IAS 28 ***Investments in Associates*** (July 2009)

Venture capital consolidations and partial use of fair value through profit or loss

The IFRIC received a request to provide guidance on an issue arising from IAS 28. The issue relates to situations in which a group has an investment in an associate, one part of which is held by a subsidiary that is an investment-linked insurance fund (or mutual fund, unit trust or venture capital organisation). In its separate financial statements, in accordance with the scope exclusion in IAS 28, the investment-linked insurance fund subsidiary holding part of the investment in the associate has designated it at initial recognition as at fair value through profit or loss in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The other part of the investment in the same associate is held by another group entity that accounts for its investment in accordance with IAS 28 using the equity method (or at cost, if certain conditions are met). The issue is whether both measurement bases can be used in the consolidated financial statements.

Paragraph 6 of IAS 28 requires an entity to determine the existence of significant influence considering aggregate holdings, both direct and indirect. Paragraph 24 of IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) requires consolidated financial statements to be prepared using uniform accounting policies for like transactions and other events in similar circumstances. However, the IFRIC noted that some IFRSs allow different treatment of similar items when those items are used differently. For example, IAS 2 *Inventories* states that for inventories with a different nature or use, different cost formulas may be justified.

The IFRIC noted that significant diversity exists in practice on this issue because of the apparently conflicting guidance within IAS 28 and between IAS 28 and other standards. Consequently, the IFRIC decided that it could be best resolved by referring it to the IASB. Therefore, the IFRIC decided not to add this issue to its agenda.