IFRS Accounting

# Staff paper

Agenda reference: 13F

**IASB® meeting**

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| Date | **May 2025** |
| Project | **Equity Method** |
| Topic | **Feedback from comment letters—Transition requirements** |
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## Purpose of this paper

1. This paper summarises the feedback from comment letters on Question 9 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 on the proposed transition requirements, Question 9 of the ITC (paragraphs 6–28 of this paper).

5. The question is reproduced in a grey box below.

## Proposed transition requirements

6. The IASB proposed to require an entity:

   (a) to apply retrospectively the requirement to recognise gain or loss in full on all transactions with associates or joint ventures;

   (b) to apply the requirement on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date—generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments accordingly; and

   (c) to apply prospectively all the other proposed requirements.

7. The IASB also proposed relief from restating any prior period presented in addition to the comparative period and from disclosing the effects of the proposed requirements on the current period (as required by paragraph 28(f) of IAS 8 *Basis of Preparation of Financial Statements*).

| Question 9 of the ITC |
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| Do you agree with these proposals?<br>If you disagree, please explain why you disagree and your suggested alternative. |

8. Not all respondents commenting on question 9 responded to each of the proposed requirements, therefore we have summarised the feedback separately for each proposed requirement:

   (a) adjusting the carrying amount of the investment for the gains or losses not recognised from transactions with associates and joint ventures at the transition date (paragraphs 9–13 of this paper);

   (b) adjusting the carrying amount of the investment for contingent consideration previously not measured at fair value (paragraphs 14–17 of this paper);

   (c) retrospectively testing the carrying amount of the investment for impairment (paragraphs 18–22 of this paper);

(d) prospective application of the other proposed requirements (paragraphs 23–25 of this paper);

(e) other reliefs (paragraph 26 of this paper); and

(f) transition requirements for first-time adopters (paragraphs 27–28 of this paper).

### *Adjusting the carrying amount of the investment for the gains or losses not recognised from transactions with associates and joint ventures at the transition date*

9. IAS 28 requires an investor to restrict gains or losses from ‘downstream’ and ‘upstream’ transactions with associates and joint ventures. The investor recognises the restricted portion of the gains or losses when the transferred asset is disposed, or, over the useful life of the assets.

10. In 2014 the IASB issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (amendments to IAS 28 and IFRS 10 *Consolidated Financial Statements)*, whose effective date was indefinitely deferred. The amendments would require the gains or losses to be recognised in full when a transaction involves a business, and the gains or losses to be restricted when a transaction involves assets that do not constitute a business. Although the effective date of the amendment is indefinitely deferred, some entities have adopted accounting policies consistent with the amendment whereas others have not. As a consequence, entities will have different ‘starting points’ on transition to the revised IAS 28.

11. Almost all respondents who answered question 9 commented on the proposed adjustment of the carrying amount of the investment for the gains or losses not recognised on transactions with associates.

12. Some respondents agreed with the proposal, however, many respondents disagreed with the IASB's proposal:

    (a) some of these respondents disagreed because they disagreed with the IASB's proposal to require an investor to recognise gains and losses in full from transactions with its associates.

    (b) many of these respondents disagreed with the transition requirements, because they consider the transition requirement to be difficult to apply, or that entities may not have the necessary information on the portion of gains or losses not recognised and retrieving the information would result in undue effort. A few of these respondents mentioned specific circumstances where the information would not be available. Repsol noted:

    > We do not believe that the proposed retrospective application of the amendments would be adequate, because there may be other related transactions and assets that would not be affected by the simplified retrospective application of the amendments proposed in the Exposure Draft and that, however, should also be adjusted in order to achieve an adequate value of the assets in the statement of financial position. Examples of these situations may be: (i) net investment hedge … (ii) goodwill arising from another unrelated business combination may allocated to the segment in which an investment in a joint venture or associate are included.

13. Respondents that disagreed with the proposed transition requirements suggested either permitting an option to apply the proposal prospectively or introducing relief from retrospective application, such as an 'impracticability' or an 'undue cost or effort' exemption.

### *Adjusting the carrying amount of the investment for contingent consideration previously not measured at fair value*

14. Many respondents answering question 9, commented on proposed transition requirement for contingent consideration previously not measured at fair value. Most of these respondents agreed with the proposal.

15. Some respondents disagreed and suggested the IASB consider whether to require prospective recognition of contingent consideration previously not measured at fair value. As respondents did not elaborate on this suggestion, the staff think 'prospective application' would require an entity that had not recognised contingent consideration previously at fair value to apply the proposed requirements to transactions that occur after the transition date. The respondents argued that the proposed transition requirement may be complex, especially for older transactions, and involve the use of hindsight. One respondent suggested the IASB consider an 'undue cost or effort exemption'.

16. One accounting firm recommended recognising in retained earnings an adjustment to the contingent consideration rather than adjusting the carrying amount of the investment, if the investor had recognised contingent consideration in the initial cost of the investment and not remeasured contingent consideration.

17. One standard-setter disagreed with the proposed transition requirement and recommended retrospective application for all proposed requirements.

### *Retrospectively testing the carrying amount of the investment for impairment*

18. Paragraph C8 of the Exposure Draft proposes that, if an investor increases the carrying amount of its investment in an associate for the remaining portion of gains or losses not recognised from transactions with associates, and/or for contingent consideration previously not measured at fair value; and the entity had estimated the recoverable amount at the transition date, the entity recognises the impairment loss in

retained earnings. Therefore, an investor is allowed to recognise an impairment loss in retained earnings only if an impairment test was performed when the entity had prepared the financial statements for the period ended at the transition date.

19. The IASB's proposed transition requirement not to permit an investor to retrospectively test the 'adjusted carrying amount' of the investment is based on the argument that an impairment test, in most cases, would require an investor to determine a value in use, and this calculation would involve the use of hindsight.

20. Some respondents from Europe, including standard-setters and accounting firms, disagreed with the proposal not to permit an investor to retrospectively test the 'adjusted carrying amount' of the investment for impairment. These respondents noted that the increase in the carrying amount of the investment may result in the carrying amount being higher than the recoverable amount and that, if the investor is prevented from retrospectively testing the 'adjusted carrying amount' investment for impairment at the transition date, this would lead to the investor recognising an impairment loss in the profit or loss after the transition date.

21. Two European standard-setters disagreed with the proposal not permitting an entity from performing a retrospective impairment test described in paragraph 19 of this paper. The respondents noted that the IASB is requiring an entity to adjust the carrying amount of the contingent consideration (see paragraph 6(b) of this paper), which also involves the use of hindsight. In the respondents' view, the two proposed requirements are inconsistent. The Austrian Financial Reporting Advisory Committee noted:

> While the IASB finds evidence for retrospective fair value measurement of contingent consideration convincing, paragraph C8 would only allow the use of determinations of recoverable amounts as determined 'at the date of transition' but not determined 'for the date of transition'. The IASB was worried about the use of hindsight and impracticabilities. Besides any impracticabilities that could arise on both, measurement of

> contingent consideration and recoverable amount, we do not see significantly different risks for the use of hindsight for both measurements. However, we rather see the inconsistency for the timing of impairment expense under the proposed approach. Therefore, we suggest reconsidering the restrictions for retrospective application in paragraph C8 of IAS 28.

22. Two European respondents asked the IASB clarify whether an investor that has reduced the carrying amount of its investment to nil should reset the balance of losses not recognised at the date of transition.

### *Prospective application of the other proposed requirements*

23. Almost all respondents who commented supported an investor or joint venturer applying the revised IAS 28 prospectively, to transactions occurring after the transition date, except as specified in paragraphs C4–C8 of the Exposure Draft.

24. One standard-setter noted that comparability between reporting periods is important for users of financial statements, so the IASB should require (or permit) retrospective application of the proposed requirements.

25. One accounting professional body noted that, if an entity had not previously included in the carrying amount of the investment the deferred tax effects on the fair value adjustment, prospectively applying the proposed requirements on the additional purchases might be problematic.

### *Other reliefs*

26. A few respondents to question 9, commented on the other proposed reliefs in paragraph 7 of this paper. Of those responding, almost all agreed, except for one standard-setter. One accounting firm, however, suggested entities disclose qualitative information about the effects of the changes of applying the proposed requirements.

### *Transition requirements for first-time adopters*

27. The Exposure Draft did not propose amendments to IFRS 1 *First-time Adoption for International Financial Reporting Standards.* Paragraph C5 of IFRS 1 permits first-time adopters to apply the same exemption available for business combinations to past acquisitions of investments in associates and joint ventures.

28. A few respondents to question 9, mainly accounting firms and accounting professional bodies, commented that it may not be clear how the relief in paragraph C5 of IFRS 1 would interact with some of the proposed requirements in the Exposure Draft. The Accounting Standards Board of Japan noted:

> … we believe that the benefit of the proposed transition requirements should be equally applicable to first-time adopters. However, the IASB is silent in the Basis for Conclusion with regard to its consideration of the applicability to first-time adopters. Accordingly, we recommend the IASB to further consider providing the transitional provisions to the first-time adopters before finalising the amendments to IAS 28.

## Question for the IASB

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