
IASB[®] meeting

Date	July 2023
Project	Equity Method
Topic	Towards an Exposure Draft—Implications of applying the IASB’s tentative decisions to application questions that were not selected
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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[®] Accounting Standards. The IASB’s technical decisions are made in public and are reported in the IASB[®] *Update*.

Introduction

1. At its March 2021 meeting, the International Accounting Standards Board (IASB) agreed the process for selecting application questions to be in the scope of the Equity Method project.¹ Subsequently, at its October 2021 meeting, the IASB received an update on the application questions within the scope of the project; these application questions are set out in Appendices B–C of Agenda Paper 13 of this meeting.²
2. At its March 2021 meeting, the IASB also agreed the selection of application questions is an iterative process. As the project progresses, answers could be found to application questions that were not selected or conversely answers found could raise new application questions.

Purpose of this paper

3. The purpose of this paper is to ask the IASB:
 - (a) to discuss the staff’s analysis of the implications of its tentative decisions, as at the date of this meeting, to five application questions that were not selected (those are outside the project’s scope);

¹ See [AP13 of the March 2021 IASB Meeting](#) and the [IASB Update March 2021](#)

² See [AP13 of the October 2021 IASB Meeting](#) and the [IASB Update October 2021](#)

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- (b) to decide whether to expand the project's scope for these five application questions; and
 - (c) whether it agrees with the staff's approach to identifying whether its tentative decisions in the project to date have any unintended consequences.

Staff recommendation

- 4. The staff recommend the IASB expand the project's scope by adding five application questions that are considered resolved by its tentative decisions.

Structure of this paper

- 5. This paper is structured as follows:
 - (a) application questions outside the project's scope (paragraphs 6–8 this paper);
 - (b) whether the IASB's tentative decisions on application questions have unintended consequences (paragraphs 9–12 of this paper);
 - (c) questions for the IASB; and
 - (d) Appendix A—Application questions outside the project's scope resolved by the IASB's tentative decisions.

Application questions outside the project's scope

- 6. Applying the IASB's tentative decisions, as at the date of this meeting, to the list of application questions that were not selected (that is outside the project's scope), the staff have identified five application questions they considered resolved.
- 7. Appendix A of this paper sets out the staff's analysis as to why it should consider these application questions to be resolved.

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8. The staff is recommending that the project's scope should be expanded for these five application questions. This will provide clarity that the proposals in the future exposure draft answer these application questions.

Whether the IASB's tentative decisions on application questions have unintended consequences

9. As noted in paragraph 2 of this paper, the IASB considered the process of selecting application questions to be iterative and noted that proposals for answering application questions could have unintended consequences.
10. In developing the recommendations to the IASB, the staff have undertaken outreach with the IASB's consultative groups, accounting firms and user advisory committees. The IASB has discussed that feedback, the staff analysis of the feedback and further considerations identified. The staff believe that this approach should have identified any unintended consequences. In addition, the IASB has decided to publish an exposure draft proposing solutions to the application questions. Feedback on the exposure draft will inform the IASB of any unintended consequences.
11. Examples of how the IASB discussed feedback and further considerations can be found in the following links:
- (a) [API3A of the January 2023 IASB Meeting: Perceived conflict between IFRS 10 and IAS 28—further considerations of applying the four alternatives.](#)
 - (b) [API3B of the January 2023 IASB Meeting: Perceived conflict between IFRS 10 and IAS 28—feedback summary of the outreach activities undertaken.](#)
 - (c) [API3C of the March 2023 IASB Meeting: Perceived conflict between IFRS 10 and IAS 28—feedback summary of the outreach activities undertaken with users.](#)
 - (d) [API3A of the June 2023 IASB Meeting: Towards an Exposure Draft—Transactions and other events that change an investor's ownership interest.](#)

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12. At future meetings, the staff will ask the IASB to discuss any implications of applying its tentative decisions to investments other than those in associate entities accounted for using the equity method.

Questions for the IASB

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1. Does the IASB agree that its tentative decisions, as at the date of this meeting, resolve the application questions set out in Appendix A of this paper?
2. If the IASB agrees with question 1 of this paper, does the IASB agree with the staff recommendation in paragraph 4 of this paper to expand the project's scope by adding these five application questions?

Appendix A—Application questions outside the project’s scope resolved by the IASB’s tentative decisions

No.	Application question not selected	Related IASB’s tentative decision	Staff’s analysis
1	How does an investor determine the initial carrying amount of an investment in an associate?	The IASB tentatively decided that an investor would measure the cost of an investment, when an investor obtains significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.	<p>In answering the application question(s) on applying the equity method to changes in ownership interests while retaining significant influence, the IASB divided the discussions into:</p> <ul style="list-style-type: none"> (a) how an investor measures the cost of an investment on obtaining significant influence, as IAS 28 does not define cost. (b) how an investor measures its share in the net fair value of the associate’s identifiable assets and liabilities, when purchasing an additional interest in an associate while retaining significant influence. <p>The IASB’s tentative decisions will also resolve application questions 1 and 2.</p>
2	An investor, with a previously held interest in an entity, acquires an additional interest and obtains significant influence. Does the initial measurement include the original purchase cost of the previously held interest or the carrying amount of that interest applying IFRS 9 <i>Financial Instruments</i> ?		

No.	Application question not selected	Related IASB's tentative decision	Staff's analysis
3	<p>How does an investor account for the associate's issuance of shares? Common transactions include the repurchase or issuance of shares by the associate.</p>	<p>The IASB tentatively decided that when the investor's ownership interest:</p> <ul style="list-style-type: none"> (a) increases and the investor retains significant influence, the investor would recognise that increase as a purchase of an additional interest. (b) decreases and the investor retains significant influence, the investor would recognise that decrease as a partial disposal. 	<p>In answering the application question(s) on applying the equity method to changes in ownership interests while retaining significant influence, the IASB tentatively decided how an investor accounts for changes in an associate's net assets that change the investor's ownership interest from the issue of equity instruments.</p> <p>Therefore, the IASB's tentative decision resolves application question 3.</p>
4	<p>An investor sells an item of Property, Plant and Equipment to an associate and leases it back:</p> <ul style="list-style-type: none"> (a) IFRS 16 <i>Leases</i> requires to recognise only the amount of gain or loss that relates to the rights transferred; whereas (b) IAS 28 requires to adjust for the investor's portion of gain or loss. <p>Concerns were expressed about possible double counting.</p>	<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) that an investor would recognise the full gain or loss on all transactions with its associate. (b) to propose improvements for the disclosure requirements when an investor recognises the full gain or loss on transactions with its associate. 	<p>The IASB's tentative decision resolves application questions 4 and 5, resolving any concern about possible double counting.</p>
5	<p>Does an investor eliminate its portion of gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss?</p>		