

## STAFF PAPER

April 2022

IASB<sup>®</sup> meeting

Project	Equity Method	
Paper topic	Cover paper	
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and reported in IASB<sup>®</sup> Update.

## Introduction

1. The International Accounting Standards Board (IASB) last discussed the Equity Method project in October 2021, when the IASB decided the staff should undertake research before considering the application questions in the scope of the project.<sup>1</sup>

## Purpose of this meeting

2. The purpose of this meeting is to:
  - (a) discuss the staff analysis on purchases of an additional interest in an associate without a change in significant influence; and
  - (b) present a summary of the research findings on changes made to IFRS Accounting Standards arising from the Conceptual Framework, Business Combinations and Joint Arrangements project.
3. Agenda papers for discussion at this meeting are the following:
  - (a) Agenda Paper 13A: *Purchases of an additional ownership interest in an associate without a change in significant influence*; and

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<sup>1</sup> See [AP13 of the October 2021 IASB Meeting](#) and the [IASB Update October 2021](#).

- (b) Agenda Paper 13B: *Research findings*.

## Structure of this paper

4. This paper sets out:
- (a) project background;
  - (b) next steps; and
  - (c) Appendix—principles identified as underlying IAS 28.

## Project background

5. At its October 2020 meeting, the IASB discussed and decided on the objective and approach of the Equity Method project and moved the project from the research pipeline to its research programme. The Board decided that the objective of the Equity Method project is:

To assess whether application questions with the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.<sup>2</sup>

6. The IASB decided that to achieve the objective, it would apply the following approach:
- (a) identify application questions and decide which of these questions to address.
  - (b) address the application questions by identifying and explaining the principles in IAS 28 *Investments in Associates and Joint Ventures*. This would allow the IASB to develop new requirements (or application guidance), which will amend the Standard.
7. At its March 2021 meeting, the IASB received an update on the process for selecting application questions for consideration in the project.<sup>3</sup>

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<sup>2</sup> See [AP13 of the October 2020 IASB Meeting](#) and the [IASB Update October 2020](#).

<sup>3</sup> See [AP13 of the March 2021 IASB Meeting](#) and the [IASB Update March 2021](#).

8. At its June 2021 meeting, the IASB discussed the principles identified as underlying IAS 28. The objective of identifying the principles is to provide the IASB with a toolbox that can help the IASB to address the selected application questions. The appendix to this paper sets out these principles.<sup>4</sup>
  
9. At its October 2021 meeting, the IASB:
  - (a) received an update on application questions within the scope of the project. The application questions were identified applying the process that the IASB discussed at its March 2021 meeting.
  - (b) decided the staff should undertake research before considering the application questions within the scope of the project.<sup>5</sup> Agenda Paper 13B of this meeting sets out these research findings.
  
10. In the final quarter of 2021, the staff engaged with Accounting Standards Advisory Forum (ASAF) members and Global Preparers Forum (GPF) members to seek their views on the application questions identified within the scope of the project. Feedback from these members reaffirmed some of the application questions identified within the scope of the project.
  
11. In undertaking the research the staff have identified the changes made to IFRS Accounting Standards arising from the Conceptual Framework, Business Combinations and Joint Arrangements project. The staff will assess the implications of these changes when addressing each application question.

## **Next steps**

12. At future IASB meetings, the staff plans to:
  - (a) present the staff analysis on other application questions identified within the scope of the project.
  - (b) highlight to the IASB other application questions that, based on the selection process, would not be addressed in the project. The IASB will be asked to consider whether these questions warrant extending the scope of the project.

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<sup>4</sup> See [AP13 of the June 2021 IASB Meeting](#) and the [IASB Update June 2021](#).

<sup>5</sup> See [AP13 of the October 2021 IASB Meeting](#) and the [IASB Update October 2021](#).

## Appendix—Principles identified as underlying IAS 28

Principles Identified		Paragraph
<b>Classification</b>		
A	Power to participate is an investor's shared power to affect changes in, and to access net assets.	IAS 28.3 <i>Definition</i> IAS 28.5-9 IAS 28.12-14
<b>Boundary of the reporting entity</b>		
B	Application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in an investor's statement of financial position.	IAS 28.3 <i>Definition</i> IAS 28.10-11 IAS 28.35
C	An investor's share of an associate's or joint venture's net assets is part of the reporting entity.	IAS 28.28
<b>Measurement on initial recognition</b>		
D	Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets.	IAS 28.30-31B IAS 28.32 IFRS 3 BC25/198
<b>Subsequent measurement</b>		
E	An investor recognises changes in an associate's or joint venture's net assets. An investor recognises the share of changes in net assets that it can currently access.	IAS 28.3 <i>Definition</i> IAS 28.10-13 IAS 28.26 IAS 28.28 IAS 28.30-31B IAS 28.33-36 (includes 35) IAS 28.37
F	An investor's maximum exposure is the gross interest in an associate or joint venture.	IAS 28.14A/29/38-43
G	When an investor has a decrease in its ownership interest in an associate or joint venture and continues to apply the equity method, it reclassifies amounts previously recognised in other comprehensive income.	IAS 28.24-25
<b>Derecognition</b>		
H	An investor: <ul style="list-style-type: none"> <li>(a) applies IFRS 3 and IFRS 10 if it obtains control of an associate or joint venture;</li> <li>(b) applies IFRS 9 if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and</li> <li>(c) recognises a gain or loss and reclassifies amounts recognised in other comprehensive income on the date that significant influence or joint control is lost.</li> </ul>	IAS 28.22-23 IFRS 3.41-42

Principles Identified	Paragraph
<b>Unallocated (not being addressed in the project)</b>	
Presentation	IAS 28.15/20–21
Exceptions to the application of the equity method	IAS 28.16–19 IAS 28.27 IAS 28.36A