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International Accounting Standards Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting: **March 2009, London**

Project: **IAS 28 Associates – Potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting (Agenda Paper B)**

Introduction

1. In November 2008, the IFRIC published a tentative agenda decision not to add to its agenda two issues to provide guidance on the potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting. The IFRIC asked the staff to carry out additional research and analysis of two additional issues on this subject.

2. The four issues deliberated in the November 2008 IFRIC meeting correspond to the four issues on which the Emerging Issues Task Force reached consensus in EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. These four issues are as follows:

1. How the initial carrying value of an equity method investment should be determined
2. How an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed
3. How an equity method investee's issue of shares should be accounted for
4. How to account for a change in an investment from the equity method to the cost method.

3. The IFRIC noted that IAS 28 provides explicit guidance on issues 2 and 4. Therefore, the IFRIC did not expect divergence in practice and decided not to add these issues to its agenda. The IFRIC asked the staff to carry out additional research and analysis of issues 1 and 3 for consideration at a future IFRIC meeting.

4. No comment letters were received.

5. A broader review of the potential impact of IFRS 3 (as revised in 2008) is currently being performed by the staff and will be deliberated by the Board in the future. Issues 1 and 3 have been included in this review.

Staff recommendation

6. The staff recommends that the IFRIC finalise the agenda decision not to add issues 2 and 4 to its agenda as published.

7. Additionally, the staff recommends that the IFRIC tentatively decide not to add issues 1 and 3 to its agenda. The staff has set out the wording for both decisions in Appendix A.

Question for the IFRIC

8. Does the IFRIC agree with the staff recommendation and the wording of the final and tentative agenda decisions? If not, what does the IFRIC recommend?

APPENDIX A

The Staff proposes the following wording for the **final** agenda decision.

IAS 28 *Investments in Associates* — Potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting

The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) recently added to its agenda, EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. EITF 08-6 addresses several issues resulting from the recently concluded joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interests that culminated in the issuance of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and SFAS 141(R) and SFAS 160.

The IFRIC noted that IAS 28 *Investments in Associates* provides explicit guidance on two issues:

Issue 2 – How an impairment assessment of an underlying indefinite-lived intangible asset of an equity method investment should be performed

Issue 4 – How to account for a change in an investment from the equity method to the cost method.

Therefore, the IFRIC does not expect divergence in practice and decided not to add these issues to its agenda.

The Staff proposes the following wording for the **tentative** agenda decision.

IAS 28 *Investments in Associates* — Potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting

The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) recently added to its agenda, EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. EITF 08-6 addresses several issues resulting from the recently concluded joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interests that culminated in the issuance of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and SFAS 141(R) and SFAS 160.

The Board has asked the staff to perform a broad review of the potential impact of IFRS 3 (as revised in 2008). Two issues addressed by EITF 08-6 have been incorporated into this review:

Issue 1 – How the initial carrying value of an equity method investment should be determined

Issue 3 – How an equity method investee's issue of shares should be accounted for

Therefore the IFRIC [decided] not to add these issues to its agenda.