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STAFF PAPER

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Project	The Equity Method of Accounting
Paper topic	Project plan and methodology

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Introduction

1. The objective of this paper is to seek the IASB's agreement on how to proceed with the Equity Method of Accounting research project.

2. This paper is structured as follows:

   (a) summary of the staff's recommendations (paragraph 3);

   (b) progress on the project (paragraphs 4–9);

   (c) summary of the IFRS Interpretations Committee's ('the Interpretations Committee') activities (paragraphs 10–17);

   (d) staff's proposal (paragraphs 18–46); and

   (e) next steps (paragraphs 47–49).

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Summary of the staff's recommendation

3. It is recommended that:

   (a) the IASB should undertake a limited-scope research project that seeks to address application problems arising from the equity method requirements set out in IAS 28 *Investments in Associates and Joint Ventures*.

   (b) the methodology for the limited scope research project would assume that:

      (i) control is the appropriate basis for determining the reporting group;

      (ii) associate and joint venture entities are not part of the group and therefore their assets and liabilities should not be recognised separately in the financial statements; and

      (iii) the equity method seeks to account for the investment as the asset as a whole.

   (c) the limited-scope project includes the work currently being undertaken by the Interpretations Committee on developing a narrow-scope amendment to IAS 28, including deferring the application date of the amendment issued in September 2014 IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture.

   (d) the IASB assess separately the equity method of accounting as applied to subsidiaries in separate financial statements.

   (e) the IASB consider the need for a wider research project on the equity method of accounting after the Post-implementation Reviews of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities.*

Progress on the project

4. Since the Equity Method of Accounting project was added to the research programme, the staff have consulted the IASB's advisory bodies. A summary of the feedback received is set out in Appendix A of this paper.

5. The summary set out in Appendix A identifies that there are a number of application difficulties with the equity method of accounting; specifically, the Global Preparers Forum (GPF) noted a number of concerns regarding the application of the equity method of accounting as a one-line consolidation method.

6. The discussions with the Accounting Standards Advisory Forum (ASAF) identified that there is no a general agreement as to whether the equity method of accounting is a one-line consolidation method or a measurement method.

7. The IASB may recall there have been repeated requests to take a more fundamental look at the equity method of accounting because of a high level of submissions to the Interpretations Committee.

8. The 2011 Agenda Consultation identified a strong call for the IASB to examine the equity method. In its Feedback Statement to the 2011 Agenda Consultation the IASB noted:

> The equity method of accounting for some investments is often criticised. Some question whether it provides helpful information to users, while others note the complexities and inconsistencies it creates when it interacts with other requirements in IFRS—such as goodwill impairment, share based payments and joint arrangements. The research project will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers.

9. Following this feedback, the staff have spent some time reflecting on this feedback and considering how we might proceed with the Equity Method of Accounting project to address the issues identified.

Summary of the Interpretations Committee's activities

10. In addition to the work being undertaken as part of the research programme, the Interpretations Committee has considered a number of issues in relation to the equity method of accounting, some of which have been referred to the IASB. In Appendix B of this paper we have summarised recent discussions of the Interpretations Committee.

11. Following advice from the Interpretations Committee the IASB is currently balloting a draft Exposure Draft ('the ED') *Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture (Proposed amendments to IFRS 10 and IAS 28).* The objective of the ED is to clarify:

    (a) the accounting for a 'downstream' transaction between an entity and its associate or joint venture, when the gain from the transaction exceeds the carrying amount of the entity's interest in the associate or joint venture;

    (b) how an entity accounts for a contribution to its associate or joint venture when the entity receives assets in addition to receiving an equity interest; and

    (c) that the partial elimination of a gain arising from a transaction with an associate or a joint venture that results in the loss of control of a subsidiary, that does not include a business, is excluded from the calculation of goodwill/negative goodwill on commencement of equity method of accounting.

12. These potential amendments all address the application of the equity method of accounting. There is a concern that progressing the ED while simultaneously reviewing the equity method accounting could result in two changes to IAS 28 in a relatively short period of time. Such a sequence of two successive changes could arise if the proposals set out in the ED turn out not to be consistent with the findings from the Equity Method of Accounting project.

13. The staff think it is sensible to consider whether the clarifications could be addressed as part of the Equity Method of Accounting project—rather than as a

separate implementation project. This would respond to concerns that constituents have raised regarding continual changes to Standards.

14. In relation to paragraph 11(c), this clarification is related to the amendment: IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture issued in September 2014 ('the September 2014 amendment'). The main consequence of the September 2014 amendment is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

15. Subsequent to the issuance of the September 2014 amendment, the IASB has received feedback that the recognition of a partial gain or loss when a transactions involves assets that do not constitute a business, even if these assets are housed in a subsidiary is inconsistent with a requirement in IAS 28. This is because paragraph 32 of IAS 28 prescribes how to account for the difference between the costs of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities (ie calculation of goodwill/negative goodwill) on commencement of the equity method. The result of the September 2014 amendment is that the cost of the investment (in certain circumstances) is not at fair value, because only a partial gain or loss has been recognised. IAS 28, by requiring the cost (less the partial gain) to be compared with the fair value of the identifiable assets and liabilities, can result in a gain or loss being recognised that includes the amount of partial gain that has been deferred. The amendment proposed in paragraph 11(c) above seeks to address this inconsistency.

16. If it were agreed not to proceed with the ED, then the IASB must decide what to do about the inconsistency. The staff note that the September 2014 amendment is not yet effective. The staff therefore note that the IASB could defer the application date of the September 2014 amendment to prevent the requirements of IAS 28 from potentially being changed twice in a short period of time.

17. Consequently, the staff recommend that the current proposal to amend IAS 28 and IFRS 10 should not be progressed and that the effective date of the September 2014 amendment should be deferred.

Staff's proposal

18. In view of the feedback from the advisory bodies and the work being undertaken by the Interpretations Committee, the staff have been considering whether to divide the Equity Method of Accounting project into two phases. In March 2015 we discussed a proposal with ASAF members to divide the project as follows:

    (i) a short-term project that has the objective of addressing application issues by simplifying the current requirements in IAS 28 *Investment in Associates and Joint Ventures*.

    (ii) following completion of the short-term project, a longer-term project that has the objective of reconsidering more fundamentally the financial reporting of investments in entities that do not give the investor control of the entity (including interests in joint ventures and associate entities).

19. ASAF had mixed views on that proposal—the views expressed are summarised in Appendix A. The staff have carefully considered the feedback from the ASAF in considering how to proceed with the Equity Method of Accounting project.

20. On balance, although we recognise the concerns that were expressed, it is also important that the IASB addresses the issues being referred to the Interpretations Committee and the application issues highlighted by the Global Preparers Forum.

21. It is proposed that a carefully managed limited-scope research project is undertaken that seeks to address the application problems arising from the equity method requirements set out in IAS 28. A limited-scope research project, which considers the methodology of the equity method as set out in IAS 28, should address the application issues highlighted and reduce the need for continued narrow-scope amendments to IAS 28.

What would a limited-scope research project on application of the equity method of accounting consider?

22. Current Standards permit the application of the equity method accounting in the following circumstances:
    (a) in consolidated financial statements for:
        (i) associate entities; and
        (ii) joint venture entities.
    (b) in separate financial statements for:
        (i) associate entities;
        (ii) joint venture entities; and
        (iii) subsidiaries.
23. The equity method of accounting is not permitted for joint operations.
24. It is proposed that that limited-scope research project should address the application of the equity method of accounting to associate and joint venture entities in both consolidated and separate financial statements. The equity method of accounting for subsidiaries in separate financial statements will be addressed following the work on the equity method for associate and joint venture entities.
25. The limited-scope project would focus on application of the equity method as set out in IAS 28. As noted, the aim would be to address application issues that have either been considered by the Interpretations Committee or that have been highlighted by the Global Preparers Forum, such as:
    (a) the requirement on acquisition to account for the difference between the costs of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities (ie the implicit goodwill/negative goodwill);
    (b) the accounting for changes in ownership;
    (c) the need for elimination entries;
    (d) the need to use uniform accounting policies for like transactions events in similar circumstances as required by paragraph 35 of IAS 28;
    (e) the accounting where the equity accounted for investment has a non-coterminous reporting period with the reporting entity; and

(f) how the impairment test should be applied to equity-accounted-for investments.

26. The challenge will be to carefully manage the scope of the project so that it remains focused on application issues that have arisen from the equity method requirements set out in IAS 28. The scope of the project should not expand into consideration of the merits of the equity method or when it should be applied. The project would:

(a) implicitly acknowledge that the conceptual merits of the equity method are not being reassessed; and

(b) not address the definition of an associate entity and therefore the definition of significant influence. Although the meaning of significant influence has been highlighted as a concern, the staff do not consider that they could address this concern in a limited-scope project.

27. To assist in the challenge of managing the scope of the project, we have considered the methodology to be applied to such a limited-scope research project.

Methodology of a limited-scope research project addressing application of the equity method of accounting requirements in IAS 28

28. When the IASB considered the scope of the Equity Method of Accounting project at its meeting in May 2014, it briefly reviewed the history of the equity method and analysed the reasons for using it. This analysis is supported by the feedback from the IASB advisory bodies that the objective of the equity method of accounting in current IFRS, when applied to investments in joint ventures and associate entities, is not clear.

29. The lack of clarity as to the objective of the equity method of accounting was discussed by the European Financial Reporting Group (EFRAG) in its Discussion Paper published in January 2014 *The Equity Method: A Measurement Basis or One-line Consolidation?*[1] This Discussion Paper noted that because joint venture and associate entities are not controlled by an investor, they are not, in accordance

[1] EFRAG—*The Equity Method: A Measurement Basis or One-line Consolidation?*

with IFRS, part of the group. Consequently, the equity method cannot conceptually be a one-line consolidation method.

30. This point was also reiterated by some ASAF members when the ASAF discussed the equity method of accounting in December 2014. These members noted that if the definition of assets and liabilities relies on the notion of control, it follows that joint ventures and associates cannot be part of the group, because the entities are not controlled by the investor.

31. In September 2014 the Korea Accounting Standards Board (KASB) published a research report *The Equity Method*[2]. This research paper also considered the conflict as to whether the equity method of accounting is a one-line consolidation method or a measurement method. It proposed a new dimension—the scope of the equity-accounted group, which set out alternative equity methods of accounting that are more internally consistent. The KASB evaluated the equity method of accounting by considering whether:

    (a) the equity-accounted investment is part of the group;

    (b) the equity-accounted group includes the investor's share of the equity-accounted investment; or

    (c) the scope of the equity-accounted group is confined only to an investor and its subsidiaries—equity-accounted investments are not part of the group.

32. The assumption that the equity-accounted-for investment is part of the group, or that the equity-accounted-for group includes the investor's share of the equity-accounted-for investment (that is, options (a) and (b) in paragraph 31), as set out in the KASB's proposals, are not consistent with current IFRS. The definition of a group is set out in IFRS 10, which contains the following definitions:

    (a) consolidated financial statements—the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity;

    (b) group—a parent and its subsidiaries;

[2] KASB—*The Equity Method.*

(c) parent—an entity that controls one or more entities; and

(d) subsidiary—an entity that is controlled by another entity.

33. If the IASB were to undertake a project using the first two of the KASB's proposals, we would be required to change the definitions included in IFRS 10. We think that amending the definition of the group in IFRS 10 would have far-reaching consequences that are outside the scope of a limited-scope research project

34. It is therefore proposed that the limited scope research project should operate within the current IFRS requirements; ie that associate and joint venture entities are not part of the group.

35. We also need to identify the resource that financial statements are reporting on if we are to address application of the equity method. In its recent Exposure Draft (ED/2014/4) *Measuring Quoted Investments in Subsidiaries Joint Ventures and Associates at Fair Value*, the IASB concluded that the unit of account is the investment as a whole.

36. It is therefore proposed that the IASB should seek to address application issues that have arisen from the equity method of accounting by using the following assumptions:

(a) associate and joint venture entities are not part of the group and therefore their assets and liabilities are not separately accounted for; and

(b) the equity method seeks to account for the investment as a single asset, not the underlying individual financial instruments.

37. In Appendix C of this paper we have set out a summary of recent matters considered by the Interpretations Committee and those raised by the KASB in its research report. We have included in the summary how we think the limited-scope research project might address these matters.

The equity method for subsidiaries

38. In relation to the equity method when applied to subsidiaries, the KASB research report provides some very useful insights; in particular Chapter 4 on the experience of the equity method under Korean GAAP.

39. In its report the KASB notes that:

> In 1998 K-GAAP was amended to establish the equity method as one of the accounting treatments for "investment security". The purpose of the amendment was to bring the effect of consolidation into the stand-alone financial statements. As a result, in addition to the existing requirement, the equity method was required (1) for both associates and subsidiaries and (2) in the stand-alone financial statements.

40. The KASB research report notes that diverse issues arose in practice that could not be resolved by previous principles applied to the equity method when applied in consolidated financial statements.

41. In 2004 Korean GAAP introduced equity method accounting for subsidiaries. This introduced an equity method exclusively for subsidiaries, which was different from the equity method for associates. The equity method accounting for subsidiaries in Korean GAAP aligns net profit or loss and net asset of parent's stand-alone financial statements with the parent's share of the net profit or loss and net assets in the consolidated financial statements, with an exception if the losses of investees exceed their carrying value.

42. The KASB has introduced distinct rules to make the effect of the equity method for subsidiaries the same as when it is applied to consolidation. As a consequence, there is a difference between the equity method for subsidiaries and the equity method for joint venture and associates entities. Paragraph 189 of the research report outlines the differences, as follows:

    (a) elimination of unrealised profits/losses in downstream transactions;

    (b) acquisition and disposal of subsidiary's shares, that do not affect the status between the investor and the subsidiary;

    (c) changes in a subsidiary's equity due to the issuance of new shares and other equity transactions without a change of control;

    (d) the investor's recognition of the impairment of the account balances incurred from the transactions between the investor and subsidiaries; and

(e) the accounting for obtaining control through the acquisition of additional shares.

43. In current IFRS for separate financial statements, we think that the application of the equity method of accounting for investments in subsidiaries is used as a pseudo-consolidation (or a one-line consolidation). The KASB's research report also implies that in separate financial statements, the equity method of accounting has a pseudo-consolidation role for subsidiaries.

44. It is proposed that a separate assessment should be performed on the equity method applied to subsidiaries in separate financial statements.

Long-term research project

45. Following the feedback, it is proposed that the IASB should consider the need for a wider research project after the Post-implementation Reviews of IFRS 10, IFRS 11 and IFRS 12.

46. Deferring research on the wider financial reporting issues will allow the IASB to build on the findings from the Post-implementation Reviews of IFRS 10, IFRS 11 and IFRS 12 rather than undertake separate research.

Questions for the IASB on the approach

Do IASB members agree:

(a) to undertake a limited-scope research project that seeks to address application problems arising from the equity method requirements set out in IAS 28;

(b) that the methodology for the limited scope research project should assume that:

(i) control is the appropriate basis for determining the reporting group;

(ii) associate and joint venture entities are not part of the group and therefore their assets and liabilities should not be recognised separately in the financial statements; and

(iii) the equity method seeks to account for the investment as the asset as a whole.

(c) the limited-scope project should include the work currently being undertaken by the Interpretations Committee on developing a narrow-scope amendments to IAS 28, including considering whether

to defer the application date of the September 2014 amendments;

(d) to assess separately the equity method of accounting as applied to subsidiaries in separate financial statements; and

(e) to consider the need for a wider research project on the equity method of accounting after the Post-implementation Reviews of IFRS 10 IFRS 11 and IFRS 12?

Next steps

47. If the IASB agrees to the proposal, the IASB staff will develop the methodology based on the proposed assumptions and will conduct further outreach.

48. We would aim to present a more detailed methodology to the IASB in the third quarter of 2015; setting out specific proposals and consequences.

49. Depending on the development of the methodology, we would then aim to issue a short Discussion Paper on the equity method of accounting in the first half of 2016.

Appendix A
Background—Equity Method of Accounting project

A1. At the **Capital Market Advisory Committee** (CMAC) meeting in February 2014, some members provided input on the project. CMAC members did not particularly support fair value as an alternative to the equity method of accounting. CMAC members noted that the equity method of accounting is currently well understood and changes should be carefully evaluated.

A2. The views of the **Accounting Standards Advisory Forum** (ASAF) on the scope of the Equity Method of Accounting project were sought at its meeting in June 2014. Overall, ASAF members supported the scope of the project as proposed by the IASB and recommended a high level of stakeholder engagement. However, some ASAF members suggested that it might be useful to consider the project in two stages:

(a) a short-term simplification project; and

(b) a long-term conceptual review of the application of the equity method.

A3. It was agreed that this approach would require careful balance, because it may be difficult to address the simplifications if the concepts are not clear.

A4. The views of preparers were sought at the **Global Preparers Forum** (GPF) meeting in November 2014. GPF members provided the following input:

(a) application of the equity method of accounting as a one-line consolidation method is difficult, because of the need to obtain information to determine elimination entries.

(b) when there is joint control or significant influence, the ability to generate profits that are not at arm's length is limited, because prices have to be agreed with the joint venture partner or other investors in the associate entity.

(c) a concern as to whether the equity method of accounting is appropriate for all associated entities, as defined by IAS 28 *Investments in Associates and Joint Ventures*. Some GPF members noted a concern that although an entity holds more than 20 per cent of the voting power

in the investee, it cannot access the information required to apply the equity method of accounting.

(d) a preference for the use of the equity method of accounting in comparison to cost or fair value.

A5. In December 2014 the ASAF considered a research report by the Korea Accounting Standards Board (KASB) and the results of a survey that the Accounting Standards Board of Japan (ASBJ) had undertaken, both addressing the equity method of accounting. These papers initiated a wide-ranging discussion.

A6. In March 2015 the ASAF considered a staff proposal to undertake the project in two phases. The views of ASAF members were mixed. ASAF members who did not support the two-step approach noted:

(a) a short-term project focusing on the simplification of the equity method could resolve the application issues that exist in practice and thus there would be no need for the longer-term project.

(b) there is a risk that the outcome from the short-term project might later conflict with a conceptual underpinning, if one were to be decided on, in the long-term project. However, with the exception of the clarification of the term ‘significant influence’, all issues can be dealt with in the short-term project.

(c) simplification of the equity method of accounting is not a good objective in itself, because application issues may not be easily resolved without a longer-term conceptual fundamental rethink.

(d) the first question should be: what is the usefulness of information produced by the equity method of accounting to users of financial statements? This question should be considered before splitting the project into two.

A7. Alternatively, ASAF members who did support the two-step approach noted:

(a) there are numerous issues in applying the equity method of accounting, which need to be addressed urgently.

(b) because of the difficulties that preparers highlight in obtaining information to apply the equity method of accounting, those ASAF members supported the simplification of the method.

(c) the long-term project might last a very long period of time and because of the pressing problems a two-step approach is necessary.

(d) in the previous Agenda Consultation, practical issues were raised instead of calls for a fundamental revision of the equity method.

A8. ASAF members agreed with the proposal that the equity method of accounting for subsidiaries in separate financial statement should be reviewed separately. It was noted that the objectives for the equity method of accounting are different when applied to subsidiaries in separate financial statements than those with associates and joint venture entities.

	Date	Description	Outcome
1	Dec-08	Consideration of potential effect of IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements* on equity method accounting: Determination of initial carrying amount of an equity and equity accounting procedure	Rejection Jul 2009
2	Nov-09	Two different measurement bases can be used in the consolidated financial statements in the situation of venture capital consolidations and partial use of fair value through profit or loss for the associate?	Referred to IASB Sep 2011
3	Mar-09	Whether an entity should apply IAS 36 or IAS 39 to test impairment in separate financial statements	Rejection Jan 2013
4	Jun-10	How to account for changes from AFS to equity method for an associate acquired in stages	Referred to IASB Sep 2011
5	Jun-10	Does the scope exception and partial use of fair value depend on significant influence at group or venture capital entity level?	IAS 28 (R) issued May 2011
6	Dec-10	Accounting for changes in the associate's net assets that do not relate to P&L or OCI	Termination of the project
7	Oct-11	Does a business qualify as a non-monetary asset under SIC 13 and IAS 28?	IAS 28 amended Sept 2014
8	Oct-12	Is it appropriate to apply the scope exemption for BCUCC by analogy to the acquisition of an interest in an associate of JV?	Rejection May 2013

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	Date	Description	Outcome
9	Jan-13	Elimination of intercompany profits between an investor and its JV when the elimination exceeds the carrying amount of the JV	Balloting a narrow-scope amendment Exposure Draft
10	Oct-13	Inconsistency between par. 31 and ED *Sale or Contribution of Assets between an Investor and its Associate or JV*	IAS 28 amendment Sep 2014
11	Jul-13	Requests to clarify: a non-investment entity's application of the equity method for investment entity investees.	IAS 28 amended Dec 2014
12	Apr-14	What factors might indicate a fund manager has significant influence over a fund which it manages and has a direct holding in?	On hold pending developments in the equity method research project
13	May-14	Request for solving controversy of accounting for the share of the hedging reserve of an associate	Rejection May 2014
14	Aug-14	Whether investment-linked insurance funds can still be measured (through designation) in profit or loss in accordance with IAS 39 after change in the scope in IAS 28R	Balloting for an Annual Improvements ED
15	Feb-15	How broad is the application of the terms 'involving' as equity-accounted investment ie is it the creation of such an investment, or transactions with such an investment?	Balloting for a narrow-scope amendment Exposure Draft

Application issue	Description	IASB staff proposal for simplification of the equity method
Separate financial statements: use of the equity method *Amendment issued August 2014.*	This narrow-scope project restored the option to use the equity method of accounting in a parent entity's separate financial statements for its subsidiaries.	The IASB staff's proposal is to consider the application of the equity method of accounting in two areas: (a) methodology for joint venture and associate entities in consolidated and separate financial statements; and (b) methodology for subsidiaries in separate financial statements. This amendment did not address a problem in IFRS. It was designed to make the equity method available in separate financial statements for subsidiary investments.
IFRS 10 and IAS 28 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture *Amendment issued September 2014.*	The amendments address an acknowledged inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and those in IAS 28 *Investments in Associates and Joint Ventures* (2011), in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary.	Applying the staff's assumption that equity-accounted-for investments are outside the control of the group, transactions between the investors and the equity-accounted-for investment would not be eliminated. The consequence of this would be that, in accordance with the IASB staff's proposal, the full gain or loss would be recognised. The IASB staff's proposal would also consider the disclosures for related party transactions.

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Application issue	Description	IASB staff proposal for simplification of the equity method
Transactions between an entity and its associate or joint venture (Proposed amendments to IFRS 10 and IAS 28) *Exposure Draft in pre-ballot.*	The objective of this project is to clarify: (a) the accounting for a 'downstream' transaction between an entity and its associate or joint venture when the gain from the transaction exceeds the carrying amount of the entity's interest in the associate or joint venture; (b) how an entity accounts for a contribution to its associate or joint venture when the entity receives assets in addition to receiving an equity interest; and (c) whether the cost of an associate or joint venture should be before or after the eliminated gains for the purposes of calculating any difference between the cost and the investor's share of net assets on acquisition.	See above; gain would not be eliminated. The carrying amount of the investment would be cost plus or minus changes in the net assets.

Application issue	Description	IASB staff proposal for simplification of the equity method
Equity method: share of other net assets changes *Proposals not finalised*	The objective of the proposed amendments was to provide additional guidance to IAS 28 on the application of the equity method: it is a method of accounting whereby the investment is initially recognised at cost and subsequently adjusted to reflect the change in the investor's share of the investee's net assets. The Exposure Draft did not proceed to a Standard.	The second assumption applied by the IASB staff is that the equity method accounts for the investment as a single asset. Changes recognised in equity of the investee may give rise to a change in the percentage ownership of the associate entity. Where the investor retains significant influence, the difference between the cost of the investment and the change in the equity is a fair value gain or loss on the holding of the investment. It should be recognised in income.
Associates and common control *Interpretations Committee Agenda decision*	The issue considered was whether it is appropriate to apply the scope exemption for business combinations under common control, by analogy to the acquisition of an interest in an associate or joint venture under common control. The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting.	This would not be addressed in the Equity Method of Accounting project because it would be a common-control transaction instead of a business combination (even by analogy).

Application issue	Description	IASB staff proposal for simplification of the equity method
IAS 28: Assessment of significant influence: fund manager acting as agent and holding own investment in the fund *Interpretations Committee issue on hold, pending developments in the IASB's equity accounting research project.*	The Interpretations Committee received a request to clarify what factors may indicate that a fund manager has significant influence over a fund that it manages and has a direct holding in. The submitter described a particular situation in which an assessment of control under IFRS 10 resulted in the conclusion that the fund manager does not control the fund that it manages and in which it has a direct holding, because it is acting as an agent in accordance with paragraphs B58–B72 of IFRS 10.	This would not be addressed in a limited-scope research project. Any discussion about a more principled approach to assessing significant influence would be part of a longer-term project.
IAS 28: When associates issue preference shares *(KASB research report)*	The current simple requirements with regard to preference shares, which have a variety of entitlements to net profit distribution, have led to diverse accounting treatments in practice.	We anticipate that clarifying that the equity method focuses on the investor's net interest in the entity will help address this problem.

Application issue	Description	IASB staff proposal for simplification of the equity method
IAS 28: Impairment of associates and reversal of impairment *(KASB research report)*	IAS 28 requires an investor to follow IAS *39 Financial Instruments: Recognition and Measurement* in identifying indicators of impairment. Whenever application of the requirements of IAS 39 indicates that the interest in as an associate or joint venture may be impaired, the entire carrying amount of the investment is tested as a single asset under IAS 36 *Impairment of Assets*.	We plan to review the impairment requirements.
IAS 28: Allocation of impairment loss *(KASB research report)*	Under IAS 28, the investor's share of the associate's other comprehensive income is not reversed when it recognises the impairment loss of the associate. Then, even if the investor recognises the impairment loss up to the total book value of the associate, its share of accumulated other comprehensive income is still presented in the investor's statement of financial position.	We plan to review the impairment requirements.
IAS 28: Reciprocal interest *(KASB research report)*	The reciprocal holdings may give rise to a measure of double-counting of profits or losses and the equity between the investor and its associate.	We anticipate that clarifying that the equity method focuses on the investor's net interest in the entity will help address this problem.