IFRS Accounting

Staff paper

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IASB® meeting

Date	**May 2025**
Project	**Equity Method**
Topic	**Outreach feedback summary**
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Purpose of this paper

1. This paper summarises the feedback from outreach events undertaken by International Accounting Standards Board (IASB) members and staff on 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 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) structure of outreach events (paragraph 5 of this paper);

   (b) summary of the feedback (paragraphs 6–38 of this paper); and

(c) Appendix—Analysis of outreach events by geographical distribution and type.

Structure of outreach events

5. The Appendix to this agenda paper lists the analysis of 32 outreach events that IASB members and staff participated in. Most events took place from October to December 2024. Some of the events were attended by different stakeholder groups.

Summary of the feedback

Project objectives and approach

6. Most outreach participants agreed with the project objective to answer application questions on the equity method to reduce diversity in practice. Some participants would have preferred that the IASB consider a fundamental review of the equity method, which would include a discussion on what the equity method is – a one-line consolidation or a measurement method.

Measurement of cost of an associate

7. Although most participants supported the proposals on how to measure the cost of an associate when the investor obtains significant influence, including measuring any contingent consideration at fair value, they recommended clarifying whether acquisition-related costs are included in the cost of an associate. Some participants noted that directly attributable costs were included in the cost of an associate based on IFRS IC May 2009 Agenda Decision, and asked if, since the new definition of cost of an associate uses many of the notions in IFRS 3 *Business Combinations*, the agenda decision is still valid.

8. One participant suggested adding a definition of contingent consideration in IAS 28—adapting the IFRS 3 definition to be applicable to investments in associates and joint ventures.

9. A few participants said that the investor should not recognise the deferred tax effects on the fair value adjustments and asked to apply the initial recognition exemption in IAS 12 *Income Taxes*.

10. A few participants asked questions that the Exposure Draft did not address, including:

    (a) whether an investor is permitted to apply the 'measurement period' in IFRS 3 to the measurement of the fair value of the contingent consideration and the share of the associate's net assets; and

    (b) whether the cost of an associate includes the fair value of derivatives, such as a forward contract to acquire an investment that will then become an associate.

Changes in an investor's ownership interest while retaining significant influence

Purchasing an additional ownership interest while retaining significant influence

11. Many participants raised concerns on the proposal that an investor includes in the carrying amount of the investment its additional share of the fair value of the associate's net assets, at the date of purchasing the additional ownership interest. Concerns were expressed on the cost and complexity of obtaining the information necessary to measure the investor's share of the associates' net assets at fair values, including the costs involved in estimating the fair value. Participants suggested that the IASB provide simplifications for purchases of additional ownership interests that are not material. However, most participants agreed that the investor does not remeasure the carrying amount of the previously held interest.

12. One participant suggested using the fair values of the associate's net assets at the date when the investor obtained significant influence for the additional purchases, instead of performing purchase price allocation on each additional purchase of ownership interest. In the view of that participant, the difference between the fair value of the consideration transferred and the investor's additional share of the fair value of the associate's net assets could be recognised in equity.

13. A few participants said that if the purchase of an additional ownership interest results in a bargain purchase gain, the gain should be recognised against any goodwill included in the carrying amount of the investment. These participants said this would reduce the risk of impairment.

Disposing of an ownership interest while retaining significant influence

14. Most participants agreed with the proposal that, when an investor disposes of an ownership interest, the investor measures the disposed portion of the investment as a percentage of the carrying amount of the investment. Some participants said that there is an inconsistency between the proposal on the disposal of part of an investment (while retaining significant influence or joint control) and the purchase of an additional ownership interest (while retaining significant influence or joint control). They noted the investment is viewed as a single asset when disposing of an interest, whereas each additional purchase is viewed as a different layer.

Other changes in ownership interests

15. Many participants agreed with the proposal to recognise other changes in the ownership interest as purchases or disposals of an interest in an associate. However, some of them asked the IASB to provide general principles on other transactions not addressed by the proposal, for example, share-based payments or changes in an associate's non-controlling interests.

16. A few participants said dilution gains or losses should not be recognised in profit or loss, because they do not arise from a transaction in which the investor is a party to and are therefore not part of the investor's performance. These participants said dilution gains or losses should be recognised in:

(a) equity, to mirror the accounting treatment in the associate's financial statements; or

(b) other comprehensive income, such as revaluation surpluses recognised under IAS 16 *Property, Plant and Equipment*.

Recognition of the investor's share of losses

Losses not recognised and purchase of an additional interest

17. Some participants disagreed with the proposal not to immediately recognise unrecognised losses (by reducing the carrying amount of the additional investment) when purchasing an additional interest and the carrying amount of the investment is nil. These participants said it should be assumed that the investor is funding prior losses. Some participants said that instead, the IASB should not allow the recognition of goodwill on the additional purchase of ownership interest.

18. A few participants asked about how an investor accounts for capital contributions (other than a gift) to the associate, and whether investors need to deduct the losses not recognised immediately. One of these participants noted that paragraph 38 of IAS 28 requires an investor to recognise its share of the associate's losses until those losses equal or exceed its interest in the associate, including any long-term interests, to some extent, an 'additional ownership interest' is the same as a 'long-term interest'; therefore, to be consistent with paragraph 38 of IAS 28, the unrecognised losses should reduce the new carrying amount of the investment.

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

19. Generally, participants agreed with the proposal that when the investor's share of profit or loss and its share of OCI are both losses, the investor recognises its share of profit or loss first. Some participants asked the IASB to specify the order in which an investor resumes recognising its share of profits after its share of total profits equals the total losses not recognised.

20. Participants had mixed views on the proposal that an investor recognises separately its share of profit or loss and its share of OCI when the carrying amount of the investment has been reduced to nil.

21. One participant asked for clarification on other fact patterns not addressed by the proposals, such as the order of recognition when the investor's share of the associate's OCI includes items that will be recycled to profit or loss, and items that will not be recycled.

Transactions with associates

22. Most participants agreed with the proposal that an investor recognises gains and losses in full resulting from all transactions with associates, including transactions involving the loss of control of a subsidiary.

23. Some participants disagreed with this proposal because, in their view:

    (a) it changes significantly the requirements in IAS 28, and is therefore inconsistent with the project objective to answer application questions without fundamentally changing the Standard;

    (b) it goes beyond the principles that underlie IAS 28; and

    (c) it might lead to structuring opportunities mainly for investments in joint ventures.

24. These respondents have mixed views on alternative proposals; some suggested recognition of partial gains or losses for all transactions, while others suggested recognition of partial gains or losses when a transaction constitutes an asset.

Impairment indicators

25. Most participants agreed with the proposal that impairment should be assessed by comparing the recoverable amounts with the carrying amount of the investment rather than the cost of the investment.

26. Some participants, mostly preparers, disagreed with removing 'significant or prolonged' when assessing if a decline in fair value is an objective evidence of impairment and said that the removal could result in performing an impairment test

more frequently when the fair value falls below the carrying amount of the investment. It would be burdensome in practice.

27. One participant suggested removing the impairment section from IAS 28 and referring to the requirements in IAS 36 *Impairment of Assets*.

Investment in subsidiaries in separate financial statements

28. Participants noted that the use of equity method for subsidiaries in separate financial statements varies by jurisdiction. Participants from some jurisdictions, particularly those in Latin America, disagreed with the proposals in the Exposure Draft. They explained that in their jurisdictions separate financial statements are used for compliance with legal requirements—for example, taxation and dividend distribution. Recognising gains and losses in full on all transactions with associates or joint ventures, when applied to subsidiaries, would, therefore, affect income tax payable and dividend distributions.

29. Accordingly, these participants agreed with the alternative view in the Exposure Draft. They would support having a version of the equity method that aligns the carrying amount of the investment in the separate financial statements to the amounts reported in consolidated financial statements for the subsidiary.

Disclosure requirements

30. Most participants expressed support for the disclosure requirements proposed in the Exposure Draft and agreed that they would provide useful information and insights into equity-accounted investments.

31. Some participants raised concerns about the proposal to disclose gains or losses of ‘downstream’ transactions because the information is commercially sensitive, particularly for joint ventures. In addition, participants said information on gains from the provision of services may not be available. These participants mentioned that the disclosure requirements in IAS 24 *Related Parties* are sufficient for users’ information need.

32. Some of those participants expressed that it would be very onerous for them to disclose gains or losses from the provision of services to their associates, because they do not have the information internally.

Transition requirements

33. Participants had mixed views on the proposal to recognise at the transition date the remaining portion of restricted gains and losses on transactions with associates. Many participants agreed with this proposal, while many participants said that an investor may have lost track of the restricted portion of gains and losses from the transactions with associates. In this case, the investor would need to collect information on all past transactions, which would be complex and costly.

34. Therefore, those participants suggested that the IASB introduce impracticability relief or require entities to apply the transition requirement to recognise the full gains and losses on transactions with associates prospectively.

35. A few participants asked the IASB for further clarification on the proposed transition requirements, such as whether an investor, that reduced its investment to nil, resets the balance of unrecognised losses to zero at the transition date if it increases the carrying amount of its investment in applying paragraphs C4–C7 of the Exposure Draft.

Other comments

36. Some participants raised questions about other proposed requirements in the Exposure Draft, such as:

    (a) how to assess the requirement on the lack of economic substance in paragraph 54 of the Exposure Draft. [1]

    (b) whether the reference to applying the consolidation procedures in paragraph 55 of the Exposure Draft should be retained. [2]

[1] The requirement has been carried forward from paragraph 30 of IAS 28.

[2] The requirement has been carried forward from paragraph 26 of IAS 28.

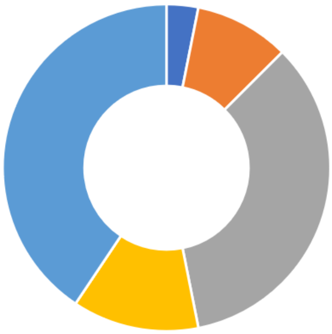
37. A few participants suggested the IASB add to the scope of the project application questions, such as the applicability of the exemption for business combinations under common control in IFRS 3 to acquisitions of associates.

38. Participants welcomed the illustrative examples in the Exposure Draft and encouraged the IASB to provide further examples illustrating different fact patterns.

Question for the IASB
Does the IASB have any questions or comments on the feedback discussed in this paper?

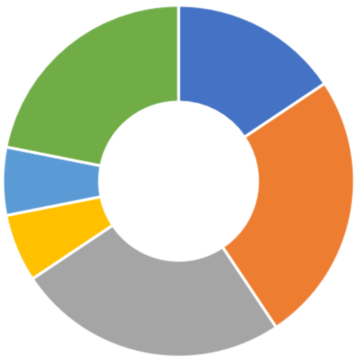
Appendix—Analysis of outreach events by geographical distribution and type

Diagram 1—Analysis of outreach events by geographical distribution



	Participants	
Geographical Region	**Number**	**Percentage**
Africa	1	3%
Americas	3	9%
Asia and Oceania	11	34%
Europe	4	13%
Global	13	41%
Total	32	100%

Diagram 2—Analysis of outreach events by type



	Participants	
Type	**Number**	**Percentage**
Preparers	5	16%
Standard-setters	8	25%
Accounting firms	8	25%
Users	2	6%
Regulators	2	6%
Mixed stakeholders	7	22%
Total	**32**	**100%**