Staff paper

Agenda reference: 13E

IASB® meeting

Date	**May 2025**
Project	**Equity Method**
Topic	**Feedback from comment letters—Separate Financial Statements, Proposed disclosures for IAS 27 and Reduced disclosures in IFRS 19**
Contacts	Weichen Zhang (weichen.zhang@ifrs.org) Mostafa Mouit (mmouit@ifrs.org)

Purpose of this paper

1. This paper summarises the feedback from comment letters on questions 6, 7 (proposed amendments to IAS 27 *Separate Financial Statements*) and 8 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.

Structure of this paper

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

   (a) application of the proposed requirements to investments in subsidiaries to which the equity method is applied in separate financial statements, Question 6 of the ITC (paragraphs 5–14 of this paper);

   (b) proposed amendments to the disclosure requirements in IAS 27, Question 7 of the ITC (paragraphs 15–18 of this paper); and

(c) proposed amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, Question 8 of the ITC (paragraphs 19–26 of this paper).

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

Application of the proposed requirements to investments in subsidiaries to which the equity method is applied in separate financial statements

5. The IASB proposed to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in the Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

Question 6 of the ITC

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

6. The views of respondents to this question were polarised depending on whether the jurisdiction applies to investments in subsidiaries the equity method in separate financial statements. Our finding is that the equity method is applied to investments in subsidiaries in separate financial statements mainly in Latin American and the Netherlands.

Table 1—Respondents' views on question 6

Region	Agreed	Disagreed
Africa	Almost all	--
The Americas	A few	Most
Asia-Oceania	Many	Some
Europe	Most	A few
Global	Many (large minority)	Many (small majority)

7. The reason, most often cited, for not supporting the proposal to retain the use of the equity method for investments in subsidiaries in separate financial statements is the

interaction with the proposal in the Exposure Draft to recognise gains and losses in full on transactions with associates and joint ventures (see Agenda Paper 13D of this meeting).

8. Respondents to question 6 who agreed with the proposal said:

(a) it is important to retain the same equity method in IFRS Accounting Standards, both in consolidated and separate financial statements, and for all categories of investments (associates, joint ventures and subsidiaries).

(b) not retaining one equity method would create unnecessary complexity. For example, users of financial statements would need to understand the method used in the financial statements.

(c) although the proposal increases the number of differences between the equity method and consolidation procedures, differences already exist.

(d) separate financial statements do not allow for consolidation procedures described under IFRS 10 *Consolidated Financial Statements*. In these respondents' view, the equity method can only be seen as a measurement method when it is applied in separate financial statements.

(e) long-standing issues regarding the purpose of separate financial statements should be addressed in a project on IAS 27 rather than incorporated into this project on IAS 28.

(f) compliance with the legal requirements, which requires aligning the amounts reported in separate financial statements with those reported in consolidated financial statements, is best addressed by local laws and regulations and not through IFRS Accounting Standards.

9. Accounting Standards Committee of Germany (DRSC) said:

> …we think that a thorough analysis of the application of the equity method in separate financial statements should not be part of this project on IAS 28 but should be addressed in a separate project on IAS 27.

10. Deloitte Touche Tohmatsu Limited said:

> …As highlighted in the alternative view expressed by Mr Cendon, we acknowledge that this may increase the costs of preparing separate financial statements in certain jurisdictions where these statements are required (or permitted) to be prepared applying IFRS Accounting Standards and the equity method is used as the starting point for compliance with certain legal requirements such as the payment of dividends. However, we believe that such issues are best addressed by the legal requirements of the affected jurisdictions and not by introducing further complexity or ambiguity about the information conveyed by the equity method.

11. Respondents to question 6 who disagreed with the proposal said:

    (a) in separate financial statements, like in consolidated financial statements, subsidiaries are part of the reporting entity because a parent company controls the individual assets and liabilities of its subsidiaries. Consequently, the amounts reported in separate financial statements for subsidiaries to which the equity method is used should align with those reported in consolidated financial statements.

    (b) in jurisdictions where separate financial statements are a basis for compliance with legal requirements, such as dividends, recognition of gains and losses in full would:

        (i) potentially introduce, for these transactions, accounting requirements that do not reflect their economic substance; and

        (ii) increase the risk of earnings management and of declaring dividends based on unrealised gains and losses.

    (c) applying IFRS 3 *Business Combinations* and IFRS 10, obtaining or losing control is considered a significant economic event and requires the remeasurement of the previously held interest. Obtaining or losing control should also be a significant economic event in separate financial statements and, therefore, previously held interests should be remeasured on obtaining or losing control in separate financial statements. These respondents, therefore, disagreed with the proposed amendments to paragraphs 10A–10B of IAS 27 of the Exposure Draft, which propose that previously held interests are not remeasured in these circumstances.

(d) joint ventures and associates are accounted for consistently between consolidated and separate financial statements, using the equity method. In contrast, for subsidiaries, there are different approaches:

   (i) in consolidated financial statements, subsidiaries' individual assets and liabilities are recognised; whereas

   (ii) in separate financial statements, the subsidiary is accounted for as a single investment using the equity method.

Unjustified asymmetry could lead to inconsistencies, and therefore, another version of the equity method is justifiable to align the amounts reported in separate financial statements with those reported in consolidated financial statements.

12. Respondents to question 6 who disagreed suggested different alternatives:

(a) until the IASB resolves the objective of the equity method and the purpose of separate financial statements, an option should be introduced into IAS 27 to apply the concepts underlying IFRS 3 and the consolidation procedures in IFRS 10 for investments in subsidiaries to which the equity method is used. A parent choosing this option would eliminate gains or losses resulting from transactions with its subsidiaries and remeasure previously held interest (or the retained interest), aligning the amounts reported in separate financial statements with those reported in consolidated financial statements.

(b) permit an exception from recognising gains and losses in full for subsidiaries in separate financial statements by either an amendment to IAS 27 or IAS 28.

(c) permit an exemption from applying the proposals in the Exposure Draft, keep applying the equity method as currently required under IAS 28.

(d) reconsider the proposed amendments in paragraphs 10A and 10B of IAS 27 in the Exposure Draft, and require remeasurement of the previously held interest (or the retained interest) in the step acquisition and disposal.

13. The Comitê de Pronunciamentos Contbeis (CPC) said:

> …the approach provided under "Alternative 1" (the "IFRS 10 approach) for joint ventures and associates that could be deemed appropriate given the lack of control over the investee cannot be deemed to be appropriate under IFRS Accounting Standards for a subsidiary in the separate financial statements...
>
> …in our opinion it would be highly unlikely to result in the best economic depiction of that unit of account in the separate financial statement in light of the existence of control and would serve as a significant disincentive for adoption of IFRS in separate financial statements in jurisdictions where those financial statements serve as basis for compliance with legal requirements (such as taxation and dividends) while also undermining their transparency and usefulness for investors...
>
> …we suggest allowing an option to a parent company to apply the equity method to investments in subsidiaries in a manner consistent with the procedures used in the preparation of consolidated financial statements (that is, eliminating gains or losses resulting from upstream and downstream transactions with its subsidiaries) and to remeasure previously held interests on obtaining control of an associate or losing control of, and retaining significant influence in, a subsidiary…

14. Other comments on the proposal in question 6 include:

(a) two respondents suggested the IASB give more weight to the feedback received from (and further engage with stakeholders in) those jurisdictions that use the equity method for subsidiaries in separate financial statements to better understand the potential consequences of the proposed amendments.

(b) one respondent suggested that if the proposal is finalised as in the Exposure Draft, the IASB introduce a disclosure requirement to reconcile the amounts reported in separate financial statements with those reported in consolidated financial statements.

(c) one respondent disagreed with retaining the option to apply the equity method to investments in subsidiaries, joint ventures and associates in separate financial statements. They said that removing that option is more aligned with the purpose of such statements and provides greater clarity and comparability for users. Separate financial statements are designed to present an entity's direct interests in its subsidiaries, joint ventures and associates, not to reflect group-level performance or inter-entity economic relationships, which are better captured in consolidated financial statements.

(d) one respondent said that 'sidestream' transactions between two subsidiaries are not addressed in the Exposure Draft, and it is not clear how they will be affected by the proposals.

Proposed amendments to disclosure requirements in IAS 27 Separate Financial Statements

15. The IASB proposed an amendment to IAS 27 to require a parent, if it uses the equity method for its investments in subsidiaries in separate financial statements, to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.

Question 7 of the ITC

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

16. Most respondents who commented agreed with the proposed disclosures. Some of these respondents said disclosing the gains or losses on 'downstream' transactions would help users to understand the quantum of the parent's profit or loss generated from 'downstream' transactions and to reconcile the amounts reported in separate financial statements with those reported in consolidated financial statements.

17. A few respondents who agreed with the proposal suggested the IASB introduce:

    (a) a requirement to disclose gains or losses from ‘upstream’ and ‘sidestream’ transactions, to support transparency and comparability. In these respondents’ view, the parent has the information readily available to eliminate such transactions in its consolidated financial statements.

    (b) a requirement to disclose a reconciliation between the opening and closing carrying amount of investments in subsidiaries, that are accounted for using the equity method, in the separate financial statements.

18. Some respondents who commented disagreed with the proposal:

    (a) a few respondents suggested that the IASB introduce a disclosure requirement to reconcile the amounts reported in separate financial statements (including gains or losses from inter-company transactions) with those reported in consolidated financial statements, instead of a requirement to disclose gains or losses resulting from ‘downstream’ transactions. These respondents said the reconciliation would help users and regulators understand the differences between the two sets of financial statements effectively.

    (b) a few respondents disagreed with the proposal because they disagreed with the proposal in question 6 of the ITC (see paragraph 11 of this paper).

    (c) one respondent disagreed with the proposal because they disagreed with the proposal an investor recognise gains and losses in full from all transactions with associates and joint ventures; see paragraph 14 of Agenda Paper 13D. However, these respondents said if the IASB were to finalise the proposal to recognise gains and losses in full, it should also introduce a requirement to disclose gains or losses from ‘upstream’ transactions.

Proposed amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures

19. The IASB proposed amendments to IFRS 19 to require an eligible subsidiary:

    (a) to disclose information about contingent consideration arrangements; and

    (b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

20. The IASB also proposed an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.

Question 8 of the ITC

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19.

Information about contingent consideration arrangements

21. Almost all respondents who commented agreed with the proposal to require an eligible subsidiary to disclose information about contingent consideration arrangements. In their view, the proposal would provide users with useful information about cash flows and commitments.

Gains or losses resulting from 'downstream' transactions

22. Many respondents who commented agreed with the proposal to require an eligible subsidiary:

    (a) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

(b) to disclose gains or losses resulting from 'downstream' transactions with its subsidiaries if it chooses to apply the equity method to account for its investments in subsidiaries in its separate financial statements.

23. Some of these respondents said that the proposal would strike a balance between maintaining the usefulness of the financial statements of eligible subsidiaries and reducing disclosure requirements.

24. A few respondents who agreed with the proposal (those in paragraph 22 of this paper) also suggested the IASB introduce:

(a) a requirement to disclose gains or losses from 'upstream' and 'sidestream' transactions as well, to further support transparency and comparability.

(b) a requirement to disclose a reconciliation between the opening and closing carrying amount of investments in subsidiaries in the separate financial statements.

25. Some respondents who commented disagreed with the proposal:

(a) a few respondents disagreed with the proposal because they disagreed with the proposal an investor recognise gains and losses in full from transactions with associates and joint ventures; see paragraph 14 of Agenda Paper 13D of this meeting.

(b) a few respondents disagreed with the proposal because they disagreed that the proposals in the Exposure Draft should apply to investments in subsidiaries to which the equity method is applied in separate financial statements; see paragraph 11 of this paper.

Other comments

26. A few respondents questioned how the IASB assessed the six principles listed in paragraph BC175 of the Basis for Conclusions on the Exposure Draft when developing the proposals to amend IFRS 19.

Question for the IASB

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