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Project **Agenda decisions**

Topic **IAS 28 – Impairment of investments in associates**

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## Introduction

1. In May 2009, the IFRIC published a tentative agenda decision not to add to its agenda an issue to provide guidance on the impairment testing of investments in associates for the separate financial statements of the investor.
2. Two comment letters were received.

## Summary of comments from respondents

3. One comment letter disagreed with ‘the IFRIC’s decision not to take this item onto its agenda for the reasons set out in the tentative agenda decision.’ The commenter agrees with the decision to not take this item onto the IFRIC agenda; however, does not agree with the reasons. The commenter believes that investments in associates that are not measured in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* are clearly in the scope of IAS 36.
4. The other comment letter does not specify whether they agree or disagree with the wording of the tentative agenda decision. However, the commenter believes ‘that the text of paragraphs 2, 4 and 5 of IAS 36, particularly if read in conjunction with paragraphs 2(a) and (d) of IAS 39, make it clear that IAS 36 applies to the impairment of associates measured at cost in the separate financial statements.’

This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IFRIC.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IFRIC or the IASB. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

Decisions made by the IFRIC are reported in IFRIC *Update*.

Interpretations are published only after the IFRIC and the Board have each completed their full due process, including appropriate public consultation and formal voting procedures. The approval of an Interpretation by the Board is reported in IASB *Update*.

**Staff recommendation**

5. With respect to the two comment letters received, the staff proposes not to amend the agenda decision. Both comment letters note that they believe IAS 36 is the applicable guidance for impairment of associates measured at cost in the separate financial statements of the investor. This view was expressly deliberated by the IFRIC during the May 2009 meeting; however, the IFRIC was not able to reach a consensus due to diversity of views on the existing guidance in IFRSs. Therefore, the tentative agenda decision wording states that ‘it is not clear whether in its separate financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39 *Financial Instruments: Recognition and Measurement*.’ Additionally, the tentative agenda decision wording notes ‘The IFRIC decided that it could be best resolved by referring it to the IASB.’ This wording was reviewed and approved by the IFRIC prior to issuance of the May 2009 *IFRIC Update*.
6. At the June 2009 Board meeting, the staff presented the issue for deliberation (See agenda paper 13B of the June 2009 Board meeting). The Board decided to include this issue within the exposure draft of *Improvements to IFRSs* expected to be published in August 2009. The Board reiterated its view that for separate financial statements, the focus is on the performance of the assets as investments and therefore impairment of associates [measured both ‘at cost’ and ‘in accordance with IAS 39’] in the separate financial statements of the investor should follow IAS 39.
7. For the reasons noted above, the staff recommends that the IFRIC finalise the agenda decision as published. The staff has set out the wording in Appendix A.

**Question**

Does the IFRIC agree with the staff's recommendation and the wording of the final agenda decision?

## Appendix A – proposed wording for agenda decision

- A1. The staff proposes the following wording as published in *IFRIC Update* for the final agenda decision.

**IAS 28 *Investments in Associates* — Impairment of investments in associates**

The IFRIC received a request to consider whether guidance was needed on how impairment of investments in associates should be determined in the separate financial statements of the investor.

The IFRIC noted that IAS 36 *Impairment of Assets* provides clear guidance that its requirements apply to impairment losses of investments in associates when the associate is accounted for using the equity method. However, in its separate financial statements, the investor may account for its investment in an associate at cost. The IFRIC concluded that it is not clear whether in its separate financial statements the investor should determine impairment in accordance with IAS 36 or IAS 39 *Financial Instruments: Recognition and Measurement*.

In view of the existing guidance in IFRSs, the IFRIC concluded that significant diversity is likely to exist in practice on this issue. 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.