IFRS Accounting

STAFF PAPER

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Project	**Primary Financial Statements**	
Paper topic	Investments in subsidiaries, associates and joint ventures	
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Objective of this paper

1. This paper sets out the staff analysis and recommendations for aspects of the proposals relating to investments in subsidiaries, associates and joint ventures in the Exposure Draft *General Presentation and Disclosures*. This paper discusses:

    (a) the feedback on, and clarifications required, for classification of income and expenses from investments in subsidiaries, associates and joint ventures in separate financial statements;

    (b) clarification of the classification of income and expenses from investments in subsidiaries accounted for at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* in consolidated financial statements as a consequence of the clarifications related to separate financial statements; and

    (c) whether the IASB should provide guidance on assessing whether investments in subsidiaries, associates and joint ventures are investments as a main business activity.

2. This paper should be read in conjunction with Agenda Paper 21E *Specified subtotals* which discusses the staff recommendation to add a subtotal of 'operating profit or loss and income and expenses from investments accounted for using the equity method' to the list of specified subtotals in paragraph 104 of the Exposure Draft.

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Summary of staff recommendations

3. The staff recommend the International Accounting Standards Board (IASB):

   (a) clarify that income and expenses from associates and joint ventures not accounted for using the equity method includes income and expenses from associates and joint ventures accounted for:

      (i) at cost and in accordance with IFRS 9 applying IAS 27 *Separate Financial Statements*; and

      (ii) at fair value through profit or loss in accordance with IFRS 9 applying IAS 28 *Investments in Associates and Joint Ventures*;

   (b) require income and expenses from investments in subsidiaries not accounted for using the equity method to be classified in the investing category unless investing in subsidiaries is a main business activity; and

   (c) clarify that income and expenses from subsidiaries not accounted for using the equity method includes income and expenses from all subsidiaries that are accounted for:

      (i) at fair value through profit or loss in accordance with IFRS 9 applying IFRS 10 *Consolidated Financial Statements*; and

      (ii) at cost and in accordance with IFRS 9 applying IAS 27;

   (d) require that an entity classifies income and expenses from subsidiaries accounted for using the equity method in the investing category in its separate financial statements; and

   (e) clarify that the way an entity groups subsidiaries, associates and joint ventures for the purposes of assessing whether investing in subsidiaries, associates and joint ventures is a main business activity should be consistent with the way it groups investments into categories for determining the measurement basis (paragraph 10 of IAS 27).

Structure of the paper

4. This paper is structured as follows:

(a) background (paragraphs 5–20):

(i) proposals in the Exposure Draft (paragraph 5–6);

(ii) feedback on the proposals in the Exposure Draft (paragraphs 7–10);

(iii) summary of related tentative IASB decisions from its redeliberations to date (paragraphs 11–15);

(iv) overview of requirements and current practice related to separate financial statements (paragraphs 16–20);

(b) staff analysis, staff recommendations and questions for the IASB (paragraphs 21–44):

(i) whether the IASB should provide guidance for separate and consolidated financial statements on classification of income and expenses from investments in subsidiaries, associates and joint ventures:

1. not accounted for using the equity method (paragraphs 22–28);

2. accounted for using the equity method (paragraphs 29–30); and

(ii) whether the IASB should provide guidance for assessing whether investments in subsidiaries, associates and joint ventures are investments as a main business activity (paragraphs 31–44).

(c) Appendix A—Extracts from the Exposure Draft.

(d) Appendix B—Extracts from IFRS Accounting Standards.

Background

Proposals in the Exposure Draft

5. The Exposure Draft proposed that:

(a) income and expenses from associates and joint ventures not accounted for using the equity method, be classified:

(i) in the investing category when they are not investments in the course of an entity's main business activities;

(ii) in the operating category when they are investments in the course of an entity's main business activities; and

(b) income and expenses from associates and joint ventures accounted for using the equity method be classified outside of the operating category—income and expenses from integral associates and joint ventures would be classified in the integral associates and joint ventures category and income and expenses from non-integral associates and joint ventures would be classified in the investing category (paragraphs 47, 48, 53, B27, B32 and B38 of the Exposure Draft).

6. Paragraph 6 of the Exposure Draft states the [draft] Accounting Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 and those that present separate financial statements in accordance with IAS 27. This requirement was carried forward from IAS 1 *Presentation of Financial Statements* without amendment.

Feedback on the proposals in the Exposure Draft

7. A few respondents and fieldwork participants asked the IASB to clarify:

(a) how an entity should classify income and expenses from investments in subsidiaries, associates and joint ventures in its separate financial statements; and

(b) how an entity should classify income and expenses from investments in subsidiaries, associates and joint ventures in consolidated and separate financial statements when the measurement basis used in the consolidated and separate financial statements differs.

8. One respondent said that it is not clear whether income and expenses from associates and joint ventures not accounted for using the equity method in paragraph B32(a)(vii) of the Exposure Draft refers to associates and joint ventures that are:

(a) accounted for at cost or in accordance with IFRS 9 applying IAS 27;

(b) measured at fair value through profit or loss in accordance with IFRS 9 applying IAS 28; or

(c) both of the above.

9. One respondent suggested including venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds that can apply the election to measure investments in associates and joint ventures at fair value through profit or loss in paragraph 18 of IAS 28 to the examples of entities that invest in the course of main business activities listed in paragraph B27 of the Exposure Draft because for these entities investing in associates and joint ventures would presumably be a main business activity.

10. One fieldwork participant suggested that a holding company that invests in subsidiaries, associates and joint ventures as its main business activity should classify all income and expenses from such investments, including investments accounted for using the equity method, in the operating category.

Summary of related IASB tentative decisions from its redeliberations to date

11. In October 2021 (see Agenda Paper 21A), the IASB tentatively decided to:

(a) proceed with the proposal to require an entity to classify income and expenses from associates and joint ventures accounted for using the equity method outside the operating category;

(b) withdraw the proposal to require an entity to present the subtotal ‘operating profit or loss and income and expenses from integral associates and joint ventures’; and

(c) withdraw the proposal to require an entity to identify and present income and expenses from integral associates and joint ventures separately from income and expenses from non-integral associates and joint ventures.

12. In December 2021 (see Agenda Paper 21B), the IASB tentatively decided to:

(a) retain the proposal for an entity to classify income and expenses from assets that generate returns individually and largely independently of other resources held by the entity in the investing category; and

(b) require an entity to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.

13. In February 2022 (see Agenda Paper 21A), the IASB tentatively decided to confirm the requirement for entities to present a line item for income and expenses from associates and joint ventures accounted for using the equity method.

14. In March 2022 (see Agenda Paper 21A), the IASB tentatively decided to clarify that:

(a) the role of main business activities in the requirements of the [draft] IFRS Accounting Standard is limited to assessing whether an entity invests in the course of its main business activities or provides financing to customers as a main business activity. The assessment is performed at the reporting-entity level. Any changes in the outcome of the assessment should be applied prospectively with disclosure of the fact that there has been a change and information about the effect of the change that would allow users to perform trend analysis on operating profit.

(b) investing in the course of main business activities or providing financing to customers as a main business activity is a matter of fact and not an assertion. An entity will need to use its judgement in assessing whether it invests in the course of its main business activities or provides financing to customers as a main business activity. The assessment should be based on observable evidence to the extent available.

(c) examples of observable evidence are:

(i) operating performance measures used in public communications; and

(ii) information about segments, if an entity applies IFRS 8 *Operating Segments*. Specifically:

1. a reportable segment that comprises a single business activity indicates that the business activity is a main business activity of the entity.

2. an operating segment that comprises a single business activity indicates the business activity could be a main business activity

of the entity—if the performance of the operating segment is an important indicator of the operating performance of the entity.

(d) the specified subtotals similar to gross profit[1] in paragraph B78 of the Exposure Draft are examples of important indicators of operating performance for an entity that invests in the course of its main business activities or provides financing to customers as a main business activity.

15. In July 2022 (see Agenda Paper 21A), the IASB tentatively decided to:

(a) require an entity that invests as a main business activity, rather than invests in the course of main business activities, to classify in the operating category income and expenses from assets that would otherwise be classified in the investing category.

(b) permit an entity to group assets with shared characteristics for the purpose of assessing whether those investments are made as a main business activity. The way an entity groups financial assets for this assessment should be consistent with the way it groups financial assets into classes for the purposes of disclosures about financial instruments, in accordance with IFRS 7 *Financial Instruments: Disclosures*.

(c) add application guidance clarifying that income and expenses from financial assets arising from providing financing to customers are classified in the operating category. The IASB also decided to explore a related disclosure requirement.

Overview of requirements and current practice related to separate financial statements

16. IFRS Accounting Standards require:

(a) an entity to account for investments in subsidiaries, associates and joint ventures in its separate financial statements either at cost, in accordance with

[1] A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue (see paragraph B78 of the Exposure Draft).

IFRS 9 or using the equity method as described in IAS 28 (paragraph 10 of IAS 27);

(b) an entity that applies the election in paragraph 18 of IAS 28 to measure its investments in associates and joint ventures at fair value through profit or loss in accordance with IFRS 9 to also account for them in the same way in its separate financial statements (see paragraph 11 of IAS 27); and

(c) a parent that is an investment entity subject to the requirements of paragraph 31 of IFRS 10 to measure its investments in subsidiaries at fair value through profit or loss in accordance with IFRS 9 to also account for them in the same way in its separate financial statements (see paragraph 11A of IAS 27).

17. When an investment entity is required to measure all of its subsidiaries[2] in the current period and all comparative periods presented at fair value through profit or loss in accordance with IFRS 9, it presents separate financial statements as its only financial statements (paragraph 31 of IFRS 10 and paragraph 8A of IAS 27).

18. As entities applying the requirements in paragraphs 16(b) and 16(c) are required to account for investments in subsidiaries, associates and joint ventures in the same way in separate and consolidated financial statements, in this paper we also consider clarifications required for these investments in consolidated financial statements as a consequence of the clarifications related to separate financial statements.

19. IAS 27 does not mandate which entities produce separate financial statements. IAS 27 is applied when an entity elects, or is required by local regulations, to present separate financial statements (see paragraphs 2 and 3 of IAS 27). Staff research identified that:

(a) there are jurisdictions which require an entity to apply the equity method[3] to account for investments in subsidiaries, associates and joint ventures in its separate financial statements and other jurisdictions that prohibit it;

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[2] An investment entity is required to consolidate any subsidiaries that are not investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraph 32 of IFRS 10).

[3] The laws of some countries require listed companies to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures. In 2014, the IASB issued amendments to IAS 27 to restore the option to use the equity method in separate financial statements to facilitate convergence of local GAAP in those jurisdictions (see BC10A–BC10B of the Basis for Conclusions on IAS 27).

(b) in jurisdictions where the equity method is required to be applied in separate financial statements, income and expenses from subsidiaries are generally classified in operating profit and income and expenses from associates and joint ventures are generally classified outside operating profit; and

(c) in jurisdictions where the equity method is not required to be applied, cost is the most common method used to account for investments in subsidiaries, associates and joint ventures. Entities classify income and expenses from these investments in operating profit in some of these jurisdictions, while in other jurisdictions entities classify them outside of operating profit.

20. Staff research identified that separate financial statements are generally used for:

(a) the distribution of dividends;

(b) tax purposes;

(c) complying with regulatory and legal requirements;

(d) credit rating analysis by analysts; and

(e) lending decisions by banks and other lenders.

Staff analysis, staff recommendations and questions for the IASB

21. In this paper we analyse whether the IASB should provide guidance for:

(a) separate and consolidated financial statements on classification of income and expenses from investments in subsidiaries, associates and joint ventures:

(i) not accounted for using the equity method (paragraphs 22–28);

(ii) accounted for using the equity method (paragraphs 29–30); and

(b) assessing whether investments in subsidiaries, associates and joint ventures are investments as a main business activity (paragraphs 31–44).

Guidance for separate and consolidated financial statements on classification of income and expenses from investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures not accounted for using the equity method

Associates and joint ventures not accounted for using the equity method

22. The [draft] Accounting Standard is applied equally to all entities, including those that present consolidated financial statements and separate financial statements (paragraph 6 of the Exposure Draft). Therefore, it is implicit within the [draft] Accounting Standard that income and expenses from associates and joint ventures not accounted for using the equity method (paragraph B32(a)(vii) of the Exposure Draft) includes income and expenses from all associates and joint ventures accounted for:

    (a) at cost and in accordance with IFRS 9 applying IAS 27; and

    (b) at fair value through profit or loss in accordance with IFRS 9 applying IAS 28.

23. However, one respondent said it was not clear whether guidance on the classification of income and expenses from associates and joint ventures not accounted for using the equity method is applied to both (a) and (b) in paragraph 22 (see paragraph 8). To clarify, the staff recommend that the IASB make the scope of the requirement in paragraph B32(a)(vii) explicit within the [draft] Accounting Standard.

Subsidiaries not accounted for using the equity method

24. The Exposure Draft does not provide specific guidance on how to classify income and expenses from investments in subsidiaries in an entity's separate financial statements. Applying the proposals in the Exposure Draft and the redeliberations to date, an entity would be required to classify income and expenses from an investment in a subsidiary not accounted for using the equity method in the operating category when:

    (a) the subsidiary does not generate a return individually and largely independently of other resources held by the entity and therefore does not meet the requirements to be classified in the investing category; or

    (b) the subsidiary generates a return individually and largely independently of the other resources held by the entity and investing in subsidiaries is a main business activity.

25. In separate financial statements, investments in subsidiaries are financial assets. The staff acknowledge that an entity could conclude that an investment in a subsidiary generates returns individually and largely independently of the other resources of the entity because they are shareholdings in a separate legal entity. However, an entity could also conclude that its investments in subsidiaries do not generate returns individually and largely independently of the other resources of the entity when there is a link between the activities of the entity and the subsidiary.

26. The staff think that it may be difficult to determine whether a subsidiary generates a return individually and largely independently of the other resources of the entity because, similar to associates and joint ventures, some subsidiaries may have activities that are closely related to an entity's main business activities and others may not. The Exposure Draft proposed guidance to distinguish between integral and non-integral associates and joint ventures. However, the IASB decided not to proceed with this proposal due to the concerns raised by stakeholders (see Agenda Paper 21A of the October 2021 IASB meeting). Therefore, the staff do not think that the IASB should develop guidance to distinguish between subsidiaries which are integral and non-integral in separate financial statements.

27. In order to avoid practical difficulties in determining whether a subsidiary generates a return individually and largely independently of other resources of the entity, and to avoid similar issues to paragraph 8 about the scope of investments in subsidiaries, the staff recommend that the IASB:

    (a) require income and expenses from subsidiaries not accounted for using the equity method to be classified in the investing category unless investing in subsidiaries is a main business activity; and

    (b) clarify that subsidiaries not accounted for using the equity method include all subsidiaries accounted for:

        (i) at fair value through profit or loss in accordance with IFRS 9 applying IFRS 10; and

        (ii) at cost and in accordance with IFRS 9 applying IAS 27.

28. The staff think that the approach in paragraph 27 will:

(a) clarify that the IASB intended that an investment entity that values its subsidiaries at fair value through profit or loss will include the related income and expenses in the operating category because investing in subsidiaries is its main business activity; and

(b) ensure that income and expenses from investments in subsidiaries not accounted for using the equity method that are not investments in subsidiaries as a main business activity are classified in the investing category.

Question for the IASB

Q1 Does the IASB agree with the staff recommendation to:

(a) clarify that income and expenses from associates and joint ventures not accounted for using the equity method includes income and expenses from associates and joint ventures accounted for:

(i) at cost and in accordance with IFRS 9 applying IAS 27; and

(ii) at fair value through profit or loss in accordance with IFRS 9 applying IAS 28;

(b) require income and expenses from investments in subsidiaries not accounted for using the equity method to be classified in the investing category unless investing in subsidiaries is a main business activity; and

(c) clarify that income and expenses from subsidiaries not accounted for using the equity method includes income and expenses from all subsidiaries that are accounted for:

(i) at fair value through profit or loss in accordance with IFRS 9 applying IFRS 10; and

(ii) at cost and in accordance with IFRS 9 applying IAS 27?

Investments in subsidiaries, associates and joint ventures accounted for using the equity method

29. Applying the redeliberations to date, an entity will classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category (see paragraph 5(b)). The staff think that it is clear without further clarification that this proposal also applies to investments in associates and joint ventures accounted for using the equity method in separate financial statements because the [draft] Accounting Standard applies equally to all entities that present consolidated financial statements and separate financial statements (paragraph 6 of the Exposure Draft).

30. The staff think that the IASB should align the category for classifying income and expenses from subsidiaries accounted for using the equity method with the category for classifying income and expenses from associates and joint ventures accounted for using the equity method because the approach would be consistent with:

    (a) the IASB's key objectives for classifying income and expenses from investments accounted for using the equity method outside of the operating category due to the uniqueness of the equity method (see Agenda Paper 21A of the October 2021 IASB meeting);

    (b) the IASB's conclusion that a parent should follow the methodology in IAS 28 as applicable to an associate or a joint venture when it has elected to apply the equity method for its subsidiaries in its separate financial statements (see paragraph BC10H of IAS 27); and

    (c) the agenda decision of the IFRS Interpretations Committee to apply the requirements of IAS 36 *Impairment of Assets* to test for impairments of investments in subsidiaries accounted for using the equity method in the same way as investments in associates and joint ventures accounted for using the equity method (see January 2013 Agenda Decision *Impairment of associates in separate financial statements*).

Question for the IASB

Q2 Does the IASB agree with the staff recommendation to require that an entity classifies income and expenses from subsidiaries accounted for using the equity method in the investing category in its separate financial statements?

Assessing whether investments in subsidiaries, associates and joint ventures are investments as a main business activity

31. If the IASB agree with the staff recommendations in Questions 1 and 2:

    (a) an entity with investments in subsidiaries, associates and joint ventures not accounted for using the equity method would be required to assess whether the entity invests in those subsidiaries, associates and joint ventures as a main business activity; and

    (b) an entity would not assess whether investments in subsidiaries, associates and joint ventures accounted for using the equity method are investments as a main business activity because the income and expenses from these investments would be classified in the investing category.

Classification in separate and consolidated financial statements

32. In March 2022, the IASB clarified that the assessment of whether an entity invests or provides financing to customers as a main business activity is performed at the reporting entity level (see paragraph 14(a)). Agenda Paper 21A of the March 2022 IASB meeting, acknowledged that if the assessment of whether a group invests or provides financing to customers as a main business activity differs from the assessment by individual entities within the group, it would result in items of income and expenses being classified in different categories within the statements of profit or loss for the group and the individual entities within the group. However, if the important indicators of operating performance (see paragraph 14(d)) differ between the group and individual entities within the group, then classification of income and expenses in different categories would be an appropriate outcome.

33. Applying the staff's recommendations in Questions 1 and 2, different classification outcomes could arise between separate and consolidated financial statements. One example is when an entity:

    (a) is required to account for its investments in associates and joint ventures using the equity method in its consolidated financial statements; and

    (b) elects to account for its investments in those associates and joint ventures at cost in its separate financial statements and judges these to be investments as a main business activity.

34. In this example, the income and expenses from the investments in the associates and joint ventures would be classified in the investing category in the entity's consolidated financial statements and in the operating category in its separate financial statements. However, if the important indicators of operating performance (see paragraph 14(d)) differ between the consolidated financial statements and separate financial statements, then classification of income and expenses in different categories would be an appropriate outcome.

35. Given the IASB's tentative decisions in March 2022, that the assessment is performed at the reporting entity level, the staff do not think that further clarifications are required to address the feedback in paragraph 7(b) about how an entity should classify income and expenses from investments in subsidiaries, associates and joint ventures in consolidated and separate financial statements when the measurement basis used in the consolidated and separate financial statements differs.

Guidance for assessing if investing is a main business activity in separate financial statements

36. In March 2022, the IASB discussed the guidance an entity applies to determine if it invests or provides financing to customers as a main business activity (see paragraph 14). The staff do not think that additional guidance is needed for this assessment in separate financial statements.

37. Applying the IASB's tentative decisions to assess whether investments in subsidiaries, associates and joint ventures not accounted for using the equity method are investments as a main business activity, the entity would consider whether the return

from those investments is an important indicator or operating performance of the entity. The staff expect that:

(a) an entity, such as a holding company, would have a subtotal similar to gross profit from its investments in subsidiaries, associates and joint ventures not accounted for using the equity method that is an important indicator of operating performance and is likely to conclude that it invests as a main business activity. This entity would classify the income and expenses from those investments in the operating category in its separate financial statements; and

(b) for an entity, such as a manufacturing company, would have gross profit (revenue from selling its products less cost of sales) as an important indicator of operating performance and is likely to conclude that investments in subsidiaries, associates and joint ventures not accounted for using the equity method are not investments as a main business activity. This entity would classify income and expenses from those investments in the investing category in its separate financial statements.

38. This approach would limit the entities that would classify income and expenses from investments in subsidiaries, associates and joint ventures not accounted for using the equity method in the operating category in separate financial statements. Therefore, it may result in a change in practice in some jurisdictions (see paragraph 19). However, the staff do not think that this change would cause problems in practice given the uses of separate financial statements (see paragraph 20). This change would also result in consistent classification in separate financial statements across jurisdictions.

Grouping investments to assess if a main business activity

39. In July 2022, the IASB tentatively decided to permit an entity to group assets with shared characteristics for the purpose of assessing whether those investments are made as a main business activity (see paragraph 15(b)).

40. Paragraph 10 of IAS 27 requires an entity to apply the same accounting method to each category of investments in subsidiaries, associates and joint ventures. Paragraph BC19G of IAS 28 clarifies that paragraph 10 of IAS 27 should not be read to mean that all investments in associates are one ‘category’ and all investments in joint

ventures are one 'category'. If an entity measures some associates or joint ventures at fair value, the entity could choose to measure the remaining associates or joint ventures at cost or using the equity method.

41. To avoid confusion in how to apply the requirements in the [draft] Accounting Standard and the requirements in paragraph 10 of IAS 27, the staff recommend that the IASB clarify that the way an entity groups investments in subsidiaries, associates and joint ventures for the purposes of this assessment should be consistent with the way it groups investments into categories when applying the requirements of paragraph 10 of IAS 27. This would ensure that investments in subsidiaries, associates and joint ventures with a different measurement basis are assessed separately.

Examples of entities that invest as a main business activity

42. Paragraph B27 of the Exposure Draft proposed a list of examples of entities that invest as a main business activity. One respondent suggested the IASB add venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds that can apply the election to measure investments in associates and joint ventures at fair value through profit or loss in paragraph 18 of IAS 28 to the list of examples (paragraph 9).

43. The list of examples in paragraph B27 of the Exposure Draft is not intended to be an exhaustive list of entities that invest as a main business activity. The staff acknowledge that adding more examples of entities that invest as a main business activity to the list could make the proposals easier to apply.

44. However, on balance the staff do not recommend the IASB add venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds to the list of examples because:

    (a) paragraph 18 of IAS 28 is an election and not a requirement for those entities to measure their investments in associates and joint ventures at fair value through profit or loss—the election is applied separately for each associate and joint venture;

    (b) venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds are not defined in IAS 28 like

investment entities are defined in IFRS 10—entities that meet the definition of an investment entity are required to, rather than elect to, account for their investments in subsidiaries at fair value through profit or loss (see paragraph 31 of IFRS 10);

(c) unintended consequences may arise if they are included in the list of examples with no reference to the requirements of IAS 28—linking the examples of entities to specific requirements in an IFRS Accounting Standard would add complexity; and

(d) being included in the list has no impact on how an entity applies the proposals—an entity is still required to assess if it invests as a main business activity regardless of whether it is included in the list of examples.

Question for the IASB
Q3 Does the IASB agree with the staff recommendation to clarify that the way an entity groups subsidiaries, associates and joint ventures for the purposes of assessing whether investing in subsidiaries, associates and joint ventures is a main business activity should be consistent with the way it groups investments into categories for determining the measurement basis (paragraph 10 of IAS 27)?

Appendix A—Extracts from the Exposure Draft

A1. The paragraphs from the Exposure Draft are reproduced below.

6 [IAS 1.4 partial] This [draft] Standard applies equally to all entities, including those that present consolidated financial statements in accordance with IFRS 10 *Consolidated Financial Statements* and those that present separate financial statements in accordance with IAS 27 *Separate Financial Statements*.

47 The objective of the investing category is to communicate information about returns from investments that are generated individually and largely independently of other resources held by an entity. Except as required by paragraph 48, an entity shall classify in the investing category:

(a) income and expenses from investments, including from non-integral associates and joint ventures (see paragraphs B32–B33).

(b) incremental expenses incurred generating income and expenses from investments. Incremental expenses are expenses that the entity would not have incurred had the investments giving rise to the income and expenses from investments not been made.

48 An entity shall not classify in the investing category income and expenses specified in paragraphs 47(a)–47(b) generated in the course of its main business activities. Such income and expenses are instead classified in the operating category. An entity shall not classify income and expenses from non-integral associates and joint ventures in the operating category.

53 An entity shall classify in the integral associates and joint ventures category income and expenses from integral associates and joint ventures (see paragraph B38).

B27 Paragraph 48 requires an entity to classify in the operating category income and expenses from investments in the course of its main business activities. Whether income and expenses from investments arise in the course of an entity's main business activities is a matter of judgement. In general, investments are likely to have been made in the course of an entity's main business activity when investment returns are an important

indicator of operating performance. Examples of entities that invest in the course of their main business activities may include:

(a) investment entities as defined by IFRS 10 *Consolidated Financial Statements*;

(b) investment property companies; and

(c) insurers.

B32 Paragraph 47 requires an entity to classify income and expenses from investments in the investing category except when paragraph 48 requires the entity to classify them in the operating category. Income and expenses from investments would typically include:

(a) income and expenses from financial assets, except for income and expenses from cash and cash equivalents, such as:

(i) interest revenue;
(ii) impairment losses and reversals of impairment losses;
(iii) gains and losses on disposal;
(iv) fair value gains and losses;
(v) dividends from equity investments;
(vi) the share of profit or loss of non-integral associates and joint ventures; and
(vii) income and expenses from associates and joint ventures not accounted for using the equity method; and

(b) income and expenses from other investments such as:

(i) income and expenses on investment property;
(ii) impairment losses and reversals of impairment losses;
(iii) income or expenses from speculative investments, such as investments in artwork held for capital appreciation; and
(iv) gains and losses on disposal.

B38 Only associates and joint ventures accounted for using the equity method can meet the definition of integral associates and joint ventures, thus giving rise to the share of profit or loss accounted for using the equity method. Applying IAS 28 *Investments in Associates and Joint Ventures* an entity may be required to recognise income and expenses from integral

associates and joint ventures in addition to the share of profit or loss accounted for using the equity method.

Applying paragraph 53, income and expenses from integral associates and joint ventures include:

(a) the share of profit or loss of integral associates and joint ventures;
(b) impairment losses and reversals of impairment losses on integral associates and joint ventures; and
(c) gains or losses on disposals of integral associates and joint ventures.

Appendix B—Extracts from IFRS Accounting Standards

B1. The paragraphs from IFRS 10 are as follows.

31 Except as described in paragraph 32, an investment entity shall not consolidate its subsidiaries or apply IFRS 3 when it obtains control of another entity. Instead, an investment entity shall measure an investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9.

32 Notwithstanding the requirement in paragraph 31, if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are providing services that relate to the investment entity's investment activities (see paragraphs B85C–B85E), it shall consolidate that subsidiary in accordance with paragraphs 19–26 of this IFRS and apply the requirements of IFRS 3 to the acquisition of any such subsidiary.

B2. The paragraphs from IAS 27 are as follows.

2 This Standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

3 This Standard does not mandate which entities produce separate financial statements. It applies when an entity prepares separate financial statements that comply with International Financial Reporting Standards.

8A An investment entity that is required, throughout the current period and all comparative periods presented, to apply the exception to consolidation for all of its subsidiaries in accordance with paragraph 31 of IFRS 10 presents separate financial statements as its only financial statements.

10 When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost;

(b) in accordance with IFRS 9; or

(c) using the equity method as described in IAS 28.

11 If an entity elects, in accordance with paragraph 18 of IAS 28 (as amended in 2011), to measure its investments in associates or joint ventures

at fair value through profit or loss in accordance with IFRS 9, it shall also account for those investments in the same way in its separate financial statements.

11A If a parent is required, in accordance with paragraph 31 of IFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.

BC10A In their responses to the Board's 2011 Agenda Consultation, some respondents said that:

(a) the laws of some countries require listed companies to present separate financial statements prepared in accordance with local regulations, and those local regulations require the use of the equity method to account for investments in subsidiaries, joint ventures and associates; and

(b) in most cases, the use of the equity method would be the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with local regulations.

BC10B Those respondents strongly supported the inclusion of the equity method as one of the options for measuring investments in subsidiaries, joint ventures and associates in the separate financial statements of an entity. In May 2012, the Board decided to consider restoring the option to use the equity method in separate financial statements through a narrow-scope project. Consequently, the Board issued an Exposure Draft in December 2013, the proposals in which would facilitate convergence of local GAAP in those jurisdictions with IFRS for separate financial statements, and that would help to reduce compliance costs for some entities without the loss of information.

BC10H Some respondents to the Exposure Draft commented that IAS 28 should be amended to provide guidance on the application of the equity method to a subsidiary in the separate financial statements of the parent. The Board concluded that amending IAS 28 to provide such guidance was outside the scope of the project, and a parent that has elected to apply the equity method to account for its subsidiaries in its separate financial statements should follow the methodology in IAS 28 as applicable to an associate or a joint venture.

B3. The paragraphs from IAS 28 are as follows.

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)

BC19G The Board noted that ‘category’ is not defined in IFRS Standards, but is used in a number of Standards. For example, IFRS 7 *Financial Instruments: Disclosures* uses ‘category’ to refer to groupings of financial assets and financial liabilities that are measured in different ways—for example, financial assets measured at fair value through profit or loss is one category of financial asset and financial assets measured at amortised cost is another category of financial asset. The Board observed that paragraph 10 of IAS 27 should not be read to mean that, in all circumstances, all investments in associates are one ‘category’ of investment and all investments in joint ventures are one ‘category’ of investment. The issue raised by respondents arises only if the requirement in paragraph 10 of IAS 27 were to be interpreted in that way. An entity that elects to measure some associates or joint ventures at fair value through profit or loss in accordance with paragraph 18 of IAS 28 would retain that measurement basis for those associates and joint ventures in its separate financial statements, as required by paragraph 11 of IAS 27. The entity could then choose to measure its remaining associates and joint ventures either at cost, in accordance with IFRS 9 or using the equity method in accordance with paragraph 10 of IAS 27.