IFRS Accounting

Staff paper

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IASB® meeting

Date	**May 2025**
Project	**Equity Method**
Topic	**Feedback from comment letters—Expected effects and Other comments on the proposals in the Exposure Draft**
Contacts	Filippo Poli (fpoli@ifrs.org)

Purpose of this paper

1. This paper summarises the feedback from comment letters on questions 10 and 11 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) expected effects of the proposals, Question 10 of the ITC (paragraphs 6–12 of this paper); and
   - (b) other comments on the Exposure Draft, Question 11 of the ITC (paragraphs 13–37 of this paper).

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

Expected effects of the proposals

Question 10 of the ITC
Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?

6. Some respondents who responded to question 10 agreed with the IASB's analysis of the expected effects of implementing the proposals or noted that they did not have anything to add to the analysis:

   (a) a few respondents noted that the proposals would improve the comparability of information and the consistent application of the equity method.

   (b) one standard-setter noted that the proposal to recognise gains and losses on an investors transactions with associates and joint ventures in full would bring simplification.

7. The Botswana Accountancy Oversight Authority noted:

   > We agree with IASB's analysis of the expected effects of implementing its proposals. The analysis strikes a balance between improving financial reporting and limiting the burden on preparers. Over time, users will benefit from better comparability and enhanced disclosures.

8. Many respondents to question 10, mostly from Europe, including preparers, standard-setters and accounting firms, agreed subject to their responses to other questions in the ITC. Most of these respondents expressed concerns about the cost of some proposals, namely the 'layers approach' when purchasing an additional ownership interest, see paragraph 30 of Agenda Paper 13B of this meeting.

9. ACCA noted that:

> … This proposal is complex and would be burdensome for preparers and potentially incurring higher cost for preparation and audit costs. Further, an entity would face practical challenges and probably additional costs in determining whether an insignificant purchase of additional interest in an associate (ie an additional layer) is material to justify performing another PPA.

10. Some of these respondents also expressed concerns on the analysis of the expected effects for the following proposals:

    (a) presenting separately the investor's share of the associate's profit or loss and other comprehensive income when the carrying amount of the investment has been reduced to nil;

    (b) disclosing gains or losses from 'downstream' transactions, in particular for provision of services; and

    (c) adjusting the carrying amount of the investments for the remaining portion of gains or losses not recognised from transactions with associates at the transition date.

11. These respondents suggested that, if the IASB proceeds with these proposals, more explanation should be provided about their benefits.

12. Some respondents to question 10 disagreed with the IASB's analysis of the expected effects and raised concerns on the balance between the cost and benefits of the proposals. One respondent noted that more entities could be affected by the proposals than is anticipated in the analysis of expected effects.

Other comments on the Exposure Draft

Question 11 of the ITC

Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft?

Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised

13. In this section of the paper, we summarise the feedback from respondents categorised by:
    (a) feedback on the proposed illustrative examples (paragraphs 15–17 of this paper);
    (b) feedback on the re-ordering of the requirements in IAS 28 (paragraph 18 of this paper); and
    (c) feedback on the scope of the project (paragraphs 19–37 of this paper).

14. Some of the responses to Question 11 are linked to other proposals in the Exposure Draft and have been included in relevant agenda papers. For example, Agenda Paper 13B of this meeting includes responses to Question 11 suggesting the requirements on the measurement period from IFRS 3 *Business Combinations* are included in the revised IAS 28.

Feedback on the proposed illustrative examples

15. Some respondents commented on the examples in the Exposure Draft that illustrate how an investor applies the proposals' requirements on:
    (a) obtaining significant influence and purchasing an additional ownership interest;
    (b) other changes in an investor's ownership interest; and

(c) recognising an investor’s share of losses after the carrying amount of the investment has been reduced to nil.

16. These respondents suggested the IASB add examples to illustrate how the investor applies the proposals to:

(a) an associate redeeming the shares of another shareholder, and the investor increasing its ownership interest; and

(b) recognition of the share of profit or loss and the share of OCI when the investment has been reduced to nil.

17. One respondent cautioned about adding more examples because there is a risk of preparers ‘over’ rely on them.

Feedback on the re-ordering of the requirements in IAS 28

18. Some respondents commented on the re-ordering of the requirements of IAS 28 in the Exposure Draft. Respondents were generally positive about the re-ordering and agreed that the reordering improves readability. A few of the respondents suggested that IAS 28 (revised 202x) includes:

(a) a table of concordance with IAS 28 (as amended in 2011); and

(b) the supporting material (issued in October 2017) that describes the interaction between IAS 28 and IFRS 9 *Financial Instruments.*

Feedback on the scope of the project

19. Many respondents identified one or more application questions that they recommend the IASB add to the scope of the project. Most of these respondents raised the question on whether acquisition-related costs are included in the cost the investment (see Agenda Paper 13B of this meeting). Other application questions identified by respondents can be categorised into two groups:

    (a) scope of the application of the equity method (see paragraphs 20–28 of this paper); and

    (b) equity method procedures (see paragraphs 29–37 of this paper).

Scope of the application of the equity method

20. The following questions were raised in relation to the scope of the application of the equity method:

    (a) exemption for acquisitions of associates under common control (see paragraphs 21–22 of this paper);

    (b) acquisition of an associate that does not constitute a business (see paragraphs 23–24 of this paper);

    (c) how to determine the investor's ownership interest (see paragraph 25 of this paper); and

    (d) qualifying criteria for the use of the 'fair value' option (see paragraphs 26–28 of this paper).

Exemption for acquisitions of associates under common control

21. Paragraph 2 of IFRS 3 provides an exemption from applying the Standard to a combination of entities or businesses under common control. A few respondents, including preparers and accounting firms, asked the IASB to specify if an investor may apply the exemption by analogy to the acquisition of an associate or joint venture, with one preparer recommending the IASB add the exemption.

22. When the Equity Method project was started, the IASB had on its agenda a project on *Business Combinations under Common Control*, whose objective was to explore possible reporting requirements that would reduce the diversity in practice and improve the transparency and comparability of the reporting on such combinations. The IASB discontinued the project in November 2023.

Acquisitions of an associate that does not constitute a business

23. Paragraph 2 of IFRS 3 specifies that the Standard does not apply to the acquisition of an asset or group of assets that does not constitute a business. For such acquisitions, the acquirer allocates the consideration to the assets and liabilities acquired in proportion to their relative fair values. IFRS 3 defines a business and includes guidance on applying that definition.

24. IAS 28 does not specify whether an associate must be a business and does not include different requirements for associates that are not a business. Some respondents recommended the IASB clarify the application of the requirements in IAS 28 to an associate that is not a business. These respondents said that, if the associate does not constitute a business, it is questionable whether the investor obtaining significant influence should determine the fair values of the net assets acquired, including the deferred tax effects or account for the difference between the consideration paid and the share of the associate's net assets as goodwill.

How to determine the investor's ownership interest

25. A few respondents said that the IASB should clarify the meaning of the term 'ownership interest' used in the Exposure Draft, for example:

    (a) whether it refers to the percentage of voting rights or the percentage of the economic interest;

    (b) which instruments are included in determining if an investors has significant influence or joint control and whether the issuer's classification of the instruments as liabilities or equity is relevant; and

(c) how the ownership interest is calculated when there are different classes of financial instruments such as redeemable, cumulative or participating shares.

Qualifying criteria for the use of the 'fair value' option

26. Paragraphs 5–6 of the Exposure Draft (that are retained from paragraphs 18–19 of IAS 28 unchanged) permit an investment in an associate (or a portion thereof) to be measured at fair value through profit or loss, if the investment or the portion is held by a venture capital organisation, mutual fund, unit trust and similar entities investment-linked insurance funds.

27. A few respondents from Europe, including insurance companies, recommended the IASB clarify which criteria are relevant to determine if an entity qualifies to apply the fair value option, and/or expand the criteria. The CFO Forum noted:

> For insurers, investments in funds that are associates or JVs often form a critical part of their operations. By restricting the fair value election to too narrowly defined cases, these election criteria risk misrepresenting the nature of these investments and their use within insurers' business models

28. This question is also linked to the classification of income and expenses from investments in associates under IFRS 18 *Presentation and Disclosures in Financial Statements.*

Equity method procedures

29. The following questions were raised on equity method procedures:

(a) reference to 'consolidation procedures' (see paragraphs 30–31 of this paper);

(b) gains or losses from transactions between two associates ('sidestream' transactions) (see paragraphs 32–33 of this paper);

(c) contributions that lack 'commercial substance' (see paragraphs 34–35 of this paper);

(d) associates' holding of the investor's equity instruments ('crossholdings') (see paragraph 36 of this paper); and

(e) other comments (paragraph 37 of this paper).

Reference to 'consolidation procedures'

30. Paragraph 55 of the Exposure Draft (retained from paragraph 26 of IAS 28 unchanged) states that:

(a) many of the procedures that are appropriate for applying the equity method are similar to consolidation procedures described in IFRS 10 *Consolidated Financial Statements*; and

(b) the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence over an associate or joint control over a joint venture.

31. A few respondents, mostly standard-setters from Asia-Oceania, questioned whether paragraph 55 should be retained. The New Zealand External Reporting Board noted:

> Paragraph B86 of IFRS 10 *Consolidated Financial Statements* outlines consolidation procedures as line-by-line consolidations, eliminations of the cost of investment and eliminations of intra-group transactions. None of these procedures are relevant under the revised IAS 28 given the proposed changes.

Gains or losses from transactions between two associates ('sidestream' transactions)

32. Paragraph 53 of the Exposure Draft requires an investor to recognise gains or losses resulting from all 'upstream' and 'downstream' transactions with its associates and joint ventures in full. The Exposure Draft does not mention gains or losses from transactions between associates ('sidestream' transactions). Likewise, paragraph 28 of IAS 28 refers only to gains or losses from 'upstream' and 'downstream' transactions.

33. A few respondents asked the IASB to clarify whether the proposal in paragraph 53 of the Exposure Draft applies to sidestream transactions. One preparer noted that the

basis to restrict those gains is the reference to the 'consolidation procedures', therefore, the lack of a requirement could be read to imply that those gains or losses need to be restricted.

Contributions that lack 'commercial substance'

34. Paragraph 54 of the Exposure Draft (retained from paragraphs 30–31 of IAS 28 unchanged) requires an investor to eliminate the gain or loss in full on a contribution of a non-monetary asset to an associate if the contribution lacks 'commercial substance'.

35. A few respondents suggested the IASB clarify the application of paragraph 54 of this paper in relation to:

    (a) different fact patterns, for example, when all investors (including unrelated investors) contribute non-monetary assets in kind to an associate, or when a contribution would change the rights of shareholders.

    (b) which fair value to use for measuring such transactions (that is, the fair value of assets given up or the fair value of assets received).

Associate's holding of the investor's equity instruments ('crossholdings')

36. The Exposure Draft does not set out requirements for when the associate holds an interest in the investor ('cross-holdings'). In this situation, the investor's share of the associate's net assets includes its own shares and the investor's share of the associate's profit or loss includes changes in the carrying amount of the investor's own shares because the associate measures those shares either at fair value, with changes recognised in profit or loss, or using the equity method. A few respondents, mostly accounting bodies, recommended the IASB clarify how an investor considers cross-holdings[1].

[1] The IASB decided not to add this question to the scope of the project at its September 2023 meeting.

Other comments

37. Finally, a few respondents raised comments on requirements in IAS 28 that were not reconsidered during the project:

(a) one European standard-setter questioned the inclusion of goodwill in the carrying amount of investments in associates; and

(b) two respondents disagreed with the requirement that an investor discontinues recognition of its share of an associate's losses when the carrying amount of the net investment is reduced to nil.

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?