Staff paper

Agenda reference: 13B

IASB® meeting

Date	**February 2024**
Project	**Equity Method**
Topic	**Towards an Exposure Draft—Interaction with the IASB's project Disclosure Initiative—Subsidiaries without Public Accountability: Disclosures**
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Introduction and purpose of this paper

1. At its meeting in November 2023, the International Accounting Standards Board (IASB) completed its technical discussions on the application questions in the scope of the Equity Method project. The Equity Method project's objective is to develop answers to application questions on the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, using the principles derived from IAS 28 where possible. Agenda paper 13 *Cover Paper* of this meeting provides a summary of the IASB's tentative decisions in the project.

2. The purpose of this paper is to ask the IASB to consider which, if any, of the disclosure requirements to be proposed in the future exposure draft on IAS 28 Amended, should also be proposed as amendments to the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard).

Staff recommendation

3. The staff recommend the IASB proposes amendments to the Subsidiaries Standard to require an eligible subsidiary to disclose:[1]

   (a) *on obtaining significant influence in an associate or joint control of a joint venture*—the amount of contingent consideration recognised as part of the cost of the investment, a description of the contingent consideration arrangement and the basis for determining the amount of the payment;

   (b) *for each subsequent reporting period until the eligible subsidiary collects or settles the contingent consideration or until it is cancelled or expires*—any changes in the recognised amounts, including any differences arising upon settlement, and the valuation techniques and key model inputs used to measure the contingent consideration;

   (c) a reconciliation between the opening and closing carrying amount of its investments in associates and joint ventures; and

   (d) gains or losses on downstream transactions to its associates, joint ventures and 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*.

Structure of this paper

4. This paper is structured as follows:

   (a) background (paragraphs 5–11 of this paper);

   (b) staff analysis (paragraphs 12–29 of this paper):

      (i) contingent consideration arrangements (paragraphs 13–20 of this paper);

[1] The term 'eligible subsidiaries' refers to an entity that will be eligible to apply the new IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures.*

(ii) a reconciliation between the opening and closing carrying amount of an investor's investments in associates (paragraphs 21–24 of this paper);

(iii) other changes in the associate's net assets that change an investor's ownership interest (paragraphs 25–27 of this paper); and

(iv) transactions with associates (paragraphs 28–29 of this paper); and

(c) question for the IASB.

Background

5. In July 2021 the IASB published its Exposure Draft *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries ED). In July 2023, the IASB completed its redeliberations of the proposals in the Subsidiaries ED and confirmed it was satisfied that applicable due process requirements had been complied with and sufficient consultation and analysis were undertaken to begin the process for balloting the Subsidiaries Standard. The IASB expects to issue the Subsidiaries Standard in the first half of 2024.

6. The Subsidiaries Standard will permit eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements.

7. The Subsidiaries ED proposed reduced disclosure requirements for IFRS Accounting Standards issued up to February 2021. Subsequent to this, on an ongoing basis, each exposure draft of a new or amended IFRS Accounting Standard will, if relevant, propose amendments to the Subsidiaries Standard so that the disclosure requirements in the Subsidiaries Standard remain up to date.

8. At its September 2023 meeting the IASB discussed a summary of its approach to making amendments to the forthcoming Subsidiaries Standard resulting from changes to the disclosure requirements in new or amended IFRS Accounting Standards. [2]

[2] See AP31 *Approach to maintenance* of the September 2023 meeting and IASB update.

9. The IASB noted that potential amendments to the Subsidiaries Standard arising from a new or amended IFRS Accounting Standard will be considered:

   (a) individually based on the principles for reducing disclosures; and

   (b) as a group to ensure that the effect of making the amendments is proportionate and preserves the goal of maintaining the usefulness of financial statements of eligible subsidiaries with reduced disclosure requirements.

10. The principles for determining which disclosure requirements to include in the Subsidiaries Standard are as follows (see paragraph BC34 of the Basis for Conclusions on the Subsidiaries ED):

    (a) short-term cash flows, obligations, commitments and contingencies: users are interested in information about short-term cash flows and about obligations, commitments or contingencies, whether or not recognised as liabilities;

    (b) liquidity and solvency: users are interested in information about liquidity and solvency, that is, about the entity's ability to generate cash flows and continue as a going concern;

    (c) measurement uncertainty: users need information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations;

    (d) disaggregation: users want information about composition or details of movements of amounts in the financial statements; and

    (e) accounting policy choices: users are interested in the accounting policies applied by an entity, particularly when a Standard offers more than one accounting policy option.

11. As noted in Agenda Paper 31 *Approach to maintenance* of the September 2023 IASB meeting, when assessing amendments to the Subsidiaries Standard, the IASB also considers:

(a) a global assessment of the relative costs and benefits of revised disclosure requirements for eligible subsidiaries, to ensure that the Subsidiaries Standard meets the needs of users of eligible subsidiaries while also being sufficiently appealing to subsidiaries themselves, so they can benefit from the cost savings associated with applying the Subsidiaries Standard; and

(b) when amending paragraphs in IFRS Accounting Standards that are not in the Subsidiaries Standard, the reason the IASB previously decided not to include that disclosure requirement.

Staff analysis

12. This Agenda paper refers to investments in associates. However, the proposed amendments would also apply to investments in joint ventures.

Contingent consideration arrangements

Initial recognition

13. At its September 2023 meeting, the IASB tentatively decided to propose that an investor that has entered into a contingent consideration arrangement be required by IFRS 12 *Disclosure of Interests in Other Entities* to disclose on obtaining significant influence in an associate:

(a) the amount recognised as part of the cost of the investment.

(b) a description of the arrangement and the basis for determining the amount of the payment.

(c) 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. If the maximum amount of the payment is unlimited, the investor shall disclose that fact.

14. Disclosure of the amount of contingent consideration that has been recognised as part of the cost of the investment (see paragraph 13(a) of this paper) provides users with information about cash flows and commitments. A description of the arrangement and the basis for determining the amount of the payment (see paragraph 13(b) of this paper) would benefit users of eligible subsidiaries' financial statements as this provides information about measurement uncertainties.

15. Furthermore, the disclosure requirements in paragraphs 13(a) and 13(b) of this paper, were proposed in the Subsidiaries ED (paragraphs 36(f)(i) and 36(f)(ii)) under the IFRS 3 *Business Combinations* sub-heading. Consequently, for consistency, the staff recommend the IASB propose adding these disclosure requirements to the Subsidiaries Standard for investments in associates and joint ventures.

16. The disclosure requirement in paragraph 13(c) of this paper was not proposed in the Subsidiaries ED under the IFRS 3 sub-heading. However, paragraph 124 of the Subsidiaries ED proposed requiring eligible subsidiaries to disclose information about judgements that have the most significant effect on the amounts recognised in the financial statements. Paragraph 125 of the Subsidiaries ED proposed to require disclosures about the assumptions an eligible subsidiary makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment of the carrying amount of assets and liabilities within the next financial year. The staff think that these paragraphs would provide sufficient information to address the needs of users of non-publicly accountable entities if there was a risk that the amount of contingent consideration could materially diverge from the amount recognised.

17. Furthermore, the staff think the disclosure in paragraph 13(c) of this paper would be complex and costly to prepare for eligible subsidiaries and therefore recommend not requiring eligible subsidiaries to provide this disclosure.

Subsequent measurement

18. At its September 2023 meeting, the IASB tentatively decided to propose in IFRS 12 that an investor that has entered into a contingent consideration arrangement discloses for each subsequent reporting period until the investor collects or settles the contingent consideration or until it is cancelled or expires:

    (a) any changes in the recognised amounts, including any differences arising upon settlement;

    (b) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and

    (c) the valuation techniques and key model inputs used to measure the contingent consideration.

19. The staff recommend the IASB do not propose including in the Subsidiaries Standard a requirement for eligible subsidiaries to disclose the information provided by paragraph 18(b) of this paper, for the same reasons provided in paragraph 16 of this paper. The staff also note that this is consistent with the decisions previously made relating to subsequent measurement disclosure requirements for contingent consideration arrangements for business combinations in the Subsidiaries Standard.

20. The staff recommend the IASB propose to include the disclosure requirements in paragraph 18(a) and 18(c) of this paper in the Subsidiaries Standard because these disclosure requirements support the disaggregation principle and the measurement uncertainty principle as well as providing information about cash flows and commitments. Furthermore, these disclosure requirements were proposed in paragraph 38 of the Subsidiaries ED under the IFRS 3 sub-heading.

A reconciliation between the opening and closing carrying amount of an investor's investments in associates

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

    (a) propose to add to IFRS 12 a disclosure objective requiring an investor to disclose information that enables users of its financial statements to evaluate the changes in the amounts in the financial statements arising from investments in associates; and

    (b) require an investor to disclose a reconciliation between the opening and closing carrying amount of its investments in associates.

22. In relation to the proposal in paragraph 21(a) of this paper, the staff note that at its April 2023 meeting, the IASB decided not to include disclosure objectives in the Subsidiaries Standard. Paragraph 17 of Agenda Paper 31A to that meeting states:

> Whilst acknowledging the views of respondents that support retaining the disclosure objectives, an eligible subsidiary applying the draft Standard is not prohibited from providing disclosures required by IFRS Accounting Standards to comply with the fair presentation requirements in IAS 1 [Presentation of Financial Statements]. The IASB's view [in the Subsidiaries ED] was that including the disclosure objectives may compel an eligible subsidiary to provide the same disclosures as if they had not applied the draft Standard, which would be contrary to the project objective.

23. Accordingly, we recommend the IASB do not propose adding the new disclosure objective to the Subsidiaries Standard.

24. In relation to the proposal in paragraph 21(b) of this paper, the staff note that the principles for determining which disclosure requirements to include in the Subsidiaries Standard include that users of eligible subsidiaries' financial statements are interested in disaggregation of amounts reported in the financial statements. A reconciliation between the opening and closing balance of the carrying amount of investments in associates would help users to understand the material changes in the amounts of the investments and therefore supports the disaggregation principle. Accordingly, we recommend the IASB propose amending the Subsidiaries Standard to require an eligible subsidiary to disclose a reconciliation between the opening and closing carrying amount of its investments in associates.

Other changes in the associate's net assets that change an investor's ownership interest

25. At its September 2023 meeting, the IASB tentatively decided to propose including in IFRS 12 a requirement for an investor to disclose the gain or loss from recognising its share of other changes in its associate's net assets that change its ownership interest, while it retains significant influence.

26. The staff note that this disclosure requirement supports the disaggregation principle (see paragraph 10(d) of this paper). However, the staff think that if the amount is material, eligible subsidiaries would disclose such amounts in the reconciliation between the opening and closing carrying amount of an investor's investments in associates (see paragraph 24 of this paper).

27. Therefore, we recommend the IASB do not propose this new disclosure requirement in the Subsidiaries Standard.

Transactions with associates

28. At its September 2023 meeting, the IASB tentatively decided to propose including in IFRS 12 a requirement for an investor to disclose its gains or losses on transactions to its associates or joint ventures. ('downstream' transactions). As noted in AP13C *Towards an Exposure Draft—Possible improvements to disclosure requirements for investments in associates* of the September 2023 IASB meeting, users' input confirmed that information on the financial impact of transactions between an investor and its associates is helpful because the terms of the transaction may be affected by the related party relationship. If an investor does not present the gain or loss on transactions with its associate as a separate item in its statement of comprehensive income, no information on the financial impact of these transactions will be available in the investor's financial statements.

29. The staff think that requiring an investor to disclose gains or losses from transactions to its associates would be helpful to users of eligible subsidiaries' financial statements in disaggregating gains or losses from third parties versus gain or losses from associates or joint ventures. Consequently, the staff recommend the IASB propose adding this new disclosure requirement in the Subsidiaries Standard as it supports the disaggregation principle.

Question for the IASB

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