
IASB[®] meeting

Date **November 2025**
Project **Equity Method**
Topic **Measurement of the cost of an associate**
Contact Mostafa Mouit (mmouit@ifrs.org)

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Introduction and purpose of this paper

1. At its September 2025 meeting, the International Accounting Standards Board (IASB) started redeliberating the proposals in the Exposure Draft [*Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures \(revised 202x\)*](#) (the Exposure Draft).
2. The purpose of this paper is for the IASB:
 - (a) to consider the feedback on its proposals in the Exposure Draft on:
 - (i) the measurement of the cost of an associate on obtaining significant influence; and
 - (ii) the recognition and measurement of contingent consideration on obtaining significant influence and on purchasing an additional ownership interest; and
 - (b) to decide whether to proceed with those proposals in (a).
3. This paper does not:
 - (a) discuss acquisition-related costs. At its October 2025 meeting, the IASB tentatively decided to require acquisition-related costs incurred by an investor

to obtain significant influence to be recognised as an expense in profit or loss in the period in which the costs are incurred.¹

- (b) consider the feedback on other matters relating to initial recognition of an associate—that is, feedback on deferred tax effects related to fair value adjustments, on introducing further guidance from IFRS 3 *Business Combinations* and on investments measured at ‘cost’ in separate financial statements (see paragraphs 15–21 of [Agenda Paper 13B of the IASB May 2025 meeting](#)). The feedback on those matters will be considered in a future agenda paper.²
4. 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 in consolidated financial statements, unless indicated otherwise.³

Staff recommendations

5. The staff recommend the IASB proceeds with the proposals in the Exposure Draft to require an investor:
- (a) to measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.
 - (b) to recognise contingent consideration, on obtaining significant influence, as part of the consideration transferred and measure it at fair value. Thereafter:
 - (i) not to remeasure contingent consideration classified as an equity instrument; and

¹ For further details, see [IASB Update October 2025](#) and [AP13A: Acquisition-related costs](#).

² Except for feedback suggesting that the IASB introduce application guidance from IFRS 3 on the measurement period, which is discussed in Agenda Paper 13B *Purchases of an additional ownership interest* of this meeting.

³ Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

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- (ii) to measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.
 - (c) to apply the requirement in (b) when purchasing an additional ownership interest in an associate.
 - 6. The staff recommend, in addition to the proposals in the Exposure Draft, the IASB includes a definition of contingent consideration in the revised IAS 28 based on the definition set out in IFRS 3.

Structure of this paper

- 7. This paper is structured as follows:
 - (a) development of the proposals in the Exposure Draft (paragraphs 9–15 of this paper);
 - (b) feedback on the proposals in the Exposure Draft (paragraphs 16–22 of this paper);
 - (c) staff's analysis (paragraphs 23–43 of this paper);
 - (i) cost of the associate (paragraphs 25–36 of this paper); and
 - (ii) contingent consideration (paragraphs 37–43 of this paper);
 - (d) staff recommendations (paragraphs 44–45 of this paper); and
 - (e) question for the IASB.
- 8. There is one appendix to this paper: Appendix A—Extracts from [Basis for Conclusions on the Exposure Draft](#).

Development of the proposals in the Exposure Draft

Background

9. Paragraph 10 of IAS 28 states that, on initial recognition, the investment in an associate is recognised at ‘cost’. However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:
- (a) whether to measure any previously held ownership interest in the associate at fair value; or
 - (b) whether and if so, how to recognise and measure contingent consideration.

Proposals in the Exposure Draft

Cost of the associate

10. In the Exposure Draft, the IASB proposed an investor measure the cost of the associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.

Contingent consideration

11. In the Exposure Draft, the IASB proposed an investor recognise contingent consideration, on obtaining significant influence, as part of the consideration transferred and measure it at fair value. Thereafter:
- (a) not to remeasure contingent consideration classified as an equity instrument; and
 - (b) to measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

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12. The IASB also proposed applying the same approach as described in paragraph 11 of this paper to contingent consideration when purchasing an additional ownership interest in an associate.

Rationale for the proposals in the Exposure Draft

Cost of the associate

13. In developing the proposals in paragraph 10 of this paper, the IASB considered that:
- (a) obtaining significant influence changes both the relationship between the investor and the investee, and the accounting method used by the investor. Therefore, the fair value of the financial asset given up represents part of the consideration transferred for the investment in an associate.
 - (b) measuring the cost of the investment at fair value would align with Principle D⁴, which measures the associate's identifiable assets and liabilities at fair value on obtaining significant influence.
 - (c) measuring the previously held interest at fair value would not be overly costly for entities to apply because before obtaining significant influence, the previously held interest would have been measured at fair value in accordance with IFRS 9 *Financial Instruments*.

Contingent consideration

14. In developing the proposals in paragraphs 11–12 of this paper, the IASB considered that:
- (a) including the fair value of contingent consideration as part of the consideration transferred:
 - (i) is consistent with its proposal to measure the consideration transferred at its fair value when measuring the cost of the investment;

⁴ For further details of the principles, see paragraph BC15 of the Basis for Conclusions on the Exposure Draft.

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- (ii) is similar to the requirement in IFRS 3; and
 - (iii) is consistent with the approach frequently applied in practice.
 - (b) accounting for the settlement of contingent consideration classified as an equity instrument within equity is consistent with the requirements in IAS 32 *Financial Instruments: Presentation*.
 - (c) subsequently measuring other contingent consideration at fair value at each reporting date is consistent with the requirements in IFRS 9 for the subsequent measurement of derivatives. When developing IFRS 3, the IASB observed that many obligations for contingent consideration in a business combination that are classified as liabilities meet the definition of derivatives. The IASB considered that similar considerations apply in the context of contingent consideration on obtaining significant influence of an associate or on purchase of an additional interest.
 - (d) recognising the changes in the fair value of liabilities for contingent consideration in profit or loss is consistent with the IASB's conclusions when developing IFRS 3; that is, such changes should not be reflected as adjustments to the consideration transferred (usually in goodwill) because those subsequent changes in fair value are generally directly related to post-combination events. Furthermore, it would be difficult for the IASB to develop requirements that differentiate between changes in fair value that relate to events that occurred before the date of obtaining significant influence and those that relate to subsequent events. Such requirements would also add costs and complexity for preparers.⁵
15. Further details on the IASB's rationale are in Appendix A of this paper, which contains extracts from the Basis for Conclusions on the Exposure Draft relating to the measurement of the cost of an associate.

⁵ See paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions on the Exposure Draft.

Feedback on the proposal in the Exposure Draft

Feedback from comment letters⁶

16. Almost all respondents who commented agreed with the proposals in paragraphs 10–12 of this paper. Some of these respondents said that the proposals would:
- (a) not be costly to implement because, prior to the investor obtaining significant influence, the previously held interest would have already been measured at fair value applying IFRS 9; and
 - (b) reduce diversity in practice, fostering consistency and enhancing comparability.
17. The Norwegian Accounting Standards Board (NASB) said:
- ...In our view, the proposed clarifications are largely converged with current practice. In our view, the main area where current practice might be mixed, is the measurement of contingent consideration. We do, however, agree with the proposed solution of requiring all contingent consideration to be measured at fair value and included in the cost of the associate. By anchoring the proposed solution in IFRS 3 Business Combinations and defining the ‘cost of the associate or joint venture’, rather than just ‘cost’, we believe the risk of unintentional effects to other standards where assets are initially recognised at cost, is low...
18. A few respondents who commented disagreed with the proposed measurement of the cost of the investment. One respondent said that changes in the fair value of contingent consideration after initial recognition should be recognised as an adjustment to the cost of the investment, because that approach follows the general definition of the cost of an asset.
19. A few respondents who commented suggested the IASB:

⁶ For further details, see [AP13B: Feedback from comment letters—Measurement of cost and Changes in ownership interests](#).

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- (a) clarify that preparers should not analogise from the measurement of cost of the associate as proposed in the Exposure Draft to other circumstances on the cost of an asset or an investment; or
 - (b) define the initial carrying amount of an associate without using the word ‘cost’. This would help to avoid any misinterpretation or confusion with different definitions of ‘cost’ across IFRS Accounting Standards.

Feedback from outreach events⁷

- 20. Most participants agreed with the proposals in paragraphs 10–12 of this paper.
- 21. 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.
- 22. One participant asked a question that the Exposure Draft did not address: 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.

Staff’s analysis

- 23. Considering paragraphs 9–22 of this paper, the staff note that almost all comment letter respondents and most participants in outreach events agreed with the proposals in paragraphs 10–12 of this paper. The staff think that such feedback provides support for the proposals on:
 - (a) the measurement of the cost of an associate on obtaining significant influence; and
 - (b) the recognition and measurement of contingent consideration on obtaining significant influence and on purchasing an additional ownership interest.

⁷ For further details, see [AP13H: Outreach feedback summary](#).

24. This section, therefore, focuses on matters raised by a few respondents, as described in paragraphs 18–19 and 21–22 of this paper.

Cost of the associate

Restricting the proposed defined term ‘cost of the associate’

25. As noted in paragraph 19 of this paper, a few respondents suggested the IASB restricts the proposed defined term ‘cost of the associate’ to avoid any potential effect on the measurement of the cost of an asset or an investment in other IFRS Accounting Standards.
26. In considering this suggestion, the staff have not considered any potential effect on investments in associates that are accounted for using the cost method in separate financial statements when applying IAS 27 *Separate Financial Statements*. As noted in paragraph 3(b) of this paper, feedback on matters relating to separate financial statements will be considered in a future agenda paper.
27. The Exposure Draft proposed a definition of the specific term ‘cost of the associate or joint venture’; it did not propose a definition of the broader term ‘cost’:
- (a) Paragraph 13 of Exposure Draft states that (emphasis added):
- ...On obtaining significant influence or joint control, an investor or joint venturer shall recognise its investment in an associate or joint venture at the **cost of the associate or joint venture**...
- (b) Appendix A – Defined terms states that (emphasis added):
- | | |
|---|--|
| cost of the
associate or
joint venture | Fair value of the consideration transferred,
including the fair value of any previously held
ownership interest (or any investment retained)
in the <i>associate or joint venture</i> , measured at
the date an investor obtains <i>significant influence</i>
or a <i>joint venturer</i> obtains <i>joint control</i> . |
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28. It should be noted that the proposed requirement in paragraph 13 of the Exposure Draft to recognise an investment in an associate at the cost of the associate is applied when applying the equity method as set out in IAS 28.
29. The Glossary for IFRS Accounting Standards includes a defined term for ‘cost’ that is derived from paragraph 6 of IAS 16 *Property, Plant and Equipment*, paragraph 8 of IAS 38 *Intangible Assets* and paragraph 5 of IAS 40 *Investment Property*. Those standards also include specific guidance on the measurement of cost on initial recognition of an asset (for example, see paragraphs 23–28 of IAS 16). Therefore, an entity applying those standards would need to apply both the definition of cost and the specific guidance on the measurement of cost in those IFRS Accounting Standards.
30. Furthermore, the staff note that, in general, IFRS Accounting Standards do not exclude application by analogy of requirements, because there could be circumstances in which it could be appropriate to analogise in applying the hierarchy in paragraph 11(a) of IAS 8 *Basis of Preparation of Financial Statements*. However, such an analogy could happen only if:
- (a) a transaction, other event or condition is not specifically addressed in the applicable IFRS Accounting Standard;
 - (b) applying a requirement by analogy would not conflict with the requirements in the applicable IFRS Accounting Standard; and
 - (c) the entity’s management has determined it is appropriate to apply a requirement by analogy in its specific circumstances, in accordance with the requirements in IAS 8 on selecting an accounting policy.
31. The staff acknowledge that there are instances in which IFRS Accounting Standards do prohibit application by analogy, but those instances usually relate to exemptions or permissions (but not to requirements), such as:
- (a) paragraph 18 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* states that (emphasis added):

An entity may elect to use one or more of the exemptions contained in Appendices C–E. **An entity shall not apply these exemptions by analogy to other items.**

- (b) paragraph 2.3B IFRS 9 states that (emphasis added):

An entity **shall not apply** paragraphs 6.10.1–6.10.2 and B2.7–B2.8 **by analogy to other contracts, items or transactions.**

32. Overall, in the staff view, there are likely to be limited circumstances in which an entity might consider applying, by analogy, the defined term ‘cost of the associate’ (or related requirements in IAS 28) when measuring the cost of an asset within the scope of another IFRS Accounting Standard. Also, if such circumstances were to arise, the entity would need to determine if such an analogy is appropriate, in accordance with the requirements in IAS 8 on selecting an accounting policy. In contrast, if the IASB were to restrict application by analogy, that restriction might have unintended (and undesirable) consequences, by ruling out (or appearing to rule out) an accounting policy that might be appropriate in the circumstances.
33. Considering paragraphs 25–32 of this paper, the staff think that:
- (a) the proposed requirements in the Exposure Draft, including the proposed defined term cost of the associate, are clear on when they apply; that is, when applying the equity method.
 - (b) including the proposed defined term ‘cost of the associate’ in the revised IAS 28 is not expected to have unintended consequences and therefore it is not necessary (or desirable) to restrict the term.

Whether the cost of the associate includes the fair value of derivatives

34. As noted in paragraph 22 of this paper, one participant asked whether the cost of the associate includes the fair value of derivatives, such as a forward contract to acquire an investment that it will become an associate.
35. More specifically, the staff understand that the fact pattern and related question from the participant mentioned in paragraph 34 of this paper is as follows:

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- (a) a forward contract to acquire an investment that will become an associate is a derivative that is in the scope of IFRS 9;
 - (b) the scope exemption in paragraph 2.1(f) of IFRS 9 for business combinations cannot be applied by analogy to the acquisition of an interest in an associate because the latter represents the acquisition of a financial instrument (see paragraph BCZ2.42 of the Basis for Conclusions on IFRS 9);
 - (c) applying IFRS 9, the derivative is measured at fair value through profit or loss; and
 - (d) the question is whether the cost of the associate includes the fair value of the derivative at the date of obtaining significant influence.
36. The staff acknowledged the matter in paragraph 35 of this paper; however, the staff think that, as this matter was raised by only one participant, the feedback does not indicate a need to address this issue. In other words, it does not appear to be a widespread issue. Therefore, in the staff's view, the IASB does not need to consider this matter further.

Contingent consideration

Recognition of subsequent changes in the fair value of contingent consideration

37. As noted in paragraph 18 of this paper, one respondent said that changes in the fair value of contingent consideration after initial recognition should be recognised as an adjustment to the cost of the investment, because that approach follows the general definition of the cost of an asset.
38. In developing the proposals in paragraphs 11–12 of this paper, the IASB considered:
- (a) the approach suggested by the respondent in paragraph 37 of this paper; and
 - (b) the fact that recognising the changes in the fair value of liabilities for contingent consideration in profit or loss:

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- (i) is consistent with the IASB's conclusions when developing IFRS 3; that is, subsequent changes in the fair value should not be reflected as adjustments to the consideration transferred (usually in goodwill) because those subsequent changes in fair value are generally directly related to post-combination events; and
 - (ii) is consistent with the approach frequently applied in practice⁸.
39. In the staff view, the feedback from that respondent, as outlined in paragraph 37 of this paper, does not provide sufficient evidence for the IASB to reconsider its rationale for the proposal in the Exposure Draft to recognise the subsequent changes in the fair value of contingent consideration. Therefore, the staff think it is not necessary for the IASB to consider this matter further.

Defining contingent consideration

40. As noted in paragraph 21 of this paper, 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.
41. Appendix A of IFRS 3 defines contingent consideration as (emphasis added):
- Usually, an obligation of the **acquirer** to transfer additional assets or equity interests to the former owners of an **acquiree** as part of the exchange for control of the acquiree if specified future events occur or conditions are met. However, *contingent consideration* also may give the acquirer the right to the return of previously transferred consideration if specified conditions are met.
42. The staff noted that in developing the proposals set out in paragraphs 11–12 of this paper, the application question was about the recognition and measurement of contingent consideration, not about what contingent consideration is. That suggests

⁸ For further details, see paragraph 24 of [AP13B: Towards an Exposure Draft—Contingent consideration on acquisition of an investment in an associate, including subsequent measurement](#).

the term ‘contingent consideration’ is well-known and commonly used, mainly from other IFRS Accounting Standards, such as IFRS 3.

43. However, the staff acknowledge that adding a definition into the revised IAS 28, based on the IFRS 3 definition, could be helpful.

Staff recommendations

44. Considering paragraphs 9–43 of this paper, the staff recommend the IASB proceeds with the proposals in the Exposure Draft to require an investor:
- (a) to measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.
 - (b) to recognise contingent consideration, on obtaining significant influence, as part of the consideration transferred and measure it at fair value. Thereafter:
 - (i) not to remeasure contingent consideration classified as an equity instrument; and
 - (ii) to measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.
 - (c) to apply the requirement in (b) when purchasing an additional ownership interest in an associate.
45. The staff recommend, in addition to the proposals in the Exposure Draft, the IASB includes a definition of contingent consideration in the revised IAS 28 based on the definition set out in IFRS 3.

Question for the IASB

Question for the IASB

- (a) Does the IASB agree with the staff recommendations in paragraphs 44–45 of this paper?

Appendix A—Extracts from [Basis for Conclusions on the Exposure Draft](#)

- A1. This appendix contains extracts from the Basis for Conclusions on the Exposure Draft related to the measurement of the cost of an associate.

Changes in an investor's ownership interest on obtaining significant influence

BC17 Paragraph 32 of IAS 28 requires an investor, on obtaining significant influence of an associate, to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities as goodwill (or a bargain purchase gain). However, IAS 28 does not specify how to measure the cost of the investment when obtaining significant influence, resulting in diversity in practice. Application questions include:

- (a) how an investor initially measures the carrying amount of an investment in an associate; and
- (b) if an investor with a previously held interest in an entity acquires an additional interest and obtains significant influence, whether the initial measurement of the investment in an associate includes the original purchase cost of the previously held interest or the carrying amount of that interest applying IFRS 9.

BC18 The IASB decided to propose requiring the cost of an associate on obtaining significant influence to be measured at the fair value of the consideration transferred, including the fair value of any previously held ownership interest. In reaching this decision, the IASB considered that:

- (a) obtaining significant influence changes both the relationship between the investor and the investee, and the accounting method used by the investor. In effect, the investor exchanges its previously held financial asset for an investment in an associate. Therefore, the fair value of the financial asset given up at the date of obtaining significant influence represents part of the consideration transferred for the investment in an associate.
- (b) measuring the cost of the investment at fair value would align with Principle D (see Table 2), which measures the

associate's identifiable assets and liabilities at fair value on obtaining significant influence.

- (c) measuring the previously held interest at fair value would not be overly costly for entities to apply because before obtaining significant influence, the previously held interest would have been measured at fair value in accordance with IFRS 9.

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Contingent consideration

BC89 Paragraph 32 of IAS 28 requires an investment to be accounted for using the equity method from the date on which it becomes an associate. It also sets out requirements relating to the initial recognition of the investment. However, IAS 28 does not specify requirements for recognising and measuring contingent consideration. An application question, therefore, arises about how an investor should recognise and measure contingent consideration on obtaining an investment in an associate, both initially and subsequently. A similar question arises when an investor accounts for contingent consideration on the purchase of an additional interest.

BC90 The IASB decided to propose requiring an investor:

- (a) on initial recognition of an investment in an associate or on purchase of an additional interest, to recognise contingent consideration as part of the consideration transferred and measure it at fair value; and
- (b) subsequently:
 - (i) not to remeasure contingent consideration classified as an equity instrument and to recognise its subsequent settlement in equity; and
 - (ii) to measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

BC91 In reaching this decision, the IASB considered that the proposed requirements outlined in paragraph BC90 would be similar to those in IFRS 3 for contingent consideration on the acquisition of a subsidiary. Applying IFRS 3, an acquirer recognises the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree. IFRS 3 also specifies requirements similar to those set out in paragraph

BC90(b) for how to account for contingent consideration after the acquisition date.

BC92 The IASB also understands that the proposed requirements set out in paragraph BC90 are consistent with the approach frequently applied in practice when accounting for contingent consideration on initial recognition of an investment in an associate or on purchase of an additional interest. Therefore, in most cases, the IASB expects that the proposed requirements would not impose significant additional costs on preparers.

BC93 Furthermore, the IASB considered that:

- (a) the proposed requirement to measure contingent consideration at its fair value is consistent with the proposed requirement to measure the consideration transferred at its fair value when measuring the cost of the investment (see paragraph BC18).
- (b) the proposed requirement to account for the settlement of contingent consideration classified as an equity instrument within equity is consistent with the accounting for the settlement of equity instruments within the scope of IAS 32 Financial Instruments: Presentation and equity-settled share-based payment arrangements within the scope of IFRS 2.
- (c) the proposed requirement to subsequently measure other contingent consideration at fair value at each reporting date is consistent with the requirements in IFRS 9 for the subsequent measurement of derivatives. When developing IFRS 3, the IASB observed that many obligations for contingent consideration in a business combination that are classified as liabilities meet the definition of derivatives. The IASB considered that similar considerations apply in the context of contingent consideration on obtaining significant influence of an associate or on purchase of an additional interest.
- (d) the proposed requirement to recognise the changes in the fair value of liabilities for contingent consideration in profit or loss is consistent with the IASB's conclusions when developing IFRS 3. When developing IFRS 3, the IASB concluded that such changes should not be reflected as adjustments to the consideration transferred (usually in goodwill) because those subsequent changes in fair value are generally directly related to post-combination events.

Furthermore, it would be difficult for the IASB to develop requirements that differentiate between changes in fair value that relate to events that occurred before the date of obtaining significant influence and those that relate to subsequent events. Such requirements would also add costs and complexity for preparers.

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