
Capital Markets Advisory Committee meeting

Date	November 2025
Project	Equity Method
Topic	Transactions with associates—recognising gains and losses in full
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Purpose of this session¹

To seek CMAC members' views on possible ways forward regarding one of the proposals in the Exposure Draft to recognise gains and losses in full resulting from transactions with associates, given the feedback on the Exposure Draft.

Questions for CMAC members are on Slide 14

¹References 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, unless indicated otherwise.

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Background – Equity Method Project

Objectives

- Reduce diversity in practice by answering application questions on the equity method of accounting.
- Improve the understandability of IAS 28, including improvements to disclosures.

Exposure Draft

- Published—September 2024.
- Closed for comment—January 2025.
- IASB considered feedback summary and discussed the project's next stage—May/June 2025.

Next Steps

- IASB started redeliberating the proposals—September 2025.
- IASB is continuing redeliberation, seeking views from its consultative groups.

Background – Application question on transactions with associates

What is the application question?

The application question is about the requirement in IAS 28 to restrict gains and losses from transactions between an investor and its associates, including the sale of a subsidiary to an associate. The IASB was asked if the requirements in IAS 28 or IFRS 10 prevail. To answer the application questions, the IASB considered whether an investor should:

- (a) recognise gains or losses in full (**Alternative 1**); or
- (b) restrict gains or losses (**Alternative 2**).

For example, an investor sells a property to its associate, resulting in a disposal gain of CU150.

- Applying Alternative 1, the full gain of CU150 is recognised.
- Applying Alternative 2, assuming the investor owns 20% of the associate, it restricts that gain to $(80\% \times \text{CU}150) = \text{CU}120$. The restricted portion (CU30) is recognised in future periods, when the asset is sold to a third party or over its useful life.

¹ IAS 28 *Investments in Associates and Joint Ventures*. IFRS 10 *Consolidated Financial Statements*.

Background – Application question on transactions with associates

What was discussed with CMAC members?

Prior to publishing the Exposure Draft, staff asked CMAC members at their March 2023 meeting for their views on two matters when evaluating equity-accounted investments:

- (a) whether restricting the gain or loss affects the equity method earnings quality and if so, how does it affect users' decision-making.
- (b) how the information would be used if an investor disclosed the gains or losses on the transactions with its associates.

To demonstrate how the alternatives (see Slide 5) affect the financial statements of investors, two examples were discussed at the March 2023 CMAC meeting.

A simplified illustrative example is included in the Appendix of this slide deck.

What did we hear from CMAC members?¹

Key Message

Most CMAC members supported recognising gains or losses in full. These members said that:

- restricting gains or losses lacks transparency over time and adds confusion in evaluating the associate. Such transactions are similar to transactions with a third party (gains or losses in full).
- disclosing gains or losses helps to assess earnings quality, reasonableness and sustainability of these transactions and their pricing.

Some of those who supported restricting gains or losses said that disclosing gains or losses would allow them to toggle between ‘restrict gains or losses’ and ‘recognise gains or losses in full’.

¹ [CMAC Meeting Summary March 2023](#)

Recap of proposals in the Exposure Draft

Proposals	• Recognise gains and losses in full resulting from all ‘upstream’ and ‘downstream’ transactions with associates. • Disclose gains or losses from ‘downstream’ transactions.
IASB Rationale	The IASB decided recognising gains and losses in full: • would provide useful information to users. • would be simple and less costly to apply for preparers. The IASB also observed that it is unclear what the objective of IAS 28 is in restricting gains or losses.

The proposal answered the application question about the sale of a subsidiary to an associate (see Slide 5) and automatically answered the other six questions about transactions with associates (four were within the project’s original scope, and two were added as the project progressed).

Feedback on the proposals in the Exposure Draft

Feedback

Most respondents agreed with recognising gains and losses in full, with some exceptions. Geographically:

- Almost all respondents in Global, Europe, Americas, and Africa regions agreed.
- Many respondents in Asia-Oceania region agreed, but some disagreed (China and Japan).

Those respondents who disagreed said:

- requirements in IAS 28 are consistent with the view that the equity method is one-line consolidation method;
- proposal go beyond the project's scope; and
- proposal may provide an opportunity for earnings management.

Many respondents agreed with disclosing gains or losses from 'downstream' transactions. A few cautioned that enhancing the disclosures in IAS 24 may cause duplications.

¹ Access [AP13D: Feedback—Transactions with associates and Proposed disclosures for IFRS 12](#) for further details.

Matters on which some respondents raised concerns

One-line consolidation

Definition of a group is the parent and its subsidiaries.

These respondents would extend consolidation accounting to associates and joint ventures and **restrict gains and losses**.



Challenges are, for example:

- Less useful information to users, compared to the Exposure Draft proposal, and could be complex/costly for preparers.
- Would need to remove from the scope or resolve the other six questions that would otherwise have been automatically answered.

Matters on which some respondents raised concerns

Project's scope

Proposed change is a significant change to current requirements, which is inconsistent with the project objective.

These respondents suggested **recognising gain or loss in full** when a transaction constitutes a **business** or **excluding application question** (regarding sale of a subsidiary to an associate) from the project's scope.



Challenges are, for example:

- Question on the sale of a subsidiary to an associate needs to be resolved; therefore, it cannot be removed from the project's scope.
- Would need to remove from the scope or resolve the other six questions that would otherwise have been automatically answered.

Matters on which some respondents raised concerns

Possible earnings management

Respondents that disagreed said recognising the full gain or loss could provide an opportunity for an investor to conduct transactions with associates that are not on arm's length terms, particularly in transactions with its joint ventures.

These respondents suggested:

- **adding disclosure** on gains or losses from '**upstream**' transactions;
- **adding disclosures** on **rationale** for transactions and their **pricing**; and/or
- **providing guidance** on transactions that **lack commercial substance**.

To avoid disclosing commercially sensitive information, they suggested the IASB clarify:

- what "gains and losses" should be disclosed (eg, excluding transactions that are not transfers of assets); and
- require aggregated disclosures.

Exploring possible ways forward

If the IASB retained the proposals, would additional disclosure/guidance help?

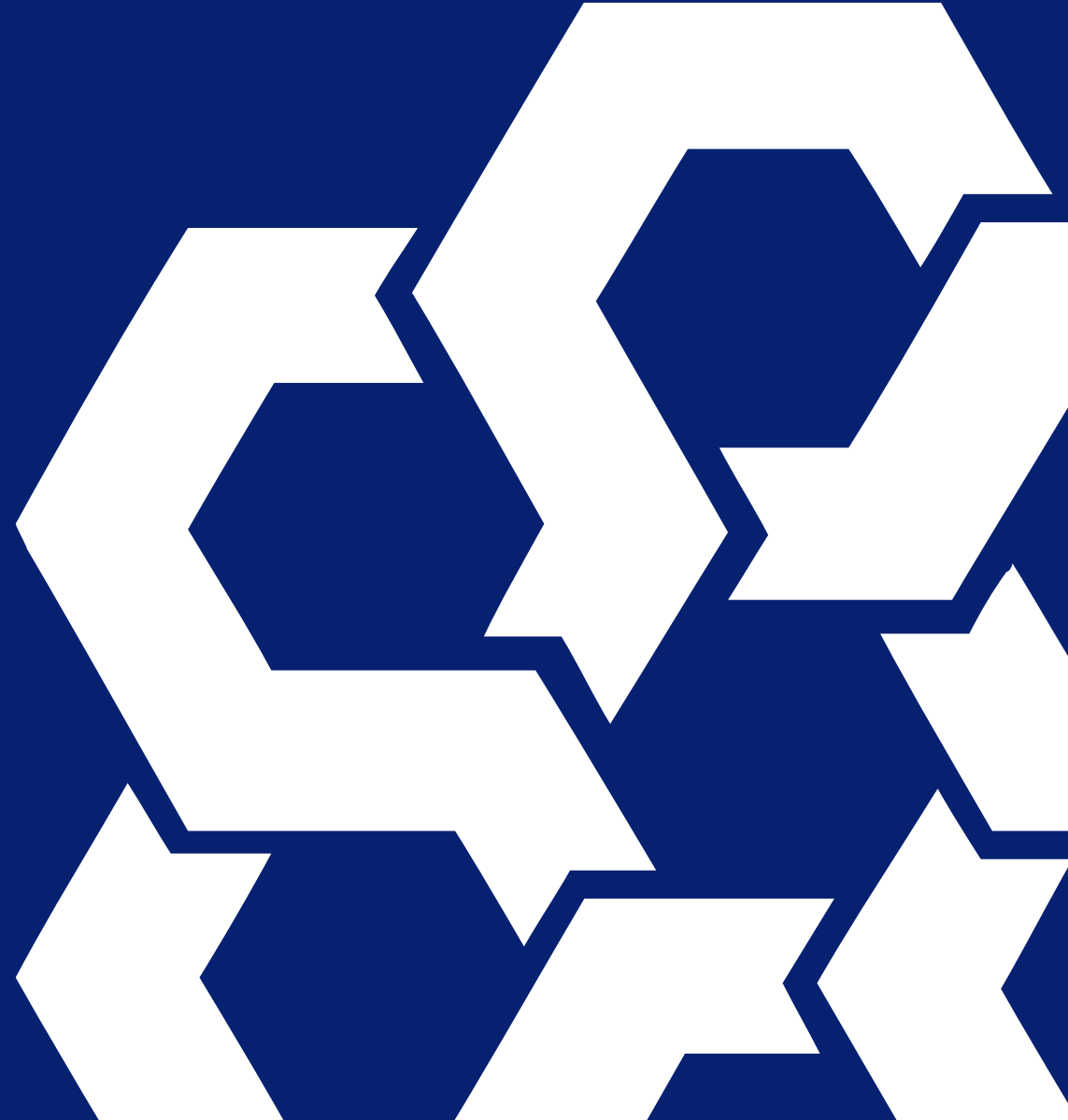
Possible earnings management	Retain the proposals in the Exposure Draft, and add disclosures and/or provide guidance	Proceed with proposals in the ED and supplement with the following for both associates and joint ventures : - disclose gains or losses from ‘upstream’ transactions; - disclose rationale for transactions and their pricing; and/or - guidance on transactions that lack commercial substance.
	Retain the proposals in the Exposure Draft, and add disclosures and/or provide guidance for joint ventures	Proceed with proposals in the ED and supplement with the following for joint ventures : - disclose gains or losses from ‘upstream’ transactions; - disclose rationale for transactions and their pricing; and/or - guidance on transactions that lack commercial substance.

Questions for CMAC members

1. If the IASB retained the proposals in the Exposure Draft, would you recommend the IASB:
 - explore adding disclosures and/or providing guidance for **both** associates and joint ventures as set out in Slide 13?
 - only explore adding disclosures and/or providing guidance for joint ventures as set out in Slide 13?
2. Do you have other suggestions for the possible ways forward?

Appendix:

- Illustrative example:
Transaction between an
investor and its associate
- Extracts from IAS 24



Illustrative example: Transaction between an investor and its associate

A downstream sale of equipment in which:

- investor XYZ owns a 20% share in associate ABC.
- at the beginning of Year 1, XYZ sells equipment to ABC for CU2,000; XYZ's net book value is CU1,850.
- ABC estimates that equipment has a 3-year life and depreciates on a straight-line basis.
- profit of ABC for Years 1 to 3 is CU500 each.

Illustrative example: Transaction between an investor and its associate

Recognise gains or losses in full (Alternative 1)				Restrict gains or losses (Alternative 2)			
	Year 1	Year 2	Year 3		Year 1	Year 2	Year 3
Other Income (gain on sale of equipment)	150	–	–	Other Income (gain on sale of equipment)	120 ¹	–	–
Share of ABC's profit	100	100	100	Share of ABC's profit	110 ²	110	110
Profit before tax	250	100	100	Profit before tax	230	110	110

¹ CU120 = CU150 (full gain on sale of equipment) – CU30 {CU150 x 20% (restricting XYZ's portion of the disposal gain)}.

² CU110 = CU 100 {CU500 * 20%} (share of ABC's profit) + CU10 (recognising restricted XYZ's portion of the gain over the useful life of the equipment; CU30 / 3 years).

Extracts from paragraph 18 of IAS 24, emphasis added

*...18 If an entity has had related party transactions during the periods covered by the financial statements, it shall disclose the **nature of the related party relationship** as well as **information about those transactions** and outstanding balances, including commitments, **necessary for users to understand the potential effect of the relationship on the financial statements**. These disclosure requirements are in addition to those in paragraph 17. **At a minimum**, disclosures shall include:*

- (a) the amount of the transactions;*
- (b) the amount of outstanding balances, including commitments, and:*
 - (i) their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement; and*
 - (ii) details of any guarantees given or received;*
- (c) provisions for doubtful debts related to the amount of outstanding balances; and*
- (d) the expense recognised during the period in respect of bad or doubtful debts due from related parties.*

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