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International Accounting Standards Board

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.
These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**15 May 2007, London**
Project:	**Annual Improvements**
Subject:	**Inconsistency in disclosure requirements in associates and investments in jointly controlled entities accounted for in accordance with IAS 39 (Agenda paper 5E)**

1. The staff have identified that the following issue would be most appropriately resolved via the annual improvements process.

   Issue: Should entities that are permitted to account for investments in associates and jointly controlled entities at fair value be required to provide the same disclosures for these interests as those entities that apply equity accounting?

Staff recommendation

2. The staff recommend that the Board:

   - should add this issue to the annual improvements project; and
   - should provide relief from the IAS 28 and IAS 31 disclosures for those investments accounted for in accordance with IAS 39 as proposed in paragraph 16 of this paper.

Background

3. The staff have been notified of an apparent inconsistency in the disclosure requirements for those entities that account for investments in associates and jointly controlled entities at fair value in accordance with IAS 39. Investments in associates and jointly controlled entities held by venture capital organisations or mutual funds, unit trusts and similar entities including investment-linked insurance funds are excluded from the scope of IAS 28 and IAS 31. These entities are therefore not required to give the disclosures that those standards would otherwise require. However, IAS 32 and IFRS 7 both require entities that account for investments in associates and jointly controlled entities in accordance with IAS 39 to give the disclosures required by IAS 28 and IAS 31 in addition to the disclosures required by IAS 32 and IFRS 7.

Scope of IAS 28 and IAS 31

4. Paragraph 1 of IAS 28 states:

> This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:
> (a) venture capital organisations, or
> (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds
> that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

5. Paragraph 1 of IAS 31 states:

> This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:
> (a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

6. The scope paragraphs in IAS 28 and IAS 31 are clear in excluding from these standards investments in associates and jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds.

Scope of IAS 32 and IFRS 7

7. Paragraph 4 of IAS 32 states:

This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. **However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this Standard.** Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures. (emphasis added)

…

8. Paragraph 3 of IFRS 7 states:

This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. **However, in some cases, IAS 27, IAS 28 or IAS 31 permits an entity to account for an interest in a subsidiary, associate or joint venture using IAS 39; in those cases, entities shall apply the disclosure requirements in IAS 27, IAS 28 or IAS 31 in addition to those in this IFRS**. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32. (emphasis added)

…

9. The scope paragraphs in IAS 32 and IFRS 7 are clear in requiring venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds to provide the disclosures required by IAS 28 and IAS 31, even though the investments in associates and jointly controlled entities held by those entities are excluded from the scope of those standards.

Relevance of IAS 28 and IAS 31 disclosure requirements to fair value accounting

10. A copy of the disclosure requirements of IAS 28 and IAS 31 is provided as appendix A to this paper. The appendix includes an assessment of the applicability of the disclosures to an investor that applies fair value accounting for its interest in an associate or a jointly controlled entity. Paragraph 11 of this paper summarises the disclosures that are applicable and whose relevance the Board should consider.

11. The disclosures required by IAS 28 and IAS 31 which would apply to an investor that applies fair value accounting and of which the relevance should be considered are as follows:

IAS 28 disclosures:

37 The following disclosures shall be made:

…

(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;

…

(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;

…

(i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.

IAS 31 disclosures:

55 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:

…

(b) its share of the capital commitments of the joint ventures themselves.

56 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities.

12. The staff's assessment of the disclosures set out in paragraph 11 of this paper is that they are not relevant to a user's understanding of the investor's interest in associates and jointly controlled entities when the investor is eligible and elects to account for its interest at fair value. The staff therefore believes that these requirements should be deleted from the scope paragraphs of IAS 32 and IFRS 7.

13. The staff has identified that the original source of the IAS 32 and IFRS 7 requirements to give the IAS 28 and IAS 31 disclosures is the pre-2003 version of IAS 39. This version of IAS 39 required the IAS 27, IAS 28 and IAS 31 disclosures to be given in consolidated financial statements for 'an interest in a subsidiary, associate, or joint venture that (a) is acquired and held exclusively with a view to its subsequent disposal in the near future; or (b) operates under severe long-term restrictions that significantly impair its ability to transfer funds to the enterprise'. The scope of IAS 32 was conformed to the scope of IAS 39 in the December 2003 revision and the scope of IFRS 7 was written to reflect the scope of IAS 32. An extract of the relevant paragraph from IAS 39 (revised 2000) is given as Appendix B to this paper.

Staff recommendation

14. IAS 32 and IFRS 7 should be amended as proposed in paragraph 16.

15. **Does the Board agree?**

Drafting

16. The staff recommend that IAS 32 and IFRS 7 should be amended as follows:

Proposed IAS 32 amendment:

Scope

4 This Standard shall be applied by all entities to all types of financial instruments except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However~~, in some cases,~~ IAS 27~~, IAS 28 or IAS 31~~ permits an entity in its separate financial statements to account for an interest in a subsidiary, associate or joint venture using IAS 39; in ~~those~~ that case~~s~~, entities shall apply the disclosure requirements in IAS 27~~, IAS 28 or IAS 31~~ in addition to those in this Standard. Entities shall also apply this Standard to all derivatives linked to interests in subsidiaries, associates or joint ventures.

Proposed IFRS 7 amendment:

Scope

3 This IFRS shall be applied by all entities to all types of financial instruments, except:

(a) those interests in subsidiaries, associates and joint ventures that are accounted for in accordance with IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates* or IAS 31 *Interests in Joint Ventures*. However~~, in some cases,~~ IAS 27~~, IAS 28 or IAS 31~~ permits an entity in its separate financial statements to account for an interest in a subsidiary, associate or joint venture using IAS 39; in ~~those~~ that case~~s~~, entities shall apply the disclosure requirements in IAS 27~~, IAS 28 or IAS 31~~ in addition to those in this IFRS. Entities shall also apply this IFRS to all derivatives linked to interests in subsidiaries, associates or joint ventures unless the derivative meets the definition of an equity instrument in IAS 32.

Basis for Conclusions on Proposed Amendments to IAS 32 *Financial Instruments: Presentation*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Scope

BC1 The Board has identified an apparent inconsistency in the disclosure requirements for those entities that are eligible and elect to account for investments in associates and jointly controlled entities at fair value in accordance with IAS 39. These entities are excluded from the scope of IAS 28 and IAS 31 and therefore are not required to give the disclosures that those standards would otherwise require. However, IAS 32 and IFRS 7 both require entities that account for investments in associates and jointly controlled entities in accordance with IAS 39 to give the disclosures required by IAS 28 and IAS 31 in addition to the disclosures required by IAS 32 and IFRS 7.

BC2 The Board has decided to address this inconsistency by removing the requirement to make the IAS 28 and IAS 31 disclosures from IAS 32 and IFRS 7.

Basis for Conclusions on Proposed Amendments to IFRS 7 *Financial Instruments: Disclosures*

This Basis for Conclusions accompanies, but is not part of, the draft amendment.

Scope

BC1 The Board has identified an apparent inconsistency in the disclosure requirements for those entities that are eligible and elect to account for investments in associates and jointly controlled entities at fair value in accordance with IAS 39. These entities are excluded from the scope of IAS 28 and IAS 31 and therefore are not required to give the disclosures that those standards would otherwise require. However, IAS 32 and IFRS 7 both require entities that account for investments in associates and jointly controlled entities in accordance with IAS 39 to give the disclosures required by IAS 28 and IAS 31 in addition to the disclosures required by IAS 32 and IFRS 7.

BC2 The Board has decided to address this inconsistency by removing the requirement to make the IAS 28 and IAS 31 disclosures from IAS 32 and IFRS 7.

Appendix A – Disclosure requirements of IAS 28 and IAS 31 and applicability assessment for associates accounted for at fair value

IAS 28 Disclosure requirements:

Disclosure

Disclosure Requirement	**Applicability assessment for associates accounted for at fair value**
37 The following disclosures shall be made:	
(a) the fair value of investments in associates for which there are published price quotations;	Not applicable. Investment measured at fair value. IFRS 7 paragraphs 25 – 30 require general fair value disclosures to be given.
(b) summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;	Relevance to be considered. See paragraph 11 of this paper.
(c) the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;	Not applicable. Fair value accounting applied on basis of nature of investor.
(d) the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;	Not applicable. Fair value accounting applied on basis of nature of investor.
(e) the reporting date of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a reporting date or for a period that is different from that of the investor, and the reason for using a different reporting date or different period;	Not applicable. Investment measured at fair value.
(f) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;	Relevance to be considered. See paragraph 11 of this paper.
(g) the unrecognised share of losses of an	Not applicable. Investment measured

associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;	at fair value.
(h) the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and	Not applicable. The scope exemption from equity accounting arises from the exemption in paragraph 1 of IAS 28 rather than the exemption in paragraph 13.
(i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.	Relevance to be considered – same disclosures as would be required by paragraph 37(b). See paragraph 11 of this paper.
38 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.	Not applicable. Investment measured at fair value.
39 The investor's share of changes recognised directly in the associate's equity shall be recognised directly in equity by the investor and shall be disclosed in the statement of changes in equity as required by IAS 1 *Presentation of Financial Statements*.	Not applicable. Investment measured at fair value.
40 In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the investor shall disclose:	
(a) its share of the contingent liabilities of an associate incurred jointly with other investors; and	Relevant disclosure, but duplicates disclosure IAS 37 paragraph 86 requires because the investor has the possible obligation.
(b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.	Relevant disclosure, but duplicates disclosure IAS 37 paragraph 86 requires because the investor has the possible obligation.

IAS 31 Disclosure requirements:

Disclosure

Disclosure Requirement	**Applicability assessment for jointly controlled entities accounted for at fair value**
54 A venturer shall disclose the aggregate amount of the following contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities:	
(a) any contingent liabilities that the venturer has incurred in relation to its interests in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other venturers;	Relevant disclosure, but duplicates disclosure IAS 37 paragraph 86 requires because the venturer has the possible obligation.
(b) its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable; and	Relevant disclosure, but duplicates disclosure IAS 37 paragraph 86 requires because the venturer has the possible obligation.
(c) those contingent liabilities that arise because the venturer is contingently liable for the liabilities of the other venturers of a joint venture.	Relevant disclosure, but duplicates disclosure IAS 37 paragraph 86 requires because the venturer has the possible obligation.
55 A venturer shall disclose the aggregate amount of the following commitments in respect of its interests in joint ventures separately from other commitments:	
(a) any capital commitments of the venturer in relation to its interests in joint ventures and its share in the capital commitments that have been incurred jointly with other venturers; and	Relevant disclosure, but duplicates disclosure IAS 1 paragraph 105 requires because the venturer has the commitment.
(b) its share of the capital commitments of the joint ventures themselves.	Relevance to be considered. See paragraph 11 of this paper.
56 A venturer shall disclose a listing and description of interests in significant joint ventures and the proportion of ownership interest held in jointly controlled entities.	Relevance to be considered. See paragraph 11 of this paper. However, IFRS 7 paragraph 7 requires disclosure of information that enables users to evaluate the significance of financial instruments for its financial position and performance.

A venturer that recognises its interests in jointly controlled entities using the line-by-line reporting format for proportionate consolidation or the equity method shall disclose the aggregate amounts of each of current assets, long-term assets, current liabilities, long-term liabilities, income and expenses related to its interests in joint ventures.	Not applicable – because venturer does not apply either proportionate consolidation or equity accounting.
57 A venturer shall disclose the method it uses to recognise its interests in jointly controlled entities.	Relevant disclosure, but duplicates disclosure IAS 1 paragraph 108 requires as this is a significant accounting policy.

Appendix B – Original source of the scope references to IAS 28 and IAS 31:

Extract from IAS 39: Financial Instruments: Recognition and Measurement (revised 2000)

1. This Standard should be applied by all enterprises to all financial instruments except:

> (a) those interests in subsidiaries, associates, and joint ventures that are accounted for under IAS 27 Consolidated Financial Statements and Accounting for Investments in Subsidiaries; IAS 28 Accounting for Investments in Associates; and IAS 31 Financial Reporting of Interests in Joint Ventures. However, an enterprise applies this Standard in its consolidated financial statements to account for an interest in a subsidiary, associate, or joint venture that (a) is acquired and held exclusively with a view to its subsequent disposal in the near future; or (b) operates under severe long-term restrictions that significantly impair its ability to transfer funds to the enterprise. In these cases, the disclosure requirements in IAS 27, IAS 28, and IAS 31 apply in addition to those in this Standard;
>
> …