IFRS Accounting

Staff paper

Agenda reference: 12A

IASB® meeting

Date	**December 2025**
Project	**Amendments to the Fair Value Option (IAS 28)**
Topic	**Potential amendments to the scope of the fair value option**
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Purpose of the meeting

1 At its October 2025 meeting, the International Accounting Standards Board (IASB) decided to add a maintenance project to its work plan to explore narrow-scope amendments to the scope of paragraphs 18–19 of IAS 28 *Investments in Associates and Joint Ventures*.

2 This paper:

(a) discusses the scope of potential amendments to paragraphs 18–19 of IAS 28;

(b) sets out potential amendments; and

(c) asks the IASB whether it agrees with our recommendation in paragraph 6 of this paper.

3 In this paper references to 'investor' and 'associate' should be read as also referring to 'joint venturer' and 'joint venture' in relation to investments in joint ventures.

Structure of the paper

4 This paper includes:

(a) staff recommendation (paragraph 6);

(b) questions for the IASB;

(c) background (paragraphs 7–11); and

(d) scope of potential amendments (paragraphs 12–29).

5 Appendix A to this paper sets out the potential amendments to paragraphs 18–19 of IAS 28.

Staff recommendation

6 Based on the staff analysis in paragraphs 12–29 of this paper, we recommend that the IASB:

(a) amends paragraphs 18–19 of IAS 28 to clarify that similar entities include those that invest in assets as a main business activity;

(b) does not explore an option to revoke the fair value option as part of this narrow-scope project; and

(c) consults on this proposal through an exposure draft.

Questions for the IASB

Questions for the IASB
Do you agree with our recommendation to: (a) amend paragraphs 18–19 of IAS 28 to clarify that similar entities include those that invest in assets as a main business activity; (b) not explore an option to revoke the fair value option as part of this narrow-scope project; and (c) consult on this proposal through an exposure draft?

Background

7 Paragraphs 18–19 of IAS 28 permit an investor to elect to measure an investment in an associate (or a portion thereof) at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* if the investment (or a portion thereof) is held by a venture capital organisation, mutual fund, unit trust and similar entities, including investment-linked insurance funds.

8 Electing to measure an investment in associate at fair value (the fair value option) also affects the presentation of income and expenses from the associate in the statement of comprehensive income. For example, IFRS 18 *Presentation and Disclosures in Financial Statements* generally requires an entity to classify income and expenses from investments in associates in the investing category of its statement of profit or loss. However, for investments in associates that an entity invests in as a main business activity, paragraph 55 of IFRS 18 requires that the entity classifies the income and expenses from these investments in the operating category if the assets are not accounted for applying the equity method.

9 At its October 2025 meeting, the IASB decided to add a project to its work plan to explore narrow-scope amendments to the scope of paragraphs 18–19 of IAS 28. The IASB decided to explore amendments to these requirements because stakeholders, particularly those in the insurance industry, have reported diversity in practice. Specifically, these stakeholders reported diversity in how the scope of investments to which the fair value option in paragraphs 18–19 of IAS 28 applies, is interpreted in practice.

10 Stakeholders said that this diversity arises because of:

(a) a lack of clarity in the requirements in paragraph 18 of IAS 28. In particular, the meaning of ‘similar entities, including investment-linked insurance funds’ and how narrowly or broadly that requirement should be interpreted.

(b) perceived inconsistencies between the scope of the fair value option in IAS 28 and other requirements, including the requirements about specified main business activities in paragraphs 50 and 55 of IFRS 18.

11 The project aims to explore whether the fair value option could be made available to a broader scope of investments held by specified entities.

Scope of potential amendments

Should the fair value option be restricted to specified entities?

12 In paragraphs 47–48 of Agenda paper 12A to the IASB's October 2025 meeting, we recommended that the objective of this project should be to make the fair value option available to a broader scope of investments held by specified entities instead of making the fair value option available to all entities.

13 We explained that although there are conceptual merits to making the fair value option available to all entities, we do not think such a project could be completed in time for the effective date of IFRS 18 (see paragraph 8 of this paper).

14 At that meeting, most IASB members generally agreed with our view that a narrow-scope standard-setting project could only be completed efficiently and in a cost-effectively way if the scope of any standard-setting is limited to investments in associates held by specified entities, including insurance entities.

15 Some IASB members specifically noted that the IASB has not been made aware of similar application questions outside of the insurance industry. Therefore, in their view, if the IASB were to explore extending the fair value option to all entities, it would need more time to gather information to inform its decision. A few IASB members also noted that extending the fair value option to all entities might have unintended consequences for its active project on the equity method of accounting.

16 However, some IASB members supported extending the fair value option to all entities because in their view, fair value measurement provides better information to investors. An IASB member said that in their view, this amendment could be completed in time for the effective date of IFRS 18. An IASB member also noted that the equivalent requirements in US GAAP permit all entities to elect the fair value option, therefore, they would not expect any unintended consequences if the IASB were to extend the fair value option to all entities.

17 Although we acknowledge the conceptual merits of an unrestricted fair value option, our view is that such an amendment to IAS 28 could be perceived as a significant change. This is because the existing fair value option in IAS 28 is restricted to specified entities. The IASB has also not been provided with evidence of wider application questions about the scope of the fair value option in IAS 28 (see summary of responses to the IASB's information request in paragraphs 24–36 of Agenda Paper 12A to the IASB's October meeting) . For these reasons, we think that if the IASB wants to explore an unrestricted fair value option, more time and research would be needed to assess the likely effects of such an amendment.[1] Therefore, our view continues to be that such an amendment could not be completed before the effective date of IFRS 18.

18 We, therefore, continue to recommend that the scope of this project is restricted to making the fair value option available to a broader scope of investments held by specified entities for the reasons explained in paragraph 17.

Which specified entities should be permitted to apply the fair value option?

19 Paragraph 18 of IAS 28 already specifies that an entity is permitted to measure its investments in associates using the fair value option, if it is 'a venture capital

[1] Paragraph 6.6 of the *Due Process Handbook* requires the IASB to consider 'the likely effects of the proposals'.

organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance fund'.

20 As noted in paragraph 10 of this paper, diversity arises because of a lack of clarity about the meaning of 'similar entities, including investment-linked insurance funds'. To target the identified application question, we think that any potential amendments to the existing requirements should clarify only these aspects and not amend the other specified entities in paragraph 18 of IAS 28. In our view, this will also minimise the effect of any potential amendments on entities that are already applying the fair value option in IAS 28 and reduce the risk of any unintended consequences.

21 Many respondents to the recent information request said that they are looking to apply the fair value option to some of their investments in associates because they invest in these types of assets as part of their main business activities. Making this election would result in income from these investments being classified in the operating category in accordance with paragraph 55 of IFRS 18 (see paragraph 28 of Agenda Paper 12A to the IASB's October meeting).

22 Paragraph B31 of IFRS 18 states:

> Examples of entities that might invest in assets as a main business activity include:
>
> (a) investment entities as defined by IFRS 10 Consolidated Financial Statements;
>
> (b) investment property companies; and
>
> (c) insurers.

23 We think that we could amend paragraph 18 of IAS 28 to clarify that similar entities include those that invest in assets as a main business activity. We also think that if we made this clarification, we could delete the example of an investment-linked insurance fund that is currently included in paragraph 18 of IAS 28.

24 In our view, this amendment would meet the objectives described in paragraph 20 of this paper. We also think that this amendment would respond to stakeholder feedback about the root cause of the diversity identified in practice (see paragraph 10 of this paper).

25 Appendix A of this paper sets out potential amendments to paragraphs 18–19 of IAS 28.

When should specified entities be permitted to elect the fair value option?

26 Paragraph 18 of IAS 28 requires an entity to elect to apply the fair value option at initial recognition of each associate or joint venture. There is no requirement in IAS 28 that permits an entity to revoke this election subsequent to initial recognition. In responding to the Exposure Draft *Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)*, respondents from the insurance industry said that entities should be permitted to revoke the election because the relationship between these investments and insurance liabilities may change over time.[2]

27 However, we do not recommend the IASB explore, as part of this narrow-scope project, an option to revoke the election subsequent to initial recognition. The IASB has added this project to its workplan specifically to respond to diversity in how entities interpret the scope of investments held by specified entities to which paragraphs 18–19 of IAS 28 applies. The matter of when the fair value option applies does not contribute to this diversity.

28 Furthermore, the IASB would need more time to explore the circumstances in which an entity would be permitted to revoke the fair value option and how to account for the resulting differences in measurement of the investments; therefore, any amendments would not be completed in time for the effective date of IFRS 18.

[2] Paragraph 32 of Agenda Paper 13A to the IASB's September 2025 meeting.

29 We also note that all other instances in which entities are permitted to elect the fair value option applying IFRS Accounting Standards, such election is irrevocable except when revoking the election is permitted as part of the transition provisions when applying a new Standard.[3]

[3] For example, paragraphs 4.1.5 and 7.2.8–7.2.9 of IFRS 9 *Financial Instruments* and paragraph C29 of IFRS 17*Insurance Contracts*.

Appendix A—Potential amendments to paragraphs 18–19 of IAS 28

A1. This appendix illustrates potential amendments to paragraphs 18–19 of IAS 28. Added text is underlined and deleted text is struck through.

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Exemptions from applying the equity method

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18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including those that invest in assets as a main business activity ~~investment-linked insurance funds~~, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. ~~An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features.~~ An entity shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. ~~(See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)~~

19 When an entity has an investment in an associate, a portion of which is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including those that invest in assets as a main business activity ~~investment-linked insurance funds~~, the entity may elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including those that invest in assets as a main business activity ~~investment-linked insurance funds~~, has significant influence over that portion of the investment. If the entity makes that election, the entity shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust

and similar entities including those that invest in assets as a main business activity ~~investment-linked insurance funds~~.

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