PROPOSED FINANCIAL REPORTING STANDARD	ED/FRS

EXPOSURE DRAFT OF PROPOSED Amendments to FRS 27 Consolidated and Separate Financial Statements

Comments to be received by 28 September 2005

This exposure draft (ED) contains proposed amendments to FRS 27 *Consolidated and Separate Financial Statements*.

This ED should be read in the context of the Preface to Financial Reporting Standards published by the Council on Corporate Disclosure and Governance.

This ED is issued by the Council on Corporate Disclosure and Governance for comment only and does not necessarily represent the views of the Council.

Since this ED may be modified as a result of comments received, the Council on Corporate Disclosure and Governance would like to hear both from those who agree with the proposals contained in the ED and from those who do not.

Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, clearly explain the problem and provide a suggestion for alternative wording with supporting reasoning.

Comments should be submitted in writing, so as to be received by **28 September 2005**, preferably by email to: accounting_stds@acra.gov.sg or addressed to:

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INVITATION TO COMMENT

The Council on Corporate Disclosure and Governance (CCDG) invites comments on the amendments to FRS 27 proposed in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

(a) comment on the questions as stated

(b) indicate the specific paragraph or group of paragraphs to which the comments relate

(c) contain a clear rationale

(d) include any alternative the CCDG should consider, if applicable.

Respondents need not comment on all of the questions and are encouraged to comment on additional issues in the Exposure Draft.

The CCDG is not requesting comments on matters in FRS 27 other than those set out in this Exposure Draft.

Respondents should submit comments in writing by **28 September 2005**.

Question 1

Draft paragraph 30A proposes that changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control should be accounted for as transactions with equity holders in their capacity as equity holders. As a result, no gain or loss on such changes would be recognised in profit or loss.

Do you agree? If not, why not and what alternative would you propose?

Question 2

Paragraph 30D proposes that on loss of control of a subsidiary any non-controlling equity investment remaining in the former subsidiary should be remeasured to its fair value in the consolidated financial statements at the date control is lost. Paragraph 30C proposes that the gain or loss on such remeasurement be included in the determination of the gain or loss arising on loss of control.

Do you agree that the remaining non-controlling equity investment should be remeasured to fair value in these circumstances? If not, why not and what alternative would you propose?

Do you agree with the proposal to include any gain or loss resulting from such remeasurement in the calculation of the gain or loss arising on loss of control? If not, why not, and what alternative would you propose?

Question 3

As explained in Question 1, the Exposure Draft proposes that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control should be treated as transactions with equity holders in their capacity as equity holders. Therefore, no gain or loss would be recognised in profit or loss. However, a decrease in the parent's ownership interest resulting in the loss of control of a subsidiary would result in any gain or loss being recognised in profit or loss for the period. The CCDG is aware that differences in accounting that depend on whether a change in control occurs could create opportunities for entities to structure transactions to achieve a particular accounting result. To reduce this risk, the Exposure Draft proposes that if one or more of the indicators in paragraph 30F are present, it is presumed that two or more disposal transactions or arrangements that result in a loss of control should be accounted for as a single transaction or arrangement. This presumption can be overcome if the entity can demonstrate clearly that such accounting would be inappropriate.

Do you agree that it is appropriate to presume that multiple arrangements that result in a loss of control should be accounted for as a single arrangement when the indicators in paragraph 30F are present? Are the proposed factors suitable indicators? If not, what alternative indicators would you propose?

Question 4

Paragraph 35 proposes that losses applicable to the non-controlling interest in a subsidiary should be allocated to the non-controlling interest even if such losses exceed the non-controlling interest in the subsidiary's equity. Non-controlling interests are part of the equity of the group and, therefore, participate proportionally in the risks and rewards of investment in the subsidiary.

Do you agree with the proposed loss allocation? Do you agree that any guarantees or other support arrangements from the controlling and non-controlling interests should be accounted for separately? If not, why not, and what alternative treatment would you propose?

Question 5

The transitional provisions in the Exposure Draft propose that all of its requirements should apply retrospectively, except in limited circumstances in which it is believed that retrospective application is likely to be impracticable.

Do you agree that proposed paragraphs 30A, 30C and 30D should apply on a prospective basis in the cases set out in paragraph 43B? Do you believe that retrospective application is inappropriate for any other proposals addressed by the Exposure Draft? If so, what other proposals do you believe should be applied prospectively and why?

SUMMARY OF MAIN CHANGES

The Exposure Draft proposes limited amendments to FRS 27 arising from the project on business combinations.

The main changes proposed are:

- to require changes in the parent's ownership interest that do not result in the loss of control of a subsidiary to be accounted for as transactions with equity holders in their capacity as equity holders. Therefore, such changes would not result in a gain or loss being recognised in profit or loss. (paragraph 30A)

- to specify how an entity measures a gain or loss arising on loss of control of a subsidiary, and to require any such gain or loss to be recognised in profit or loss. (paragraph 30C) The gain or loss arising on loss of control includes the parent's share of gains or losses related to the former subsidiary that were previously recognised in equity. (paragraph 30E)

- to require any remaining non-controlling equity investment in a former subsidiary to be remeasured to its fair value in the consolidated financial statements on the date control of it is lost. (paragraph 30D)

- to provide guidance on determining when two or more transactions or arrangements that result in the loss of control of a subsidiary should be treated as a single transaction when applying paragraphs 30A-30D. (paragraph 30F)

- to require losses applicable to the non-controlling interest to be allocated to the non-controlling interest with any guarantees or other support arrangements from the controlling and non-controlling interests being accounted for separately. (paragraph 35)

PROPOSED AMENDMENTS TO FINANCIAL REPORTING STANDARD 27

Consolidated and Separate Financial Statements

Paragraphs 31, 32, 44 and 45 are deleted. Paragraphs 30, 35, 40 and 43 are amended (new text is underlined and deleted text is struck through) and paragraphs 30A-30F, 43A and 43B are added as indicated.

30 The income and expenses of a subsidiary are included in the consolidated financial statements from the acquisition date as defined in FRS 103. <u>Income and expenses of the subsidiary arising from changes in the values of its assets and liabilities shall be based on the values of those assets and liabilities recognised in the parent's consolidated financial statements at the acquisition date. For example, depreciation expense recognised in the consolidated income statement after the acquisition date shall be based on the fair values of those depreciable assets recognised in the parent's consolidated financial statements at the acquisition date.</u> The income and expenses of a subsidiary are included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary. ~~The difference between the proceeds from the disposal of the subsidiary and its carrying amount as of the date of disposal, including the cumulative amount of any exchange differences that relate to the subsidiary recognised in equity in accordance with FRS 21 *The Effects of Changes in Foreign Exchange Rates*, is recognised in the consolidated income statement as the gain or loss on the disposal of the subsidiary.~~

30A Changes in the parent's ownership interest in a subsidiary after control is obtained that do not result in a loss of control shall be accounted for as transactions between equity holders in their capacity as equity holders. No gain or loss shall be recognised in profit or loss on such changes. The carrying amount of the non-controlling interest shall be adjusted to reflect the change in the parent's interest in the subsidiary's net assets. Any difference between the amount by which the non-controlling interest is so adjusted and the fair value of the consideration paid or received, if any, shall be recognised directly in equity and attributed to equity holders of the parent.

30B The non-controlling interest in the subsidiary's net assets comprises:

(a) the proportionate interest in the subsidiary's net identifiable assets based on the non-controlling ownership interest in the subsidiary; and

(b) that portion of the subsidiary's goodwill, if any, allocated to the non-controlling interest. In accordance with [draft] FRS 103 *Business Combinations* (as revised in 200X), the portion of a subsidiary's goodwill allocated to the non-controlling interest may not be equal to the total amount recognised as goodwill multiplied by the non-controlling ownership interest in the subsidiary. This would be the case, for example, if an 80 per cent controlling interest in a subsidiary were acquired at an amount that exceeds 80 per cent of the subsidiary's fair value because the acquirer paid a premium to obtain control of the acquiree. In this situation, 80 per cent of the subsidiary's net identifiable assets would be attributed to equity holders of the parent, but more than 80 per cent of goodwill would be attributed to them.

Following a change in the parent's ownership interest in a subsidiary after control is obtained, goodwill is reassigned between the equity holders of the parent and the non-controlling interest on the basis of the relative carrying amounts of goodwill allocated to each of those groups of equity holders on the date control was obtained.

30C If control of a subsidiary is lost, whether through a sale of ownership interests in that subsidiary by the parent or members of the group or through other means, any resulting gain or loss shall be recognised in profit or loss. That gain or loss shall be measured as the difference between:

(a) the aggregate of the fair value of the proceeds, if any, from the transaction or event that resulted in the loss of control and the fair value of any investment remaining in the former subsidiary at the date control is lost; and

(b) the aggregate of the parent's interest in the carrying amount in the consolidated financial statements of the former subsidiary's net assets immediately before control is lost, including the parent's share of gains or losses related to the former subsidiary recognised previously in consolidated equity.

The non-controlling interest's share, if any, of the carrying amount of the net assets of the former subsidiary immediately before control is lost shall be derecognised at the date control is lost with a corresponding derecognition of the carrying amount of non-controlling interest. No gain or loss shall be recognised on derecognition of the non-controlling interest.

30D On the loss of control of a subsidiary, any investment remaining in the former subsidiary shall be accounted for in accordance with FRS 39 *Financial Instruments: Recognition and Measurement*, FRS 28 or FRS 31, as appropriate, from the date control is lost. The fair value of the remaining non-controlling equity investment at the date control is lost shall be regarded as the fair value on initial recognition of a financial asset in accordance with FRS 39 or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity.

30E On the loss of control of a subsidiary, the individual assets and liabilities of that former subsidiary are derecognised. From the group's perspective, the loss of control of a subsidiary results in the loss of control and derecognition of some of the individual assets and liabilities of the group. Therefore, the gain or loss arising on loss of control of a subsidiary includes the parent's share of gains or losses that were recognised previously directly in equity. This includes the parent's share of any gains or losses:

(a) on exchange differences that were recognised directly in equity in accordance with FRS 21 *The Effects of Changes in Foreign Exchange Rates*;

(b) on cash flow hedges of a net investment that were recognised directly in equity in accordance with FRS 39; and

(c) related to the individual assets and liabilities: for example, available-for-sale financial assets previously recognised directly in equity, and cash flow hedge on hedging instruments previously recognised directly in equity.

30F Control of a subsidiary may be lost in two or more transactions or arrangements. An entity shall account for each such transaction or arrangement separately unless circumstances indicate that the transactions or arrangements are part of a single transaction or arrangement. In determining whether to account for the transactions or arrangements as a single transaction or arrangement an entity shall consider all of the terms and conditions of the transactions and arrangements and their economic effects. If one or more of the following indicators are present, the transactions or arrangements are to be accounted for as a single transaction or arrangement:

(a) they are entered into at the same time or as part of a continuous sequence and in contemplation of one another.

(b) they form a single arrangement that achieves, or is designed to achieve, an overall commercial effect.

(c) the occurrence of one transaction or arrangement is dependent on the occurrence of the other transaction(s) or arrangement(s).

(d) one or more of the transactions or arrangements considered on their own is not economically justified, but they are economically justified when considered together. An example is when one disposal is priced below market, compensated for by a subsequent disposal priced above market.

The transactions or arrangements are to be accounted for separately if the entity can demonstrate clearly that they are not parts of a single transaction.

35 Losses applicable to the ~~minority~~ non-controlling interest in a consolidated subsidiary may exceed the ~~minority~~ non-controlling interest in the subsidiary's equity. The excess, and any further losses attributable to the ~~minority~~ non-controlling interest, shall be ~~are~~ allocated ~~against~~ to the ~~majority~~ non-controlling interest. ~~except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.~~

40 The following disclosures shall be made in consolidated financial statements:

…

(e) the reporting date of the financial statements of a subsidiary when such financial statements are used to prepare consolidated financial statements and are as of a reporting date or for a period that is different from that of the parent, and the reason for using a different reporting date or period; ~~and~~

(f) the nature and extent of any significant restrictions (e.g. resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans or advances~~.~~ ; and

(g) the amount of any gain or loss arising on the loss of control of a subsidiary recognised in profit or loss in accordance with paragraph 30C, showing separately the amount of any gain or loss arising on the remeasurement to fair value of any retained investment in that former subsidiary.

EFFECTIVE DATE

43 An entity shall apply ~~this Standard~~ the amendments in paragraphs 30-30F, 35, 40 and 43-43B, for annual periods beginning on or after 1 January 200X~~2005~~. Earlier application is encouraged. However, an entity shall not apply these amendments for annual periods beginning before 1 January 200X unless it also applies [draft] FRS 103 *Business Combinations* (as revised in 200X) and [draft] FRS 37 *Non-financial Liabilities*. If an entity applies these amendments ~~for a period beginning~~ before 1 January ~~2005~~200X, it shall disclose that fact.

43A Except as described in paragraph 43B, an entity shall apply the amendments retrospectively.

43B An entity shall apply prospectively:

(a) the requirements in paragraph 30A for accounting for increases in ownership interests in a subsidiary after control is obtained. Therefore, the requirements in paragraph 30A do not apply to increases that occurred before those amendments are applied.

(b) the requirements in paragraphs 30C and 30D for the remeasurement to fair value of any retained investment in a former subsidiary in accounting for decreases in ownership interests in a subsidiary that result in a loss of control. Therefore, an entity shall not restate the carrying amount of an investment in a former subsidiary if control was lost before these amendments are applied. In addition, an entity shall not recalculate any gain or loss on the loss of control of a subsidiary that occurred before those amendments are applied.

Appendix

Amendments to other pronouncements

The amendments in this [draft] appendix shall be applied for annual periods beginning on or after [1 January 200X]. If an entity applies the proposed amendments to FRS 27 for an earlier period, these amendments shall be applied for that earlier period. In amended paragraphs and illustrations, deleted text is struck through and new text is underlined.

A1 In Financial Reporting Standards, including Interpretations of Financial Reporting Standards, applicable at [1 January 200X], references to ‘minority interest’ are amended to ‘the non-controlling interest’.

A2 FRS 1 *Presentation of Financial Statements* is amended as described below.

Paragraph 97 of FRS 1 is amended as follows:

97 An entity shall also present, either on the face of the statement of changes in equity or in the notes:

~~(a) the amounts of transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders;~~

~~(b) the balance of retained earnings (i.e. accumulated profit or loss) at the beginning of the period and at the balance sheet date, and the changes during the period; and~~

<u>(a)</u> ~~(c)~~ a reconciliation between the carrying amount of each class of contributed equity and each reserve at the beginning and the end of the period, separately disclosing each change~~.~~<u>; and</u>

<u>(b) separately for total equity, equity attributable to equity holders of the parent and non-controlling interest, a reconciliation of the carrying amount at the beginning and at the end of the period, separately disclosing changes resulting from:</u>

<u>(i) profit or loss;</u>

<u>(ii) transactions with equity holders acting in their capacity as equity holders, showing separately distributions to equity holders; and</u>

<u>(iii) each item of income or expense recognised directly in equity, if any.</u>

The Guidance on implementing FRS 1 is amended as follows:

Illustrative financial statement structure

…

XYZ Group – Income statement for the year ended 31 December 20X2

(illustrating the classification of expenses by function)
(in thousands of currency units)

	20X2	**20X1**
Revenue	X	X
Cost of sales	(X)	(X)
Gross profit	X	X
Other income	X	X
Distribution costs	(X)	(X)
Administrative expenses	(X)	(X)
Other expenses	(X)	(X)
Finance costs	(X)	(X)
Share of profit of associates*	X	X
Profit before tax	X	X
Income tax expense	(X)	(X)
Profit for the period	X	X
Attributable to:		
Equity holders of the parent	X	X
~~Minority~~ Non-controlling interest	X	X
	X	X

* This means the share of associates' profit attributable to equity holders of the associates, i.e. it is after tax and ~~minority interests~~ after the attribution of profit or loss to non-controlling interests in the subsidiaries of associates, if any.

XYZ Group - Statement of changes in equity for the year ended 31 December 20X2
(in thousands of currency units)

	~~Attributable to equity holders of the parent~~						
	Share capital	Other reserves*	Translation reserve	Retained earnings	Total	Attributable to equity holders of the parent ~~Minority interest~~	Attributable to non-controlling interest ~~Total Equity~~
Balance at 31 December 20X0	X	X	(X)	X	X	X	X
Changes in accounting policy	—	—	—	(X)	(X)	(X)	(X)
Restated balance	X	X	(X)	X	X	X	X
Changes in equity for 20X1							
Gain on property revaluation		X			X	X	X
Available-for-sale investments:							
Valuation gains/(losses) taken to equity		(X)			(X)	(X)	
Transferred to profit or loss on sale		(X)			(X)	(X)	
Cash flow hedges:							
Gains/(losses) taken to equity		X			X	X	X
Transferred to profit or loss for the period		X			X	X	X
Transferred to initial carrying amount of hedged items		(X)			(X)	(X)	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Tax on items taken directly to or transferred from equity	—	(X)	X	—	(X)	(X)	(X)
Net income recognised directly in equity		X	(X)		X	X	X
Profit for the period	—	—	—	X	X	X	X

continued…

	Share capital	Other reserves*	Translation reserve	Retained earnings	Total	Attributable to equity holders of the parent	Attributable to non-controlling interest
Total recognised income and expense for the period		X	(X)	X	X	X	X
Dividends				(X)	(X)	(X)	(X)
Issue of share capital	X				X	X	
Decrease in interest in subsidiary		X				(X)	X
Equity share options issued	—	X	—	—	X	X	—
Balance at 31 December 20X1 carried forward	X	X	(X)	X	X	X	X

XYZ Group – Statement of changes in equity for the year ended 31 December 20X2 (continued)

(in thousands of currency units)

	~~Attributable to equity holders of the parent~~						
	Share capital	Other reserves*	Trans-lation reserve	Retained earnings	Total	Attri-butable to equity holders of the parent ~~Minority interest~~	Attri-butable to non-controlling interest ~~Total equity~~
Balance at 31 December 20X1 brought forward	X	X	(X)	X	X	X	X
Changes in equity For 20X2							
Loss on property revaluation		(X)			(X)	(X)	(X)
Available-for-sale investments:							
Valuation gains/ (losses) taken to equity		(X)			(X)	(X)	
Transferred to profit or loss on sale		X			X	X	
Cash flow hedges:							

continued…

Gains/(losses) taken to equity		X			X	X	X
Transferred to profit or loss for the period		(X)			(X)	(X)	(X)
Transferred to initial carrying amount of hedged items		(X)			(X)	(X)	
Exchange differences on translating foreign operations			(X)		(X)	(X)	(X)
Tax on items taken directly to or transferred from equity	—	X	X	—	X	X	X
Net income recognised directly in equity		(X)	(X)		(X)	(X)	(X)
Profit for the period	—	—	—	X	X	X	X
Total recognised income and expense for the period		(X)	(X)	X	X	X	X
Dividends				(X)	(X)	(X)	(X)
Issue of share capital	X	—	—	—	X	X	—
Balance at 31 December 20X2	X	X	(X)	X	X	X	X

* Other reserves are analysed into their components, if material

An alternative method of presenting changes in equity is illustrated on the following page.

XYZ Group – Statement of recognised income and expense for the year ended 31 December 20X2
(in thousands of currency units)

	20X2	20X1
Gain/(loss) on revaluation of properties	(X)	X
Available-for-sale investments:		
Valuation gains/(losses) taken to equity	(X)	(X)
Transferred to profit or loss on sale	X	(X)
Cash flow hedges:		
Gains/(losses) taken to equity	X	X
Transferred to profit or loss for the period	(X)	X
Transferred to the initial carrying amount of hedged items	(X)	(X)
Exchange differences on translation of foreign operations	(X)	(X)
Actuarial gains (losses) on defined benefit plans	X	(X)
Tax on items taken directly to or transferred from equity	X	(X)
Net income recognised directly in equity	(X)	X
Profit for the period	X	X
Total recognised income and expense for the period	X	X
Attributable to:		
Equity holders of the parent	X	X
~~Minority~~ Non-controlling interest	X	X
	X	X
Effect of changes in accounting policy:		
Equity holders of the parent		(X)
~~Minority~~ Non-controlling interest		(X)
		(X)

The above example illustrates an approach that presents changes in equity representing income and expense in a separate component of the financial statements. Under this approach, a reconciliation of opening and closing balances of share capital, retained earnings and other reserves and ~~accumulated profit~~ a reconciliation of equity attributable to equity holders of the parent and to the non-controlling interest (as illustrated on the previous page) is given in the notes.

A3 FRS 7 *Cash Flow Statements* is amended as described below.

The heading above paragraph 39 and paragraphs 39-42 are amended as follows:

Changes in ownership interests in ~~Acquisitions and disposals of~~ subsidiaries and other businesses ~~units~~

39 The aggregate cash flows arising from obtaining or losing control ~~acquisitions and from disposals~~ of subsidiaries or other businesses ~~units~~ shall be presented separately and classified as investing activities.

40 **An entity shall disclose, in aggregate, in respect of both obtaining and losing control ~~acquisitions and disposals~~ of subsidiaries or other businesses ~~units~~ during the period each of the following:**

(a) **the total ~~purchase or disposal~~ consideration paid or received;**

(b) **the portion of the ~~purchase or disposal~~ consideration ~~discharged by means~~ consisting of cash and cash equivalents;**

(c) **the amount of cash and cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed of~~ over which control is obtained or lost; and**

(d) **the amount of the assets and liabilities other than cash or cash equivalents in the subsidiar~~y~~ies or other businesses ~~unit acquired or disposed~~ of over which control is obtained or lost, summarised by each major category.**

41 The separate presentation of the cash flow effects of ~~acquisitions and disposals~~ obtaining or losing control of subsidiaries ~~and~~ or ~~other~~ businesses ~~units~~ as single line items, together with the separate disclosure of the amounts of assets and liabilities thereby acquired or disposed of, helps to distinguish those cash flows from the cash flows arising from the other operating, investing and financing activities. The cash flow effects of ~~disposals~~ losing control are not deducted from those of ~~acquisitions~~ obtaining control.

42 The aggregate amount of the cash paid or received as ~~purchase or sale~~ consideration for obtaining or losing control of subsidiaries or other businesses is reported in the cash flow statement net of cash and cash equivalents acquired or disposed of as part of such transactions.

Paragraphs 42A and 42B are added as follows:

42A Cash flows arising from changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control shall be classified as cash flows from financing activities.

42B Changes in ownership interests in a subsidiary after control is obtained that do not result in a loss of control, such as the subsequent purchase or sale by a parent of a subsidiary's equity instruments, are accounted for as transactions with equity holders in their capacity as equity holders (see FRS 27 *Consolidated and Separate Financial Statements*). Accordingly, the resulting cash flows are classified in the same way as other transactions with equity holders described in paragraph 17.

In Appendix A, Note A is amended as follows:

A. ~~Acquisition~~ Obtaining control of subsidiary

During the period the Group ~~acquired~~ obtained control of subsidiary X.
The fair values of assets acquired and liabilities assumed were as follows:

Cash	40
Inventories	100
Accounts receivable	100
Property, plant and equipment	650
Trade payables	(100)

Long-term debt	(200)
Total purchase price paid in cash	590
Less: Cash of X acquired	(40)
Cash ~~flow on acquisition~~ paid to obtain control, net of cash acquired	550

A4 In FRS 14 *Segment Reporting*, paragraph 16 is amended as follows:

Segment result **is segment revenue less segment expense.** **~~Segment result is determined before any adjustments for minority interest.~~**

A5 FRS 21 *The Effects of Changes in Foreign Exchange Rates* is amended as set out below.

Paragraphs 48 and 49 are amended as follows:

48 ~~On the disposal of a foreign operation,~~ ~~t~~The cumulative amount of the exchange differences deferred in the separate component of equity relating to ~~that~~a foreign operation shall be recognised in profit or loss when the gain or loss on the disposal or reduction in the entity's proportionate ownership interest in that foreign operation is recognised. In the case of a partial disposal or reduction in an entity's proportionate ownership interest in a foreign operation, only the proportionate share of the related accumulated foreign exchange difference is recognised in profit or loss.

49 An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity. The payment of a dividend is part of a disposal only when it constitutes a return of the investment, for example when the dividend is paid out of pre-acquisition profits. Loss of control, joint control or significant influence of a foreign operation is also a disposal of that foreign operation for the purposes of this Standard. ~~In the case of a partial disposal, only the proportionate share of the related accumulated exchange difference is included in the gain or loss.~~ A write-down of the carrying amount of a foreign operation does not constitute a partial disposal. Accordingly, no part of the deferred foreign exchange gain or loss is recognised in profit or loss at the time of a write-down.

Paragraphs 49A and 49B are added as follows:

49A When an investee ceases to be a foreign operation because it is no longer an associate or joint venture, the entire accumulated exchange difference related to that foreign operation is recognised in profit or loss. When an entity's proportionate ownership interest in a foreign operation that is an associate or joint venture is reduced, but the entity continues to have significant influence or joint control, only the proportionate share of the related accumulated exchange difference is recognised in profit or loss.

49B FRS 27 requires a gain or loss to be recognised whenever control of a subsidiary is lost. However, a gain or loss is not recognised as a result of any event, including a partial disposal or a reduction in proportionate ownership interest, if control of a subsidiary is not lost. The entire cumulative amount of exchange differences deferred in the separate component of equity relating to a subsidiary that is attributed to equity holders of the parent shall be recognised in profit or loss only if control of that subsidiary is lost.

A6 FRS 28 *Investments in Associates* is amended as set out below.

Paragraphs 18 and 19 are amended as follows:

18 An investor shall discontinue the use of the equity method from the date that it ceases to have significant influence over an associate and shall account for the investment in accordance with FRS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in FRS 31. On loss of significant influence, any investment remaining in a former associate shall be remeasured to its fair value with a gain or loss recognised in profit or loss.

19 When any remaining investment in a former associate is accounted for in accordance with FRS 39, ~~T~~the ~~carrying amount~~ fair value of the remaining investment at the date it ceases to be an associate shall be regarded as its ~~cost~~ fair value on initial ~~measurement~~ recognition as a financial asset in accordance with FRS 39.

Paragraph 19A is added as follows:

19A If significant influence over an associate is lost, all amounts deferred in equity in relation to that associate shall be recognised in profit or loss in accordance with FRS 21 *The Effects of Changes in Foreign Exchange Rates* and FRS 39. If an investor's proportionate ownership interest in an associate is reduced but significant influence is retained, only the proportionate share of the amounts deferred in equity in relation to that associate shall be recognised in profit or loss in accordance with FRS 21 and FRS 39. For example, if an associate has available-for-sale financial assets the investor will not recognise those assets separately if the associate is accounted for using the equity method. However, if an investor ceases to have significant influence over a former associate the entire cumulative gain or loss recognised previously in equity by the investor in relation to those assets shall be recognised in profit or loss. If an investor's proportionate ownership interest in an associate is reduced, but the investor continues to have significant influence over the investee, a proportionate amount of the cumulative gain or loss on the associate's available-for-sale financial assets previously recognised in equity shall be recognised in profit or loss.

A7 FRS 31 *Interests in Joint Ventures* is amended as set out below.

Paragraph 45 is amended as follows:

45 When a venturer ceases to have joint control over a jointly controlled entity it shall account for any remaining investment in accordance with FRS 39 from that date, provided that the former jointly controlled entity does not become a subsidiary or associate. From the date on which a jointly controlled entity becomes a subsidiary of a venturer, the venturer shall account for its interest in accordance with FRS 27. From the date on which a jointly controlled entity becomes an associate of a venturer, the venturer shall account for its interest in accordance with FRS 28. On loss of joint control, any investment remaining in a former joint venture shall be remeasured to its fair value with a gain or loss recognised in profit or loss.

Paragraphs 45A and 45B are added as follows:

45A When any remaining investment in a former jointly controlled entity is accounted for in accordance with FRS 39, the fair value of the remaining investment at the date it ceases to be a jointly controlled entity shall be regarded as its fair value on initial recognition as a financial asset in accordance with FRS 39. A gain or loss arising on remeasurement of the retained investment shall be recognised in profit or loss.

45B If joint control over a jointly controlled entity is lost, all amounts deferred in equity in relation to that jointly controlled entity shall be recognised in profit or loss in accordance with FRSs. If an investor's proportionate ownership interest in a jointly controlled entity is reduced but joint control is retained, only the proportionate share of the amounts deferred in equity in relation to that jointly controlled entity shall be recognised in profit or loss in accordance with FRS 21 and FRS 39. For example, if a jointly controlled entity has available-for-sale financial assets, the investor will not recognise those assets separately if the jointly controlled entity is accounted for using the equity method. However, if an investor ceases to have joint control over a jointly controlled entity, the entire cumulative gain or loss previously recognised in equity by the investor in relation to those assets shall be recognised in profit or loss. If an investor's proportionate ownership interest in a jointly controlled entity is reduced, but the investor continues to have joint control over the investee, a proportionate amount of the cumulative gain or loss on the jointly controlled entity's available-for-sale financial assets previously recognised in equity shall be recognised in profit or loss.

A8 FRS 33 *Earnings per Share* is amended as set out below.

Paragraph 73 is amended as follows:

73 If an entity discloses, in addition to basic and diluted earnings per share, amounts per share using a reported component of the income statement other than one required by this Standard, such amounts shall be calculated using the ~~weighted average number of ordinary shares~~ <u>denominator</u> determined in accordance with this Standard. Basic …

Paragraph 73B is added as follows:

73B If an entity discloses, in addition to basic and diluted earnings per share, amounts per share that include in the numerator the effects of equity transactions with non-controlling interests, such amounts shall be calculated using the denominator determined in accordance with this Standard.

A9 FRS 39 *Financial Instruments: Recognition and Measurement* is amended as set out below.

The last sentence of paragraph 102 is amended as follows:

The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity shall be recognised in profit or loss <u>when the gain or loss is recognised</u> on <u>the</u> disposal of <u>or reduction in the proportionate ownership interest in</u> the foreign operation. <u>For a partial disposal or reduction in an entity's proportionate ownership interest in a foreign operation, only the proportionate share of the related hedging gain or loss is recognised in profit or loss.</u>

Paragraphs 102A–102C are added as follows:

102A An entity may dispose of its interest in a foreign operation through sale, liquidation, repayment of share capital or abandonment of all, or part of, that operation. Loss of control, significant influence or joint control of a foreign operation is also a disposal of that foreign operation for the purposes of paragraph 102.

102B When an investee ceases to be a foreign operation because it is no longer an associate or joint venture, the entire gain or loss on the hedging instrument relating to the effective portion of the hedge recognised directly in equity shall be recognised in profit or loss.

When an entity's proportionate ownership interest in an associate or joint venture is reduced but the entity continues to have significant influence or joint control, respectively, only the proportionate share of the related hedging gain or loss is recognised in profit or loss.

102C FRS 27 requires a gain or loss to be recognised whenever control of a subsidiary is lost. However, a gain or loss is not recognised as a result of any event, including a partial disposal or a reduction in proportionate ownership interest, if control is not lost. The gain or loss on the hedging instrument relating to the effective portion of the hedge that has been recognised directly in equity that relates to a subsidiary and is attributable to equity holders of the parent, shall be recognised in profit or loss only when control of that subsidiary is lost.

A10 FRS 101 *First-time Adoption of Financial Reporting Standards* is amended as set out below.

Paragraph 26 is amended as follows:

26 This FRS prohibits <u>the</u> retrospective application of some aspects of other FRSs relating to:

….

(c) estimates (paragraphs 31-34); ~~and~~

(d) assets classified as held for sale and discontinued operations~~.~~ <u>; and</u>

<u>(e) some aspects of accounting for increases and decreases in ownership interests in a subsidiary after control is obtained (paragraph 34C).</u>

After paragraph 34B a new heading and paragraph 34C are added as follows:

Changes in ownership interests in subsidiaries

34C A first-time adopter shall apply prospectively:

(a) the requirements in FRS 27 *Consolidated and Separate Financial Statements* (paragraph 30A) for accounting for increases in the ownership interests in a subsidiary after control is obtained, when that increase occurred before the date of transition to FRSs;

(b) the requirements in FRS 27 (paragraphs 30C and 30D) for accounting for decreases in ownership interests in a subsidiary that result in a loss of control.

A11 Paragraph 33 of FRS 105 *Non-current Assets Held for Sale and Discontinued Operations* is amended to read as follows:

33 An entity shall disclose:

...

<u>(d) the amount of income from continuing operations and from discontinued operations attributable to shareholders of the parent. These disclosures may be presented either in the notes or on the face of the financial statements.</u>

Illustrative Examples

These examples accompany but are not part of [draft] FRS 27 (as amended in 200X).

Example 1 – Increase in ownership interest after control is obtained

1.1 Company A acquired previously a controlling interest in Company B with the acquisition of 70 per cent of its ordinary shares.

1.2 On 31 December 20X2 Company A increased its interest in Company B to 85 per cent by purchasing shares in Company B from non-controlling shareholders for cash consideration of CU4,500. Immediately before this transaction, the carrying amount in Company A's consolidated financial statements of the non-controlling interest in Company B was CU7,500. Goodwill was not impaired during 20X2.

1.3 Company A accounts for the acquisition in its consolidated financial statements as follows:

Dr Non-controlling Interest ((15 %/30%) × 7,500)	CU3,750	
Dr Equity	CU750	
Cr Cash		CU4,500

To recognise the additional 15 per cent investment acquired in Company B.

1.4 The excess recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent reflects the premium paid by the parent entity in excess of the carrying amount of the 15 per cent ownership interest acquired.

Example 2 – Decrease in ownership interest without loss of control

2.1 Company C acquired previously a controlling interest in Company D with the acquisition of 70 per cent of its ordinary shares. At the date control was obtained, the net assets of Company D were attributed in proportion to the respective ownership interests, with 70 per cent of the goodwill of Company D attributed to Company C and 30 per cent attributed to the non-controlling shareholders.

2.2 The carrying amount of the net assets of Company D on 31 December 20X1 was CU25,000 and the carrying amount of the non-controlling interest was CU7,500. Therefore, the carrying amount of the parent's share of net assets was CU17,500. Goodwill was not impaired during 20X1.

2.3 On 1 January 20X2 Company D issues new shares to shareholders other than Company C for CU5,000. The share issue has the effect of reducing Company C's holding to 55 per cent of Company D's ordinary shares. The proportionate ownership interest of non-controlling shareholders in Company D increased from 30 per cent to 45 per cent.

2.4 Following the share issue, the carrying amount of the non-controlling interest increased to CU13,500 (45% × (CU25,000 + CU5,000)). The carrying amount of the parent's interest decreased to CU16,500 (55% × (CU25,000 + CU5,000)). Thus, the amount of the interest transferred to the non-controlling shareholders was CU6,000 (CU13,500 less CU7,500).

2.5 Company C accounts for the decrease in ownership interest in its consolidated financial statements as follows:

Dr	Cash	CU5,000	
Dr	Equity	CU1,000	
	Cr Non-controlling interest		CU6,000

To recognise the decrease in Company C's ownership interest in Company D.

2.6 The amount recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent reflects the difference between the amount paid by the non-controlling interest for its additional 15 per cent ownership interest and the carrying amount of the interest transferred to the non-controlling interest.

Example 3 – Decrease in ownership interest with loss of control

3.1 Company E acquired previously a 70 per cent controlling interest in Company F.

3.2 On 31 December 20X2 the fair value of Company F as a whole was CU15,000 and its carrying amount was CU11,000. The carrying amount of the non-controlling interest was CU3,300. Therefore, the carrying amount of the parent's share of Company F's net assets was CU7,700. On 31 December 20X2, Company E reduced its interest in Company F to 10 per cent by selling a portion of its interest in Company F for cash proceeds of CU9,000 (CU15,000 × 60 per cent). As a result of the disposal, Company E lost control of Company F. On 31 December 20X2, the fair value of the retained investment in Company F was CU1,500.

3.3 The consolidated gain on disposal is calculated as follows:

	CU
Cash	9,000
Add retained investment in Company F	1,500
Total	10,500
Less parent's share of net assets	7,700
Gain on disposal	2,800

3.4 Company E accounts for the disposal in its consolidated financial statements as follows:

Dr	Cash	CU9,000	
Dr	Investment in Company F	CU1,500	
	Cr Parent's share of net assets		CU7,700
	Cr Gain on loss of control		CU2,800

Dr	Non-controlling interest	CU3,300	
	Cr Non-controlling interest's share of net assets		CU3,300

3.5 Company F is no longer a subsidiary of Company E. As a consequence, its net assets and the non-controlling interest in them are derecognised.

3.6 If Company F has a liability through a non-current advance from Company G, the advance would also be remeasured at fair value in Company G. Any gain or loss as a consequence of the remeasurement would be included in determining the gain or loss on loss of control.

Example 4 – Decrease in ownership without loss of control, with reallocation of existing goodwill between the controlling interest and non-controlling interest

4.1 Company P acquires 90 per cent of the ordinary shares in Company S for consideration of CU915, thereby obtaining control of Company S. At the time of the acquisition, the total fair value of Company S was CU1,000.

4.2 The fair value of Company S's net identifiable assets at the time of the acquisition was CU700. Goodwill of CU300 was recognised as part of the accounting for the business combination. The fair value of Company P's interest in Company S's net identifiable assets on acquisition was CU630 (90% × CU700). Therefore, in accordance with [draft] FRS 103, the portion of goodwill attributed to Company P was CU285 (CU915 – CU630). The carrying amount of the non-controlling interest was CU85 (CU1,000 – CU915). The fair value of the non-controlling interest in Company S's net identifiable assets was CU70 (10% × CU700). Therefore, the non-controlling interest in Company S's goodwill was CU15 (CU85 – CU70).

4.3 Company S subsequently issued additional shares to the non-controlling shareholders, increasing their ownership interest from 10 per cent to 15 per cent. The non-controlling shareholders paid Company S CU70 cash for the additional shares. Immediately before the share issue the carrying amount in the consolidated financial statements of Company S's net identifiable assets and goodwill continued to be CU1,000, increasing to CU1,070 as a result of the consideration received by Company S for the share issue.

4.4 As a result of the share issue, the non-controlling shareholders will have an interest in 15 per cent of Company S's net identifiable assets, having a carrying amount of CU115.5 (15% × CU770). In addition, the minority shareholders will have an increased interest in Company S's goodwill. In accordance with paragraph 30B of [draft] FRS 27, the existing goodwill is reallocated between the equity holders of Company P and the non-controlling interest based on the relative carrying amounts of goodwill allocated to each of those groups of equity holders on the date control was obtained. Therefore, the amount of goodwill attributed to the non-controlling interest will be CU22.5 ((15%/10%) × CU15). The carrying amount of the non-controlling interest is a total of CU138 (CU115.5 + CU22.5) compared with the previous carrying amount of CU85. Thus the non-controlling interest in Company S has increased by CU53 as a result of the transaction.

4.5 Company P accounts for the transaction in its consolidated financial statements as follows:

Dr	Cash		CU70	
	Cr	Non-controlling interest		CU53
	Cr	Equity		CU17

To recognise the decrease in Company P's ownership interest in Company S.

4.6 The amount recognised in equity reflects the difference between the amount paid by the non-controlling interest for its additional 5 per cent ownership interest and the carrying amount of the interest transferred to the non-controlling shareholders as a result of its acquisition. It is recognised as an adjustment to the consolidated equity attributable to the equity holders of the parent.

Example 5 – Loss of control of subsidiary with available-for-sale financial assets

5.1 Company G previously acquired 70 per cent of Company H for CU7,000. At the time control was obtained, the fair value of the whole of Company H was CU10,000 and Company H had an available-for-sale financial asset with a fair value of CU6,000.

5.2 From the time control was obtained until 31 December 20X1, the cumulative change in the fair value of Company H's available-for-sale financial asset was an increase of CU1,000.

Accordingly, the carrying value of the available-for-sale asset in Company H's and Company G's consolidated financial statements on 31 December 20X1 was CU7,000.

5.3 On 31 December 20X1, the carrying amount of Company H's net assets in G's consolidated financial statements was CU11,000 and the carrying amount of the non-controlling interest was CU3,300. Therefore, the carrying amount of the parent's share of Company H's net assets was CU7,700 (CU11,000 – CU3,300).

5.4 On 31 December 20X1, the fair value of Company H as a whole was CU11,500. On 1 January 20X2 Company G sold its entire interest in Company H for cash consideration of CU8,050.

5.5 Company G accounts for the disposal in its consolidated financial statements as follows:

Dr	Cash		CU8,050	
Dr	Parent's share of changes in available-for-sale assets recognised directly in equity		CU700	
	Cr	Parent's share of Company H's net assets (including available-for-sale assets)		CU7,700
	Cr	Gain on loss of control		CU1,050
Dr	Non-controlling interest		CU3,300	
	Cr	Non-controlling interest's share of net assets		CU3,300

To recognise the disposal in the consolidated financial statements.

5.6 Because Company H is no longer a subsidiary, its net assets are derecognised on 1 January 20X2. Company G recognises in its consolidated financial statements a gain on disposal of CU1,050. The gain on disposal includes Company G's portion of the gain on Company H's available-for-sale financial asset of CU700 (70% × CU1,000) previously recorded in equity.