IASB® meeting

Date	**November 2023**
Project	**Equity Method**
Topic	**Towards an Exposure Draft—Possible improvements to disclosure requirements for investments in joint ventures and subsidiaries**
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Introduction and purpose of this paper

1. At its September 2023 meeting, the International Accounting Standards Board (IASB) tentatively decided to propose disclosure requirements for investments in associates in relation to its tentative decisions on the Equity Method project to date.

2. The purpose of this paper is to ask the IASB to decide if those disclosure requirements in paragraph 1 of this paper should also be proposed for investments in joint ventures; and for investments in subsidiaries when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements as permitted in IAS 27 *Separate Financial Statements.*

Staff recommendation

3. The staff recommend the IASB to propose:

   (a) improvements to the disclosure requirements for investments in joint ventures the same as those it had previously tentatively decided to propose for investments in associates; and

   (b) that a parent, that elects to use the equity method to account for its investments in subsidiaries in separate financial statements, discloses the amount of gains or losses from transactions to its subsidiaries.

Structure of this paper

4. This paper is structured as follows:

   (a) staff analysis:

      (i) background – disclosure requirements in IFRS Accounting Standards (paragraphs 5–10);

      (ii) IASB's tentative decisions for investments in associates (paragraphs 11–17);

      (iii) implications of the IASB's tentative decisions for investments in joint ventures (paragraphs 18–28); and

      (iv) implications of the IASB's tentative decisions for investments in subsidiaries (paragraphs 29–38);

   (b) question for the IASB, and

   (c) Appendix A—IASB's tentative decisions on improvements to disclosure requirements for investments in associates.

Staff analysis

Background –disclosure requirements in IFRS Accounting Standards

5. IFRS 12 *Disclosure of Interests in Other Entities* applies to an entity that has an interest in joint arrangements, including joint ventures.

6. Paragraph 20 of IFRS 12 requires an investor to disclose information on:

   (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and

   (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

7. Paragraphs 21–23 and B10–B20 of IFRS 12 set out disclosure requirements for investments in joint ventures and associates. The information required for the two categories of investments is the same, except for the requirements in paragraph 23(a) of IFRS 12, that applies only to joint ventures; and paragraph B13 of IFRS 12 that applies only to joint ventures that are individually material to the reporting entity (see paragraph 20 of this paper).

8. Paragraph 6 of IFRS 12 states that the requirements in IFRS 12 do not apply to an entity's separate financial statements prepared in accordance with IAS 27, except for specified disclosures that apply if:

   (a) an entity has interests in unconsolidated structured entities and only prepares separate financial statements; or

   (b) an entity is an investment entity as defined in paragraph 27 of IFRS 10 *Consolidated Financial Statements* and carries all its subsidiaries at fair value.

9. IAS 24 *Related Parties* identifies an entity as a related party when both the entity and the reporting entity are members of the same group; or one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member). Paragraph 6 of IAS 24 notes that a related party relationship could influence the profit or loss and financial position of an entity. Paragraph 8 of IAS 24 explains that knowledge of an entity's transactions, outstanding balances, including commitments, and relationships with related parties may affect assessments of the entity's operations by users of financial statements, including assessments of the risks and opportunities facing the entity.

10. Finally, paragraph 24 of IFRS 8 *Operating Segments* requires an entity to disclose the amount of investments in joint ventures accounted for using the equity method for each reportable segment, if the amount is included in the measure of segment assets reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment assets.

IASB's tentative decisions for investments in associates

11. At its October 2023 meeting, the IASB decided that its tentative decisions on application questions for investments in associates also apply to investments in joint ventures.

12. At its September 2023 meeting, the IASB decided to propose an investor disclose:

    (a) gains or losses from changes in the associate's net assets that change the investor's ownership interest while the investor retains significant influence (for instance, dilution gains or losses);

    (b) contingent consideration arrangements for the acquisition of an interest in an associate;

    (c) gains or losses from transactions to associates (downstream transactions); and

    (d) reconciliation of the opening balance to the closing balance of the carrying amount of investments in associates.

13. The IASB decided to propose requiring disclosure of the information in paragraph 12(a) of this paper because:

    (a) the gain or loss arises from changes in an associate's net assets and does not arise from a cash transaction of the investor. Users are interested in understanding whether items in profit or loss generate cash or are part of the performance of an entity; and

    (b) the IASB's tentative decision may require some investors to change accounting policies. The IASB's tentative decision will require gains and losses to be presented in profit and loss.

14. The IASB decided to propose requiring disclosure of the information in paragraph 12(b) of this paper because the information is considered helpful in assessing the amount, timing and uncertainty of the entity's future cash flows. In addition, the disclosures are consistent with the objective in paragraph 20(b) of IFRS 12—to disclose information that enables users to evaluate the nature of, and changes in, the risks associated with the interests in associates.

15. The IASB decided to propose requiring disclosure of the information in paragraph 12(c) of this paper because the terms of the transaction may be affected by the related party relationship. The IASB decided not to propose the equivalent disclosure requirements for gains or losses from transactions with its associates (upstream transactions) because it considered the cost to obtain the information would exceed the benefit.

16. The IASB decided to propose requiring disclosure of the information in paragraph 12(d) of this paper because the information is considered helpful in understanding the contribution to profit and loss and cash flows of an associate to the investor. A reconciliation of the carrying amount of investment in associates helps users of financial statements to understand the effects of material changes in the balance, especially as some changes arise from cash transactions (such as purchases, sales and dividends received), and some changes arise from non-cash transactions (such as the amount of the investor's share in the associate's profit or loss and other comprehensive income, and impairment losses).

17. Furthermore, the information that will be disclosed by applying paragraph 12(d) of this paper also assists users in assessing the return on investment at the beginning of the period; how the change in the carrying amount is impacted by additions and disposals; and the risks associated with the investments.

Implications of the IASB's tentative decisions for investments in joint ventures

18. To determine if the IASB's tentative decisions to propose additional disclosure requirements for investments in associates should also apply to investments in joint ventures, the staff considered the objective of the disclosure requirements and the nature of the two categories of investments.

19. IFRS 12 requires the same information to be disclosed for the two categories of investments, with two exceptions:

    (a) paragraph 23(a) of IFRS 12 requires disclosure of commitments that an entity has relating to its joint ventures separately from the amount of other commitments; and

(b) paragraph B13 of IFRS 12 requires more disaggregated information on assets, liabilities, income and expenses of joint ventures that are individually material to the entity. In paragraph 51 of the Basis for Conclusions on IFRS 12, the IASB explained that an entity is generally more involved with joint ventures than with associates because joint control means that the entity has a right of veto over decisions relating to the relevant activities of the joint venture. Accordingly, the different nature of the relationship between a joint venturer and its joint ventures from that between an investor and its associates warrants a different level of detail in the disclosures of summarised financial information.

20. Paragraph 19 of this paper suggests that information that is useful for investments in associates is also useful for investments in joint ventures. Therefore, the staff is recommending the IASB propose the same additional disclosure requirements for investments in joint ventures as it has tentatively decided to propose for investments in associates.

21. The staff considered whether the IASB should require an entity that has both investments in associates and joint ventures to disclose a single reconciliation (see paragraph 12(d) of this paper), or two separate reconciliations of the opening balance of the carrying amount to its closing balance.

22. In the Primary Financial Statements project the IASB has tentatively decided:

(a) the role of primary financial statements is to provide a structured summary of a reporting entity's recognised assets, liabilities, equity, income, expenses and cash flows which is useful for obtaining an understandable review;

(b) the role of the notes is to provide all material financial information necessary to enable users of financial statements to understand the items included in the primary financial statements, and to supplement the primary financial statements with other financial information to achieve the objective of financial statements; and

(c) to require an entity to aggregate and disaggregate items to fulfil the respective roles of the primary financial statements and the notes.

23. One of the IASB's reasons to propose the reconciliation is to assists users in understanding the effect of changes in the carrying amount of investments in associates on information in the statement of performance and the statement of cash flows. In the staff's view an entity should assess the extent of disaggregation of the reconciliation – that is, whether the entity presents a single reconciliation, or two separate ones – by considering the role of the notes and extent of aggregation of information in the primary financial statements. Consequently, the staff think that the IASB does not need to prescribe the extent of disaggregation, that is whether the entity should present a single reconciliation, or two separate ones.

Adding other requirements

24. The Basis for Conclusions of IFRS 12 suggests that users may need more information on joint ventures than on associates. The staff considered whether the IASB should add disclosure requirements on the following tentative decisions:

Tentative decision	**Potential disclosure**
(a) A joint venturer that acquires an additional interest in a joint venture while retaining joint control recognises a negative difference between the consideration paid and the fair value of the additional share of the joint venture's net assets as a gain from a bargain purchase.	Amount of the gain.
(b) A joint venturer does not restrict gains or losses in a transaction from a joint venture (upstream transaction).	Amount of the gain or loss.

25. In relation to paragraph 24(a) of this paper, the staff have received some feedback on the IASB's tentative decisions to recognise a bargain purchase gain in profit and loss. Some have suggested the bargain purchase gain should be recognised as a deduction from any goodwill carried as part of the carrying amount of the investment.

26. Joint arrangements often include commercial and financing terms and conditions that specify what happens if one of the joint venturers wishes to sell its investment, including how the purchase price is calculated. Requiring disclosure of the bargain purchase gain might help alleviate concerns by increasing the transparency of the transactions.

27. However, the staff concluded that there is no need to require this disclosure. Other gains or losses arising from transactions that result in changes in the joint venturer's interest in the joint venture (such as disposal gains or losses) are not required to be disclosed. Moreover, there is no requirement to disclose the gain on a bargain purchase recognised in accordance with paragraph 32 of IAS 28 *Investments in Associates and Joint Ventures* on initial acquisition of the investment in an associate or joint venture.

28. In relation to 24(b) of this paper, as noted above the IASB decided not to propose requiring disclosure of gains or losses from upstream transactions with associates on a cost-benefit basis (see paragraph 15 of this paper), as the investor would not have the information in its general ledger and would need to obtain the information from its associate. It could be argued that a joint venturer has a closer involvement in the management of the joint venture and would have easier access to the information, thus reducing the cost. Also, sales from joint ventures to the venturers may be frequent and for material amounts. However, some entities may have a large number of joint ventures and it may be cumbersome to collect and prepare the information. On balance, the staff recommend that the IASB not propose requiring this disclosure for joint ventures.

Implications of the IASB's tentative decisions for investments in subsidiaries

29. At its October 2023 meeting, the IASB decided that its tentative decisions on application questions for investments in associates apply when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements.

30. The staff note that a parent electing to use the equity method for its investments in subsidiaries is not required to apply the disclosure requirements for investments in associates and joint ventures in IFRS 12 (see paragraph 8 of this paper). Therefore, the IASB's decision at the October 2023 meeting does not require the IASB to also propose the same disclosure requirements. To determine if the disclosure requirements should also apply to investments in subsidiaries in the parent's separate financial statements, the staff considered the following questions:

    (a) do IFRS Accounting Standards require disclosure of any information specific to the assets, liabilities, income and expenses of subsidiaries in the consolidated financial statements?

    (b) if so, is this information required to be disclosed in the separate financial statements, if the parent does not prepare consolidated financial statements and prepares only separate financial statements?

    (c) do IFRS Accounting Standards require disclosure of any information specific to investments in subsidiaries in a parent's separate financial statements?

31. IAS 27 does not mandate which entities produce separate financial statements. However, paragraph 6 of IAS 27 explains that separate financial statements are those presented in addition to consolidated financial statements; and paragraph 8 of IAS 27 adds that a parent that is exempt from preparing consolidated financial statements in accordance with paragraph 4 of IFRS 10 may (but is not required to) present separate financial statements as its only financial statements.

Disclosure requirements for subsidiaries in consolidated financial statements

32. When preparing consolidated financial statements, an entity provides information on the assets, liabilities, income and expenses of the group as a single economic entity, without separately disclosing information about the assets, liabilities, income and expenses of the parent and its subsidiaries. There is one exception to the requirements: paragraphs 12 and 13 of IFRS 12 require disclosure of summarised financial information for subsidiaries that have material non-controlling interests or for which there are significant restrictions on the parent's ability to access or use the assets or settle the liabilities. However, if a parent is exempt from consolidation in accordance with paragraph 4 of IFRS 10 and presents separate financial statements as its only financial statements, the parent does not have to comply with the disclosure requirements in paragraphs 12 and 13 of IFRS 12.

33. The staff therefore conclude that there is no requirement to disclose any information specific to the assets, liabilities, income and expenses of subsidiaries in the parent's separate financial statements, irrespective of whether the parent prepares consolidated financial statements.

Disclosure requirements for subsidiaries in separate financial statements

34. Paragraph 7 of the Basis for Conclusions on IAS 27 explains that in the separate financial statements a parent accounts for its subsidiaries as equity investments.

35. Disclosure requirements that apply to equity investments in separate financial statements comprise:

    (a) the requirements in IFRS 7 *Financial Instruments: Disclosures* apply only if the parent accounts for its investments in subsidiaries using IFRS 9 *Financial Instruments* (that is, fair value);

    (b) the requirements in IFRS 12 that apply to unconsolidated structured entities and investment entities; and

    (c) the requirement in paragraph 17 of IAS 27 to disclose a list of the significant investments in subsidiaries, including their name, principal place of business and proportion of ownership interest held in those investees.

36. None of these requirements involve quantitative information of amounts arising from transactions with subsidiaries or of the amounts relating to investments in subsidiaries reported in the financial statements, unless the investments are carried at fair value. Based on the above, the staff think that if the IASB did not propose requiring any of the additional disclosure requirements, that decision would be consistent with the requirements in other IFRS Accounting Standards.

37. However, the staff note that the IASB's tentative decision that a parent recognises in full gains or losses from transactions with its subsidiaries in its separate financial statements when applying the equity method to its investments in subsidiaries will be a change to the requirements in IAS 28. For a user interested in the parent entity's performance, it may be helpful to understand how much of the net profit or loss has been generated from transactions with the subsidiaries. Therefore, we recommend that the IASB proposes requiring the disclosure requirement set out in paragraph 12(c) in this paper for investments in subsidiaries – that is, gains or losses from transactions to subsidiaries.

38. At its September 2023 meeting, the IASB decided to propose amendments to IFRS 12 that would require disclosing gains or losses from transactions to its associates. The IASB could have decided to propose amendments to IAS 24 but decided against this as IAS 24 does not apply only to associates but to all related parties. For the same reason, the staff recommend that if the IASB decides to propose the disclosure requirement for subsidiaries in separate financial statements, it should propose amending IAS 27 rather than IAS 24.

Question for the IASB

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 3 of this paper?

Appendix A— IASB's tentative decisions on improvements to disclosure requirements for investments in associates

A1. At its September 2023 meeting, the IASB tentatively decided to:

(a) to require an investor to disclose gains or losses arising from an increase or decrease in the associate's net assets that change the investor's ownership interest if the investor continues applying the equity method and does not exchange consideration with its associate.

(b) to require an investor to disclose, for contingent consideration arrangements:

(i) on obtaining significant influence of the associate- the amount recognised at the acquisition date; a description of the arrangement and the basis for determining the amount of the payment; and an estimate of the range of outcomes (undiscounted).

(ii) for each reporting period after the acquisition date until the investor collects or settles the contingent consideration or it is cancelled or expires- any changes in the recognised amounts, including any differences arising upon settlement; any changes in the range of outcomes (undiscounted) and the reasons for those changes; and the valuation techniques and key model inputs used to measure the contingent consideration.

(c) to require an investor to disclose gains or losses resulting from transactions to its associates.

(d) to introduce a disclosure objective to disclose information that enables users to evaluate the changes in the amounts in an investor's financial statements arising from investments in associates.

(e) to require an investor to disclose a reconciliation between the opening and closing carrying amount of the investments in associates, to meet the objective in paragraph A1(d) of this appendix.