STAFF PAPER

October 2013

IASB Meeting

Project	Separate Financial Statements (Equity Method)		
Paper topic	Other decisions and summary of due process followed		
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Introduction and background

1. In May 2013, the IASB decided to propose an amendment to IAS 27 *Separate Financial Statements* that would allow an entity to measure its investment in a subsidiary, associate or joint venture using the equity method in its separate financial statements.

2. At that time, the staff indicated that there was a matter involving the accounting for joint operations in the separate financial statements of a joint operator and asked the IASB to review the requirements in IFRS 11 *Joint Arrangements*. This was in response to a request from a national standard-setter to review how such investments are reported in the separate financial statements of the joint operator when the joint operation is housed in a separate entity.

3. This matter was discussed in September 2013 and the IASB asked the staff to undertake additional consultations to assess the magnitude of accounting issues in the financial statements of the joint operator.

4. The IASB, however, decided to proceed, independently, with the exposure of the proposed amendment to IAS 27 that would allow an entity to measure its investment in a subsidiary, associate or joint venture using the equity method in its separate financial statements.

5. The purpose of this paper is to:

   (a) decide the transition requirements and the comment period for the Exposure Draft; and

(b) explain the steps in the due process taken by the IASB until now (see Appendix) and seek confirmation from the IASB of satisfactory compliance with the due process requirements so far.

Staff analysis and recommendations

Transition requirements

For initial application of the proposed amendment for entities already applying IFRSs

6. Information required for applying the equity method to an investment in subsidiary in the separate financial statements of an entity is the same information that is used for consolidation of the subsidiary in the consolidated financial statements of the entity. Investments in associates and joint ventures (after applying the transition provisions of IFRS 11 where needed) are accounted using the equity method in the consolidated financial statements, which means that entities need not perform any additional procedures and use the same information in the separate financial statements.

7. Hence. the staff believes that entities should be required to apply the proposed amendment to IAS 27 retrospectively in accordance with IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

For first-time adopters of IFRSs

8. Paragraph D15 in Appendix D of IFRS 1 *First-time Adoption of International Financial Reporting Standards* allows a first-time adopter to measure its investment in subsidiary, joint venture and associate at deemed cost if it chooses to measure those investments at cost in its separate financial statements in accordance with IAS 27.

9. Paragraph D31 in Appendix D of IFRS 1 allows a first-time adopter to apply the transition provisions of IFRS 11 at the date of transition to IFRS. IFRS 11 provides guidance on transition:

    (a) from proportionate consolidation to the equity method;

    (b) from the equity method to accounting for assets and liabilities; and

(c) in an entity's separate financial statements

The transition guidance in (b) and (c) relate to joint operations and hence are not relevant to the proposed amendment.

10. The staff doesn't see a reason to change the above exemptions.

11. The staff thinks that the same considerations discussed for initial application for entities already applying IFRSs apply to first time adopters as well. Consequently, the staff believes that first-time adopters should apply the proposed amendment to IAS 27 retrospectively in accordance with the general requirements of IFRS 1 and there is no need for providing a specific exemption.

Comment period

12. The staff will prepare a ballot draft for IASB's approval. The staff intends to publish an Exposure Draft in November 2013 with a 120-day comment period.

Confirmation of due process steps and compliance so far

13. The due process steps followed by the staff so far and the actions taken are documented in the Appendix. The due process steps applicable so far have been completed.

Questions for the IASB
1. Does the IASB agree with the proposed transition requirements?
2. Does the IASB agree to publish an Exposure Draft with a 120-day comment period?
3. Is the IASB satisfied that all due process steps applicable so far have been complied with?

Appendix

Due Process Steps for the Development and publication of an Exposure Draft (ED) for a Standard, Practice Guidance or Conceptual Framework chapter

A1. The following table sets out the action taken against each of the due process steps applicable so far to the proposed amendment to IAS 27.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	Members of the IASB have discussed with the DPOC the progress of the due process that is being conducted on major projects. The DPOC has reviewed, when appropriate, the comments that have been received from interested parties on the due process that the IASB followed.	This issue was discussed by the IASB at its meetings in May 2013 and September 2013. The IASB decided at its September 2013 meeting to expose the proposal. The project webpage contains full description and up-to-date information including the staff papers and links to the relevant sections of the IASB Update. The staff papers were posted in a timely fashion.
Consultation with the Trustees and the Advisory Council.	Required	Discussions with the Advisory Council.	The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The Advisory Council Chair is invited to Trustees' meetings and meetings of the DPOC.	In May 2012, IASB added, among other projects, this narrow scope project to its agenda pursuant to the 2011 Agenda Consultation. The proposals discussed in that meeting were presented to the Advisory Council in June 2012.
Consultative groups used, if formed.	Optional	Extent of consultative group meetings, and evidence of substantive involvement in issues. Consultative group review of the draft ED.	The DPOC has received from the IASB a report of the activity of the consultative group.	Not required as this is a narrow scope project

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Fieldwork is undertaken to analyse proposals.	Optional	The IASB has described publicly the approach taken on fieldwork. The IASB has explained to the DPOC why it does not believe fieldwork is warranted, if that is the preferred path. Extent of field tests taken.	If the IASB has deemed fieldwork to not be a requirement, the DPOC will have the opportunity to discuss and review the IASB's explanation for its decision. The DPOC has received a report of fieldwork activities and how findings have been taken into consideration by IASB.	Not required as this is a narrow scope project
Outreach meetings with a broad range of stakeholders, with special effort to consult investors.	Optional	Extent of meetings held. Evidence of specific targeted efforts to consult investors.	The DPOC has received a report of outreach activities. The DPOC and the IASB have reviewed the outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation.	Not required as this is a narrow scope project
Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.	Optional	Extent of, and participation in, webcasts.	The DPOC has received a report of outreach activities.	Not required as this is a narrow scope project
Public discussions with representative groups.	Optional	Extent of discussions held.	The DPOC has received a report of outreach activities.	Not required as this is a narrow scope project
Online survey to generate evidence in support of or against a particular approach.	Optional	Extent and results of surveys.	The DPOC has received a report of outreach activities.	Not required as this is a narrow scope project
The IASB hosts regional discussion forums, where possible, with national standard-setters.	Optional	Schedule of meetings held in these forums.	The DPOC has received a report of outreach activities.	Not required as this is a narrow scope project

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
Round-table meetings between external participants and members of the IASB.	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not required as this is a narrow scope project
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effect Analysis as part of the Basis for Conclusions.	The IASB has reviewed, with the DPOC, the results of the Effect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	Sine this is a narrow scope project, the staff believes that an effect analysis is not necessary. However, the staff analysed the effect of the proposed amendment on initial and ongoing costs, which is documented in the staff papers.