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## Capital Markets Advisory Committee meeting

Date	19 October 2023
Project	Equity Method
Topic	Project update—including improvements to disclosure requirements for investments in associates
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This paper has been prepared for discussion at a public meeting of the Capital Markets Advisory Committee (CMAC). This paper does not represent the views of the International Accounting Standards Board (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 are reported in the IASB *Update*.



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## Purpose of this session

Provide an update on the Equity Method project

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Present some of the IASB's tentative decisions on application questions

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Ask CMAC members if the disclosure requirements the IASB has tentatively decided to propose will improve information to users (slides 10–15 of this deck)

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## Questions for CMAC members\*

**1**

Do you think the disclosure requirements the IASB has tentatively decided to propose will provide useful information?

(slides 10–15 of this deck)

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**2**

Do you have any other comments on the IASB's tentative decisions on application questions?

(slides 7–8 of this deck)

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\* To evaluate the disclosure requirements in slides 10–15 of this deck, the IASB's tentative decisions on application questions take presentation precedence in the deck.

## Overview of the Equity Method project\*

### Objective

Develop answers to application questions about the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, using the principles derived from IAS 28.

### Project update

IASB has made tentative decisions on application questions, and on improvements to disclosure requirements, for:

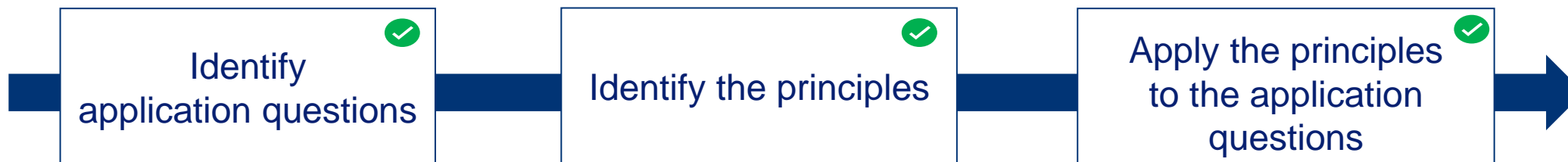
Associates 

### Next steps

Discuss implications of applying tentative decisions, and possible improvements to disclosure requirements, to:

- Joint ventures
- Subsidiaries in separate financial statements

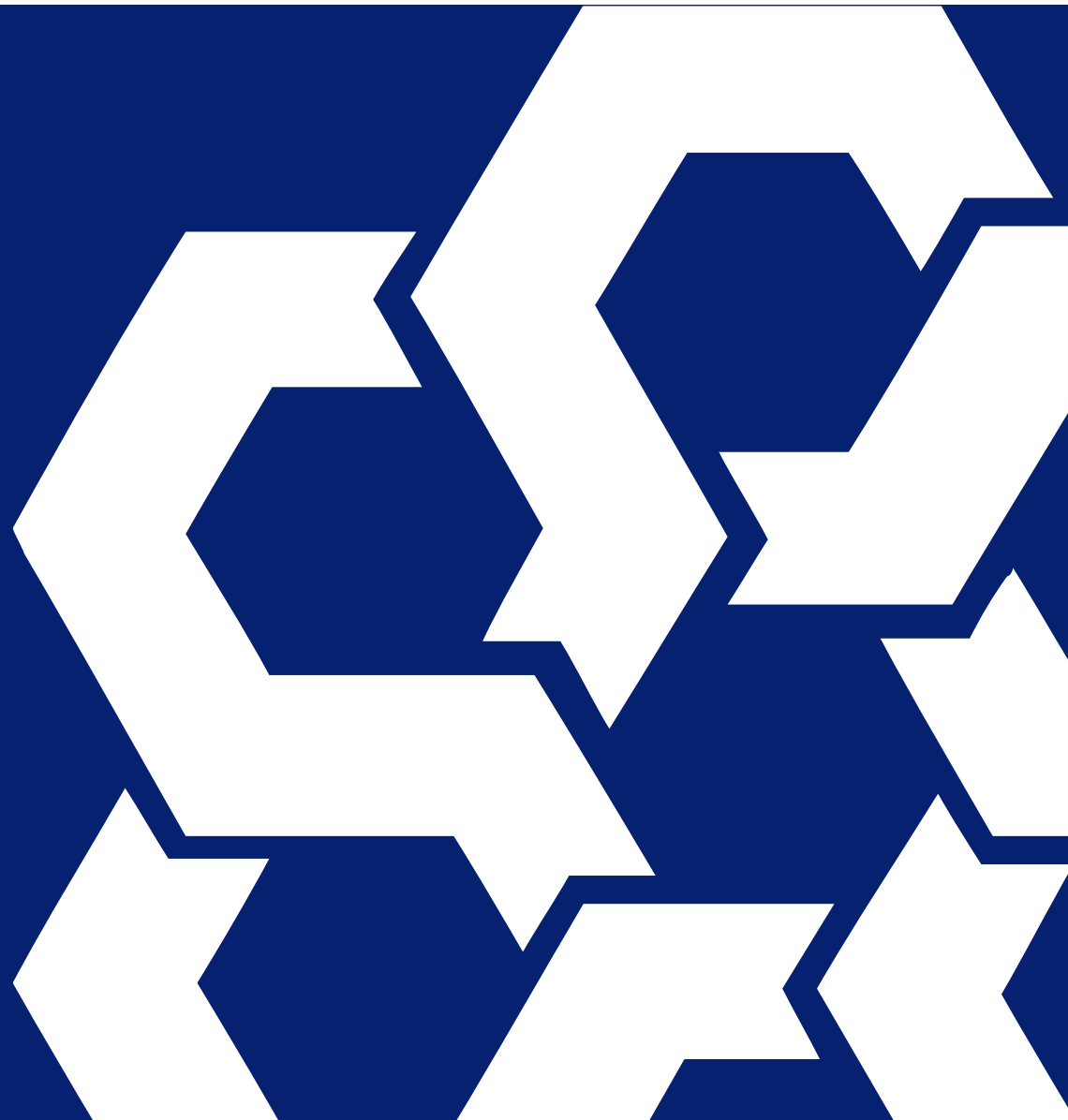
### Project approach



\* For more details about the project, please refer to the [project page](#) on the IFRS website, including the [summary of the IASB's tentative decisions on application questions](#).

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## IASB's tentative decisions on application questions



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## Overview of the IASB's tentative decisions in the project

The IASB's tentative decisions do not change:

### Scope

investments an entity is required to apply the equity method

### Definition

definition and assessment of significant influence and joint control, and definition of the equity method

### Information

disclosure of summarised financial information for the associates and joint ventures (assets, liabilities and profit or loss items)

## Summary of some of the IASB's tentative decisions

Obtaining significant influence	
<b>Cost</b>	The <b>fair value</b> of consideration transferred, including fair value of <b>any previously held interest</b> in the associate.
Changes in an investor's interest while retaining significant influence	
<b>Additional purchase</b>	Measure as an <b>accumulation of purchases</b> . Recognise <b>difference</b> between the cost of the additional interest and the additional share in the net fair value of the associate's identifiable assets and liabilities either as <b>goodwill</b> , or a <b>bargain purchase gain</b> .
<b>Partial disposal</b>	Measure the <b>portion</b> to be derecognised as a <b>proportion of the carrying amount</b> of the investment.
<b>Other changes</b>	Recognise <b>other</b> changes in ownership interest as an <b>additional purchase</b> or a <b>partial disposal</b> .

Slides 10–11

Slide 12



## Summary of some of the IASB's tentative decisions

### Transactions with equity accounted investments

Recognise the **full gain or loss** resulting on **all transactions** with the associate. **Disclose an investor's gain or loss on transactions to its associates.**

Slide 13

### Contingent consideration

*On obtaining significant influence in an associate,* recognise **contingent consideration** as **part** of the cost of the **investment** and measure it at **fair value**.

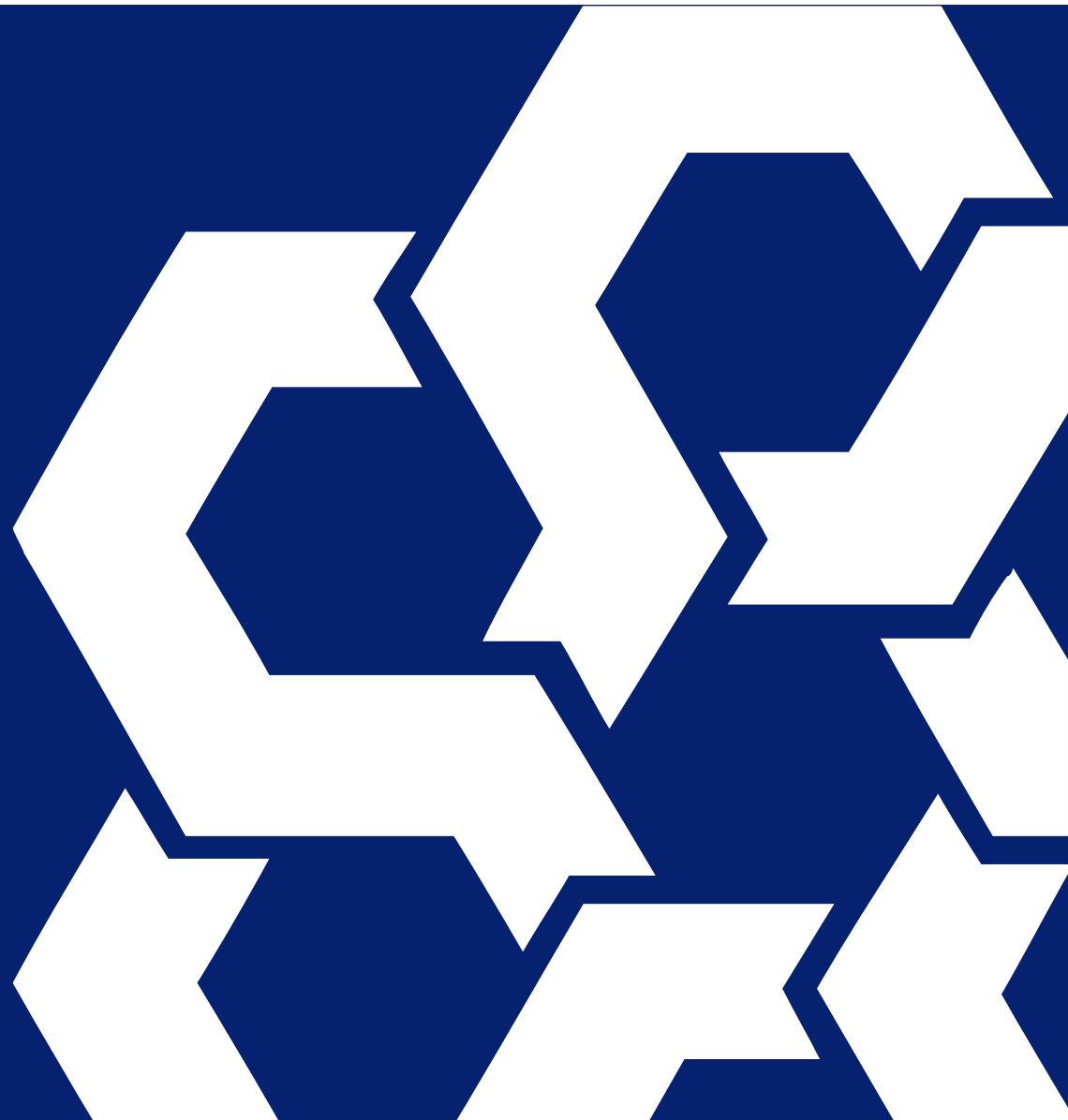
*For each subsequent reporting period,* measure (except contingent consideration classified as equity) at **fair value** at each reporting date and recognise **changes in fair value** in **profit or loss**.

Slides 14–15



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## Improvements to disclosure requirements for investments in associates





## Disclosure: Reconciliation of carrying amount of investments in associates



### Proposed disclosure

Disclose a reconciliation between the opening and closing carrying amount of investments in associates. Disclose in the reconciliation:

- *share of profit or loss and other comprehensive income.*
- *distributions received.*
- *increases and decreases for investments on starting or discontinuing applying the equity method.*
- *impairment losses.*



### IASB rationale

Will provide information on:

- changes in the carrying amounts.
- return on investments and the risks associated.
- effects of cash and non-cash flows.

## Example from practice: Reconciliation of carrying amount of investments

In millions of CHF

	2022				2021			
	Associate A	Other associates	Joint ventures	<b>Total</b>	Associate A	Other associates	Joint ventures	<b>Total</b>
At January 1	7 554	2 545	1 707	<b>11 806</b>	8 640	1 757	1 608	<b>12 005</b>
Currency retranslations	(362)	(174)	(46)	<b>(582)</b>	(413)	(47)	(2)	<b>(462)</b>
Investments	—	1 147	22	<b>1 169</b>	—	641	33	<b>674</b>
Divestments and reclassifications	—	(5)	—	<b>(5)</b>	(1 587)	(3)	(6)	<b>(1 596)</b>
Share of results	1 151	(213)	156	<b>1 094</b>	1 156	17	33	<b>1 206</b>
Impairment	—	(106)	(3)	<b>(109)</b>	—	—	3	<b>3</b>
Share of other comprehensive income	173	63	26	<b>262</b>	552	—	60	<b>612</b>
Dividends and interest received	(530)	(33)	(45)	<b>(608)</b>	(571)	(35)	(51)	<b>(657)</b>
Other	(77)	70	3	<b>(4)</b>	(223)	215	29	<b>21</b>
<b>At December 31</b>	<b>7 909</b>	<b>3 294</b>	<b>1 820</b>	<b>13 023</b>	<b>7 554</b>	<b>2 545</b>	<b>1 707</b>	<b>11 806</b>



## Disclosure: Other changes in an investor's ownership interests



### Proposed disclosure

Disclose gains or losses on other changes in an associate's net assets that change an investor's ownership interest, while retaining significant influence.

*Aims to capture transactions such as an associate issuing new shares, while the investor does not participate and therefore the investor's holding is diluted.*



### IASB rationale

Will provide information:

- on transactions arising from non-cash transactions (no direct exchange of cash with its associate or third parties).
- to help assess the value of the investment, for example, a dilution loss may be perceived as an impairment indicator.



## Disclosure: Gains or losses on all transactions with associates



**Proposed  
disclosure**

Disclose an investor's gain or loss on transactions to its associates (not on transactions from its associates).

*This proposed disclosure was discussed at [CMAC March 2023 meeting \(Agenda paper 4A\)](#).*



**CMAC  
advice to  
IASB**

- Allows users the flexibility to adjust for gains or losses in analysing the associate's performance.
- Helps users to understand the reasonableness, fairness and sustainability of the transactions.
- Helps users to estimate if transactions are at arm's length (on market terms).



## Disclosure: Contingent consideration arrangements



### Proposed disclosure

Contingent consideration arrangements, disclose:

— *on obtaining significant influence in an associate:*

— amount;

— a description of the arrangement;

— basis for determining the amount; and

— and an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated.

— *subsequent periods until settlement or expiration*—any changes in the amounts recognised or range of outcomes (undiscounted) and the reasons for those changes; and the valuation techniques and key inputs used to measure the contingent consideration.

*The requirements are aligned to those in business combinations in IFRS 3.*

## Disclosure: Contingent consideration arrangements



### Proposed disclosure

*Aims to capture transactions when an investor acquires, for example, a 25% interest in an associate, which results in it having significant influence, for consideration that is payable in two tranches:*

- an immediate payment of CU1,000 on obtaining significant influence in the associate (cash consideration); and*
- a further payment that would be calculated as 5% of the associate's profits (before interest and tax) in the following two years (contingent consideration).*



### IASB rationale

- Providing useful information in assessing the amount, timing and uncertainty of the entity's future cash flows.
- Consistent with paragraph 20(b) of IFRS 12—enables users to evaluate the nature of, and changes in, the risks associated with the interests in associates.

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Thank you

For more details about the project, please refer to the [project page](#) on the IFRS website



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