
IASB[®] meeting

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| Date | February 2024 |
| Project | Annual Improvements to IFRS Accounting Standards—Volume 11 |
| Topic | Cost Method (Amendments to IAS 7 <i>Statement of Cash Flows</i>): Analysis of feedback |
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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. As explained in Agenda Paper 12 *Maintenance and consistent application—Cover paper*, this paper analyses feedback on *Cost Method (Amendments to IAS 7 Statement of Cash Flows)* included in the [Exposure Draft Annual Improvements to IFRS Accounting Standards—Volume 11](#). The International Accounting Standards Board (IASB) proposed to amend paragraph 37 of IAS 7 to remove a reference to ‘cost method’ that is no longer defined in IFRS Accounting Standards.

Summary of staff recommendations

2. We recommend that the IASB finalise with no changes the proposed amendment to paragraph 37 of IAS 7.

Structure of this paper

3. This paper includes:
 - (a) [Background information](#);
 - (b) [Summary of feedback](#);
 - (c) [Staff analysis](#);

- (d) [Staff recommendation and question for the IASB](#); and
- (e) [Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph 37 of IAS 7](#).

Background information

4. Paragraphs BC1–BC2 of the Basis for Conclusions on the proposed amendments to IAS 7 in the Exposure Draft explain the background and the IASB’s rationale for the proposed amendments. Paragraphs BC1–BC2 state:

BC1 In May 2008 the IASB amended IFRS Accounting Standards by issuing *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. As part of those amendments, the IASB removed the definition of ‘cost method’ from IFRS Accounting Standards.

BC2 Paragraph 37 of IAS 7 *Statement of Cash Flows* includes a reference to the term ‘cost method’, the retention of which was a minor oversight. Therefore, the IASB proposes to amend paragraph 37 to replace the term ‘cost method’ with ‘at cost’.

5. The IASB did not propose any specific transition requirements. As discussed in [Agenda Paper 12F](#) for the February 2023 IASB meeting, the IASB does not expect any change in practice arising from the proposed amendments. In the absence of any specific transition requirements, an entity would apply the proposed amendments retrospectively in accordance with paragraph 19(b) of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
6. Appendix A to this paper reproduces the proposed amendments to paragraph 37 of IAS 7.

Summary of feedback

7. Thirty-five respondents commented on the proposed amendments to paragraph 37 of IAS 7. All respondents agreed with the proposed amendments. Only a few respondents provided additional comments which are discussed in paragraphs 9–11 of this paper.
8. No respondents commented on the proposed transition requirements.

Definition of ‘cost’ in IAS 27

9. A national standard-setter said there is a lack of clear definition of ‘cost’ in IAS 27 *Separate Financial Statements*. This respondent said, as a result, there is diversity in accounting for transactions related to investments in subsidiaries, joint ventures and associates and provided as examples ‘non-cash acquisition’ and ‘judgement on derecognition’. This respondent suggested that the IASB clarify the definition of ‘cost’ in IAS 27 or provide guidance and educational materials on applying other IFRS Accounting Standards to transactions related to investments in subsidiaries, joint ventures and associates measured at cost.

Interaction with paragraph 10 of IAS 27

10. A national standard-setter noted that paragraph 37 of IAS 7 currently includes only two methods to account for investments in subsidiaries, joint ventures and associates—namely, cost method and equity method. This respondent referred to paragraph 10 of IAS 27 which includes another method. The paragraph states [emphasis added]:

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. The respondent suggested adding a method ‘in accordance with IFRS 9’ to paragraph 37 of IAS 7, to align the scope of that paragraph with that of paragraph 10 of IAS 7.

Staff analysis

Definition of ‘cost’ in IAS 27

12. We think the respondent’s suggested courses of action, summarised in paragraph 9 of this paper, would go beyond the scope of an annual improvement. Clarifying the definition of ‘cost’ in IAS 27, for example, could have extensive implications for requirements in both IAS 27 and other IFRS Accounting Standards.
13. Furthermore, we think the respondent’s suggested courses of action would go beyond resolving the matter that the IASB is seeking to address. The IASB was informed of, and is seeking to replace, a reference to the term ‘cost method’ that is no longer defined in the IFRS Accounting Standards. We think the IASB’s tentative decision to replace the obsolete term with ‘at cost’ would efficiently resolve the matter.

Interaction with paragraph 10 of IAS 27

14. The IASB had considered the interaction with paragraph 10 of IAS 27 when it first discussed the proposed amendments at its [February 2023](#) meeting. At that meeting, the IASB tentatively decided not to add the phrase ‘in accordance with IFRS 9’ to paragraph 37 of IAS 7. The IASB’s tentative decision reflected the staff’s view¹:

The Basis for Conclusions on IAS 7 does not include an explanation of the reasoning behind paragraph 37 of IAS 7. We

¹ See paragraphs 18–21 of [Agenda Paper 12F](#) for the February 2023 IASB meeting.

do not have reason to think that the IASB intended to include an investment accounted for in accordance with IFRS 9 in the scope of paragraph 37 of IAS 7. Doing so would effectively introduce a new requirement and, consequently, not meet the criteria for annual improvements as set out in the *Due Process Handbook*—in particular, paragraphs 6.12–6.13 state that annual improvements do ‘not propose a new principle or change an existing principle’.

15. We continue to agree with that the IASB’s tentative decision not to add the phrase ‘in accordance with IFRS 9’ to paragraph 37 of IAS 7.

Staff recommendation and question for the IASB

16. Based on our analysis in this agenda paper, we recommend the IASB finalise with no changes the proposed amendments to paragraph 37 of IAS 7 (see Appendix A to this paper).

Question for the IASB

Does the IASB agree with our recommendation to finalise with no changes the proposed amendments to paragraph 37 of IAS 7 (see Appendix A to this paper)?

Appendix A—Extract from the Exposure Draft for proposed amendments to paragraph 37 of IAS 7

Paragraph 37 is amended. New text is underlined and deleted text is struck through.

Investments in subsidiaries, associates and joint ventures

37 When accounting for an investment in associate, a joint venture or a subsidiary accounted for by use of the equity method or ~~at cost method~~, an investor restricts its reporting in the statement of cash flows to the cash flows between itself and the investee, for example, to dividends and advances.

...

Paragraph 64 is added. For ease of reading, this paragraph has not been underlined.

Effective date

...

64 *Annual Improvements to IFRS Accounting Standards—Volume 11*, issued in [Month, Year], amended paragraph 37. An entity shall apply that amendment for annual reporting periods beginning on or after [date to be determined]. Earlier application is permitted. If an entity applies that amendment for an earlier period, it shall disclose that fact.