins. The IASB also noted that this proposal is consistent with its decision to propose amendments to Section 19 to introduce requirements for an acquisition achieved in stages (step acquisitions) as set out in IFRS 3 (these amendments would require an SME to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss in profit or loss).