IFRS Accounting

Staff paper

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IASB® meeting

Date	**May 2025**
Project	**Equity Method**
Topic	**Feedback from comment letters—Recognition of an investor's share of losses and Impairment indicators**
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Purpose of this paper

1. This paper summarises the feedback from comment letters on questions 3 and 5 of the Invitation to Comment (ITC) in the *Exposure Draft Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)* (Exposure Draft).

2. This paper is for discussion only and the International Accounting Standards Board (IASB) is not asked to make any decisions on this paper at this meeting.

3. References to 'investor', 'associate' and 'significant influence' should be read as also referring to 'joint venturer', 'joint venture' and 'joint control' in relation to investments in joint ventures.

Structure of this paper

4. The feedback in this paper is structured as follows:

   (a) recognition of an investor's share of losses, Question 3 of the ITC (paragraphs 6–20 of this paper); and

   (b) impairment indicators, Question 5 of the ITC (paragraphs 21–32 of this paper).

5. The questions asked in the ITC are reproduced in grey boxes.

Recognition of an investor's share of losses

6. The IASB proposed in the Exposure Draft that if an investor has reduced the carrying amount of its investment to nil:

   (a) on purchasing an additional ownership interest in that associate, does not recognise its share of an associate's losses that it has not recognised by reducing the carrying amount of the additional ownership interest. The feedback on this proposal is discussed in paragraphs 7–13 of this paper; and

   (b) recognises and presents separately its share of the associate's profit or loss and its share of the associate's other comprehensive income. The feedback on this proposal is discussed in paragraphs 14–20 of this paper.

Question 3 of the ITC
Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.

Losses not recognised on the purchase of an additional interest

7. Paragraph 45 of the Exposure Draft, retained from IAS 28 unchanged, requires an investor to discontinue recognising its share of the associate's losses when the carrying amount of the net investment has been reduced to nil. Paragraph 48 of the Exposure Draft, also retained from IAS 28 unchanged, requires an investor to resume recognising its share of profits only when that share equals the share of losses not recognised.

8. The IASB's proposal in paragraph 49 of the Exposure Draft would apply to a situation where an investor has losses that have not been recognised on the existing ownership interest and purchases an additional ownership interest.

Summary of feedback

9. Most respondents to question 3 agreed with the IASB's proposal and provided the following arguments for their support:

   (a) an investor purchases an additional ownership interest when it expects the investment to provide positive returns in future;

   (b) deducting the losses not recognised would imply that the additional ownership interest is impaired, which may not align with the economic reality of the transaction; and

   (c) the proposal is conceptually consistent with the 'layers' approach for purchases of additional ownership interests, see paragraph 25 of Agenda Paper 13B.

10. The Japanese Bankers Association commented:

> Since the investor makes additional investment in an associate in anticipation that the future earning potential of the associate will allow the investor to recover the amount of such additional investment, we believe that requiring the investor to bear unrecognised losses arising from past events all at once at the time of additional investment ("catch up") is not consistent with the actual situation of the investment. We also believe that if the IASB were to require a "catch up" adjustment, this could have a negative impact on the economy as this may reduce the number of investments in associates with future potentials but with unrecognised losses.

11. Some respondents to question 3 expressed concerns with the proposal:

   (a) a few disagreed with the requirement in IAS 28 that the investor discontinues recognising the losses after the net investment has been reduced to nil.

(b) a few suggested that the investor should immediately deduct the losses not recognised from the carrying amount of the additional ownership interest. In their view, not doing so separates the economic reality of the transaction from the accounting treatment.

(c) a few suggested that the investor should not include goodwill in the carrying amount of the additional ownership interest if there are still losses not recognised. In their view, recognition of additional goodwill in situations where the net assets of an associate are negative would be inappropriate and may distort the faithful representation of economic reality.

12. A few respondents who commented recommended that the investor should deduct losses not recognised from the carrying amount of the additional ownership interest, if the transaction constitutes funding of the losses incurred by the associate. This suggestion is similar to the requirements in US GAAP Sub-topic 323-10 *Subsequent Measurement.*

13. Finally, some of the respondents to question 3 asked for clarifications on how the investor determines its share of profit or loss after the purchase of an additional interest, that is whether the investor is required to separately track and recognise the share of profit or loss for each layer; and how the investor determines when its share of profit has equalled the unrecognised losses.

Recognition of each component of comprehensive income (share of profit or loss and share of OCI)

14. Paragraph 27 of the Exposure Draft, retained from IAS 28 unchanged, requires an investor to recognise its share of the associate's profit or loss in its profit or loss, and its share of the associate's other comprehensive income in its other comprehensive income.

15. Paragraphs 50–52 of the Exposure Draft propose the investor recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income. The proposal would apply to the following situations:

    (a) the carrying amount of the net investment is positive, and both the investor's share of the associate's profit or loss and its share of OCI are losses. The investor would recognise its share of the associate's profit or loss first – in this paper we will refer to this part of the proposal as 'the order of recognition of losses'; and

    (b) the carrying amount of the net investment has been reduced to nil, the investor's share of associate's profit or loss is negative (or positive) and the share of OCI is positive (or negative). The investor would present the two shares separately, retaining a carrying amount in the net investment of nil – in this paper, we will refer to this part of the proposal as 'the separate presentation of the share of profit or loss and OCI'.

16. As IAS 28 already requires separate presentation of the investor's share of the associate's profit or loss and OCI, the proposal clarifies that the separate presentation still applies when the carrying amount of the investment has been reduced to nil.

17. The IASB did not include a proposal for the order of recognition of the investor's share of profit and loss and OCI when the carrying amount of the net investment has been reduced to nil and both the investor's share of the associate's profit or loss and OCI are profits. Paragraph BC62 of the Basis for Conclusions on the Exposure Draft explains that the IASB considered that this situation does not commonly arise in practice.

Summary of feedback

18. Almost all respondents to question 3 agreed with the order of recognition of losses. A few respondents asked the IASB to also specify the order of recognition when the investor resumes recognising its share of profits and noted that these situations may arise in practice (see paragraph 17 of this agenda paper).

19. In relation to the 'separate presentation of the share of profit or loss and OCI', respondents' views were mixed:

    (a) some agreed without further comment;

    (b) some noted that the proposal seemingly applies to that single fact pattern – when the share of profit or loss is a profit/(loss) and the share of OCI is a loss/(profit) in the same period – and would not help in other fact patterns. For example, one respondent commented that the proposal would not apply over more than one reporting period. Some of these respondents suggested either to add requirements or examples to illustrate how the proposal would apply to other fact patterns, while others recommended replacing the proposal with a general principle;

    (c) some did not express a view, but commented that in their view the IASB did not explain sufficiently what the benefit is of the separate presentation of the share of profit or loss and OCI when the carrying amount of the investment is nil; and

    (d) some disagreed with the proposal. These respondents commented that separate presentation of the share of profit or loss and OCI when the carrying amount of the investment has been reduced to nil is not useful and raised concerns about the cost of providing the information. Furthermore, it was noted that the proposal might result in the investor recognising a loss in profit or loss and a profit in OCI – these respondents felt that this outcome conflicted with paragraph 45 of the Exposure Draft that requires discontinuing the recognition of the share of loss when the investment has been reduced to nil.

20. Some respondents commented that the wording of the proposal is unclear, as well as its interaction between the proposal and other paragraphs of the same section to the Exposure Draft (that is, in which order they are applied) which may lead to inconsistent application.

Impairment indicators

21. The IASB proposed in the Exposure Draft:

    (a) to replace ‘decline…below cost’ of an investment in paragraph 41C of IAS 28 with ‘decline…to less than its carrying amount’;

    (b) to remove ‘significant or prolonged’ decline in fair value; and

    (c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

22. The IASB also proposed to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 *Impairment of Assets*.

Question 5 of the ITC
Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.

23. Almost all respondents who commented agreed with the proposals in paragraph 21(a) and 21(c) of this paper, and to reorganise the requirements in IAS 28 to make them easier to apply. Most respondents who commented agreed with the proposal to remove the reference to ‘significant or prolonged’ (paragraph 21(b) of this paper), with the exceptions of preparers who mostly disagreed.

24. Some of the respondents who agreed with the proposals said they would:

    (a) be consistent with IAS 36 in comparing the fair value of the investment with its carrying amount, not its original cost;

    (b) be consistent with the replacement of IAS 39 by IFRS 9 *Financial Instruments* in eliminating the ‘available-for-sale’ category, including its dedicated rationale in referring to a ‘significant or prolonged’, which does not apply in the context of an investment in an associate accounted for using the equity method;

(c) provide clarity and remove significant judgment associated with assessing whether a decline in fair value is significant or prolonged, ensuring a more robust impairment assessment; and

(d) make the recognition of impairment losses timelier and be an improvement in providing relevant information to users, enhancing comparability.

25. For example, Pan African Federation of Accountants (PAFA) commented:

> …The amendments provide clearer guidance by replacing "cost" with "carrying amount," aligning IAS 28 with IAS 36 principles. This establishes a more precise framework for assessing impairment and enhances comparability between investments accounted for under different methods. By removing the "significant or prolonged" requirement, the amendments simplify the evaluation process and more accurately reflect the nature of such investments. Furthermore, the additional guidance on determining fair value from recent transaction prices or market quotes enhances practical relevance.
>
> These changes will greatly improve comparability and enhance the clarity and effectiveness of the impairment assessment between entities, ensuring appropriate recognition of impairment losses…

26. A few respondents who agreed with the proposals suggested:

(a) introducing a requirement, similar to paragraph 8 of IAS 36, that if any of the indicators in paragraph 57 of the Exposure Draft are present, an investor is required to estimate the recoverable amount.

(b) considering a gain from a bargain purchase (on the purchase of an additional ownership interest) a stand-alone impairment indicator, and once it is present, requiring an investor to estimate the recoverable amount.

27. Some of the respondents who disagreed with the proposal to remove the reference to ‘significant or prolonged’ said that the proposal:

    (a) would be inconsistent with paragraph 12(a) of IAS 36 that states ‘…the asset’s value has declined during the period significantly more than would be expected as a result of the passage of time or normal use’.

    (b) could result in performing an impairment test every time the fair value falls below the carrying amount of the investment, leading to increased burden and costs for preparers. In their view, it is not unusual for the value in use of strategic investments to be higher than its quoted price.

    (c) might result in frequent impairment losses and subsequent reversals due to temporary price fluctuations, particularly for publicly traded associates, which might mean the benefit would not outweigh the costs.

28. For example, Allianz SE said:

> …We have the concern that the proposed changes will lead to frequent impairments and thus introduce an overly prudent measurement for associates measured at equity because their fair value would have to be determined at every reporting date, i.e. quarterly and the carrying amount would have to be reduced to reflect the lower of carrying or fair value. The remaining impairment indicators in IAS 36/ED IAS 28.57 might thus lose relevance. We have also concerns whether this increased volatility would improve the usefulness of the financial statements…

Other comments—impairment

Clarifying the proposals

29. A few respondents who commented suggested introducing additional requirements and clarifications into paragraph 57 of the Exposure Draft, for example:

    (a) a few said the presence of any of the indications in paragraph 57 might be perceived as an automatic trigger for an impairment test or that it is mandatory to perform an impairment test. In their view, the IASB should clarify that these are a list of indicators for consideration.

(b) a few said, particularly on paragraph 57(h), that there could be cases where the observable transaction price may not fully reflect fair value due to strategic considerations or illiquid markets. On these grounds, they argued that a fair value decline alone is insufficient as a trigger for impairment test.

(c) a few questioned, particularly on paragraph 57(h), whether the term ‘decline’ means a development or a condition, for example whether any reduction in fair value below carrying amount during the reporting period constitutes an indicator or it encompasses also a situation in which the fair value remains below the carrying amount at the reporting date.

30. A few respondents who commented questioned the use of different units of account in the Exposure Draft, for example the impairment section indicates that the carrying amount of investment in an associate is viewed as a single unit of account, whereas there are multiple layers when accounting for additional ownership interests in an associate, see paragraph 25 of Agenda Paper 13B.

Location of impairment requirements and reversing an impairment loss

31. A few respondents suggested aligning the impairment section in IAS 28 with IAS 36 by moving the impairment requirements from IAS 28 in their entirety and integrating them into IAS 36 with a few targeted amendments to IAS 36. In their view, doing so would be a logical and an effective way to improve the interaction between IAS 36 and IAS 28, eliminating potential inconsistencies between the two Standards.

32. Paragraph 58 of the Exposure Draft (retained from IAS 28 unchanged) requires an investor to reverse an impairment previously recognised only when the recoverable amount of the net investment subsequently increases. A few respondents noted that an investor could recognise an impairment loss in one period, but the associate would defer the recognition of the same impairment loss on its assets in the following period. In this case, the investor's share of the associate's profit or loss includes the impairment loss already recognised; however, the investor cannot reverse that impairment loss previously recognised because the recoverable amount of the net investment has not increased. Those respondents recommended the IASB revise the wording of paragraph 58 of the Exposure Draft to avoid double-counting.

Question for the IASB

Question for the IASB
Does the IASB have: (a) any questions or comments on the feedback discussed in this paper; or (b) any preliminary advice to the staff?