
Accounting Standards Advisory Forum meeting

Date	October 2025
Project	Equity Method
Topic	Measurement of the ‘cost of the associate’—Acquisition-related costs
Contact	Mostafa Mouit (mmouit@ifrs.org)

This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Background and purpose of this paper

1. At its September 2025 meeting, the International Accounting Standards Board (IASB) decided to expand the scope of the Equity Method project and add the application question:

*How does an investor recognise acquisition-related costs when applying the equity method?*¹
2. The purpose of this paper is to ask Accounting Standards Advisory Forum (ASAF) members for their views on the staff analysis of two alternative answers to the application question in paragraph 1 of this paper.
3. The staff will include the advice of ASAF members in a future agenda paper, asking the IASB how it would like to answer the application question in paragraph 1 of this paper.

¹ For further details, see [September 2025 IASB meeting](#) and [AP13A: Scope of the project—Consideration of additional application questions](#).

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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.²

Structure of this paper

5. The paper is structured as follows:
- (a) development of the proposals in the Exposure Draft *Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)* (Exposure Draft) (paragraphs 7–10 of this paper);
 - (b) summary of feedback on the proposals in the Exposure Draft (paragraphs 11–19 of this paper);
 - (c) staff preliminary analysis on two possible ways forward (paragraphs 20–40 of this paper):
 - (i) Alternative 1—Recognising acquisition-related costs in profit or loss as incurred (paragraphs 21–30 of this paper);
 - (ii) Alternative 2—Recognising acquisition-related costs as part of the cost of the associate (paragraphs 31–39 of this paper); and
 - (iii) Comparison of Alternative 1 and Alternative 2 (paragraph 40 of this paper); and
 - (d) question for ASAF members.
6. There are two appendices to this paper:
- (a) Appendix A—Comparison of Alternative 1 and Alternative 2.
 - (b) Appendix B—Extracts from [IFRS IC July 2009 Agenda Decision](#).

² Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

Development of the proposals in the Exposure Draft

Background and requirements

7. Paragraph 10 of IAS 28 *Investments in Associates and Joint Ventures* 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;
 - (b) whether and if so, how to recognise and measure contingent consideration; or
 - (c) how to recognise acquisition-related costs.

Proposals in the Exposure Draft

8. In the Exposure Draft, the IASB proposed an investor:
- (a) 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.
 - (b) recognise contingent consideration as part of the consideration transferred and measure it at fair value.

Other considerations in developing proposals in the Exposure Draft³

9. At its February 2024 meeting, the IASB considered adding to the scope of the project and answering the application question in paragraph 1 of this paper. The staff recommended not doing so for various reasons. For example, the staff review of initial stakeholder input did not find questions about how to recognise acquisition-related costs, possibly because of the [IFRS IC July 2009 Agenda Decision](#). Also, the

³ For further details, please see [AP13A: Towards an Exposure Draft—Clarifications to the IASB's tentative decisions](#) and [IFRS - IASB Update February 2024](#).

staff did not consider that the tentative decisions made by the IASB in the project at that time could be applied to the application question without further work, and no ‘quick’ answer could be found within the IFRS Accounting Standards.

10. The IASB decided not to add the application question on how an investor recognises acquisition-related costs, and therefore, the proposals in the Exposure Draft do not answer the application question in paragraph 1 of this paper.

Summary of feedback on the proposals in the Exposure Draft

Feedback from outreach events⁴

11. Although most participants supported the proposals, set out in paragraph 8 of this paper, they noted that the proposed defined term ‘cost of the associate’ is unclear on whether acquisition-related costs are part of the cost of the associate.
12. Some participants said directly attributable costs are included in the ‘cost of the associate’, applying the IFRS IC July 2009 Agenda Decision. However, other participants asked whether, given the new definition of the ‘cost of the associate’ incorporates some similar requirements to those in IFRS 3 *Business Combinations* (such as the requirements for a business combination achieved in stages and contingent consideration), the agenda decision remains applicable.

Feedback from comment letters⁵

13. Almost all respondents who commented agreed with the proposals, set out in paragraph 8 of this paper, on the ‘cost of the associate’, including recognising contingent consideration as part of the consideration transferred and measuring it at fair value.

⁴ For further details, see [AP13H: Outreach feedback summary](#).

⁵ For further details, see [AP13B: Feedback from comment letters—Measurement of cost and Changes in ownership interests](#).

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14. Most respondents who commented:
- (a) said that the proposed defined term ‘cost of the associate’ is unclear with respect to acquisition-related costs. That is, they said the IASB should specify whether acquisition-related costs should be recognised in profit or loss as incurred or recognised as part of the ‘cost of the associate’;
 - (b) said that acquiring an ownership interest that leads to significant influence can involve considerable acquisition-related costs;
 - (c) said the IASB should clarify how the IFRS IC July 2009 Agenda Decision applies, given the proposals in the Exposure Draft; and
 - (d) suggested the IASB should answer the application question on how an investor recognises the acquisition-related costs.
15. Respondents commenting on acquisition-related costs expressed different views on how these costs should be recognised:
- (a) some respondents, who are of the view that acquisition-related costs should be recognised in profit or loss as incurred, said recognition in profit or loss would:
 - (i) be consistent with the proposals in the Exposure Draft that were developed by reference to IFRS 3, for example, defining ‘cost of the associate’ as the fair value of consideration transferred, including the fair value of any previously held interest, and recognising contingent consideration at fair value as part of the consideration transferred.
 - (ii) be consistent with IFRS 9 *Financial Instruments* for financial assets measured at fair value through profit or loss.
 - (iii) remove the need for judgement by entities on whether costs incurred are acquisition-related costs.
 - (b) some respondents, who are of the view that acquisition-related costs should be recognised as part of the cost of the investment, said:

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- (i) the equity method is a cost-based approach like that in IAS 16 *Property, Plant and Equipment*.
 - (ii) recognition as part of the cost of the investment would be better aligned with paragraph 6.5 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.⁶
 - (iii) recognition as part of the cost of the investment would be consistent with IFRS IC July 2009 Agenda Decision.
- (c) a few respondents suggested the IASB require including only incremental acquisition-related costs as part of the cost of the investment, similar to the requirements in IFRS 9 for financial assets not measured at fair value through profit or loss. These respondents said that due diligence costs, which are often the most significant acquisition-related costs, generally fall outside the definition in IFRS 9, as they are incurred before the transaction is completed and might be incurred even if the deal does not complete.
- (d) some respondents:
- (i) said that, applying IFRS Accounting Standards, the recognition of acquisition-related costs might depend on whether the transaction is an acquisition of an asset or an acquisition of a business (as defined in IFRS 3);
 - (ii) said that IAS 28 does not specify whether acquiring an ownership interest of an associate is an acquisition of an asset or an acquisition of a business; and
 - (iii) suggested, to reduce diversity in practice, the IASB introduce a practical solution in answering the application question on how to recognise acquisition-related costs.

⁶ The historical cost of an asset comprising the consideration paid to acquire or create the asset plus transaction costs.

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16. Two users of financial statements said that obtaining significant influence should be viewed as a similar event to obtaining control; therefore, transaction costs on obtaining significant influence should be expensed as incurred to align with the requirements in IFRS 3.
17. European Securities and Markets Authority (ESMA) said (emphasis added):
- ... ESMA is of the view that these costs should be expensed and, hence, not included in the carrying amount of the investment. The treatment of acquisition-related costs should be aligned with IFRS 3, which requires acquisition-related costs to be expensed. ESMA also notes that **acquisition-related costs** related to the **acquisition of the investee's shares before attaining significant influence** are **expensed** if those shares are measured at fair value through profit or loss. Therefore, in this case, the **requirement to include acquisition-related costs** in the carrying amount of the investment would **result in** the cost of the associate **comprising only a part of the total acquisition-related costs incurred in acquiring the ownership interest** (those incurred after obtaining significant influence), which seems inconsistent, even if the unit of account is different before and after obtaining the significant influence ...
18. Dutch Accounting Standards Board (DASB) said (emphasis added):
- ... the ED is not fully clear on how to account for acquisition-related costs. We have the **impression** that the **proposal does not allow the recognition of acquisition-related costs as part of the cost of the associate**. In our view, acquisition-related costs **should be capitalized** for all acquisitions of associates (containing a business or not) ...
19. As part of the feedback on the project objectives and approach, there was a sentiment in some comment letters that one of the objectives of the project should have been simplifying the equity method.⁷

⁷ See [AP13A: Overview of feedback from comment letters—including feedback on the project objective and approach](#).

Staff preliminary analysis on two possible ways forward

20. Considering paragraphs 7–19 of this paper, the staff have analysed two alternative answers to the application question in paragraph 1 of this paper:

- (a) Alternative 1—*Recognising acquisition-related costs in profit or loss as incurred.*
- (b) Alternative 2—*Recognising acquisition-related costs as part of the cost of the associate.*

Alternative 1—Recognising acquisition-related costs in profit or loss as incurred

21. Alternative 1 would require an investor, on obtaining significant influence, to recognise acquisition-related costs as expenses in profit or loss in the period in which the costs are incurred.
22. IFRS 3 requires that in a business combination, an acquirer:
- (a) measures the ‘consideration transferred’ at fair value;
 - (b) remeasures any previously held equity interest at its acquisition-date fair value; and
 - (c) recognises the acquisition-date fair value of contingent consideration as part of the ‘consideration transferred’.⁸
23. As noted in paragraph 8 of this paper, the Exposure Draft proposed:
- (a) a defined term for ‘cost of the associate’ as the fair value of the consideration transferred, including the fair value of any previously held interest in the associate; and
 - (b) that ‘consideration transferred’ includes the fair value of contingent consideration.

⁸ See paragraphs 37, 39 and 42 of IFRS 3.

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24. In developing the proposals in paragraph 23 of this paper, the IASB considered that:
- (a) measuring the cost of the investment at fair value would align with Principle D, which measures the associate's identifiable assets and liabilities at fair value on obtaining significant influence.
 - (b) 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, similar to the requirement in IFRS 3, represents part of the 'consideration transferred' for the investment in an associate.
 - (c) including the fair value of contingent consideration as part of the 'consideration transferred' is consistent with its proposal to measure the consideration transferred at its fair value when measuring the cost of the investment, and is similar to the requirement in IFRS 3.⁹
25. Paragraph 53 of IFRS 3 requires recognising acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received (with one exception for the costs to issue debt or equity securities). BC366 of the Basis for Conclusions on IFRS 3 explains that acquisition-related costs are not part of the fair value exchange between the buyer and seller for the business; rather, they are separate transactions in which the buyer pays for the fair value of services received and do not generally represent assets of the acquirer at the acquisition date because the benefits obtained are consumed as the services are received.
26. The supporters of Alternative 1 argue that:
- (a) because the proposals in the Exposure Draft on 'cost of the associate' are moving closer to the requirements in IFRS 3; then
 - (b) it is logical to use the same approach to acquisition-related costs as is used in IFRS 3 (see the feedback in paragraphs 15(a)(i) and 16 of this paper).

⁹ See paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions on the Exposure Draft. For further details, see [AP13B: Towards an Exposure Draft—Contingent consideration on acquisition of an investment in an associate, including subsequent measurement](#).

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27. If Alternative 1 is taken forward, it would also be consistent with IFRS 9 for financial assets measured at fair value through profit or loss. An ownership interest in an associate is an equity instrument that is outside the scope of IFRS 9. Before obtaining significant influence, the previously held interest would have been measured at fair value in accordance with IFRS 9; therefore, the acquisition-related costs would have been expensed. Applying Alternative 1, on obtaining significant influence, an investor should continue recognising acquisition-related costs in profit or loss as incurred. See the feedback in paragraphs 15(a)(ii) and 17 of this paper.
28. In summary, Alternative 1 would result in the treatment of acquisition-related costs in IAS 28 being consistent with IFRS 3 and IFRS 9 (for equity instruments at fair value through profit or loss). Users often need to understand the recognition and measurement requirements in IFRS Accounting Standards in order to understand the information provided applying those requirements. A consistent approach would assist the understandability of the financial statements.
29. If Alternative 1 is taken forward, preparers would need to change their accounting policy. However, Alternative 1 could be seen as:
- (a) simpler to apply, because it would remove the need for preparers to exercise judgement on whether costs incurred are acquisition-related costs (see the feedback in paragraphs 15(a)(iii) and 15(d)(iii) of this paper).
 - (b) responding to the sentiment in some comment letters to simplify the equity method (see paragraph 19 of this paper).
30. Furthermore, because goodwill is calculated as a residual (as set out in paragraph 24 of the Exposure Draft), not including acquisition-related costs in the measurement of goodwill might be seen as a more faithful representation of the goodwill included in the carrying amount of the investment.

Alternative 2—Recognising acquisition-related costs as part of the cost of the associate

31. Alternative 2 would require an investor, on obtaining significant influence, to recognise acquisition-related costs as part of the ‘cost of the associate’.
32. The supporters of Alternative 2 hold the view that the equity method is a cost-based approach; so that an investor initially recognises its investment at ‘cost’, which includes acquisition-related costs.
33. IAS 16 and IAS 40 *Investment Property* refer to ‘cost’ as the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of acquisition or construction.
34. Paragraphs 20–21 of IAS 40 state that transaction costs shall be included in the initial measurement, and the cost comprises the purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.
35. While IAS 16 does not refer to ‘transaction costs’, it does require ‘directly attributable costs’ to be included as an element of cost, which includes acquisition-related costs, not just the purchase price paid. IAS 2 *Inventories* and IAS 38 *Intangible Assets* have similar requirements.
36. When developing the IFRS IC July 2009 Agenda Decision, and in deliberating the issue on how the initial carrying amount of an equity method investment should be determined, the IFRS Interpretation Committee (the Committee) noted that IFRS Accounting Standards consistently require assets not measured at fair value through profit or loss to be measured at initial recognition at cost, which includes directly attributable costs to the acquisition or issuance of the asset, see Appendix B of this paper.

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37. The *Conceptual Framework* describes historical cost as a measure using information derived, at least in part, from the transaction price. Historical cost includes acquisition-related costs. One way to apply a historical cost measurement basis to financial assets is to measure them at amortised cost.¹⁰
38. If Alternative 2 is taken forward—that is, retaining the initial measurement at cost and the IFRS IC July 2009 Agenda Decision—it would be consistent:
- (a) with the description of historical cost in the *Conceptual Framework* (see the feedback in paragraph 15(b) of this paper);
 - (b) with IFRS Accounting Standards that require recognising assets initially at ‘cost’ (see the feedback in paragraph 15(b) of this paper); and
 - (c) partially with IFRS 9 for financial assets not measured at fair value through profit or loss, because IFRS 9 only allows incremental acquisition-related costs to be included as part of the cost of the investment (see the feedback in paragraph 15(c) of this paper).¹¹
39. Furthermore, Alternative 2 would be consistent with current requirements. However, it is possible that some changes to practice might be necessary regarding how much of the costs incurred qualify as acquisition-related. This is because the IASB would need to decide whether to use the description in IFRS IC July 2009 Agenda Decision or descriptions in other IFRS Accounting Standards, such as IFRS 9 (see paragraph 15(c) of this paper).

¹⁰ See paragraphs 6.4–6.9 of the *Conceptual Framework*.

¹¹ See paragraph 5.1.1 of IFRS 9. Appendix A of IFRS 9 defined transaction costs as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Comparison of Alternative 1 and Alternative 2

40. The staff have developed Appendix A of this paper that compares the accounting for acquisition-related costs for both alternatives on:
- (a) obtaining significant influence: an associate;
 - (b) changes in an investor's interest: from a financial asset (equity instrument) to an associate; and
 - (c) changes in an investor's interest: from a financial asset (equity instrument) to an associate then to a subsidiary.

Question for ASAF members**Question for ASAF members**

1. What are your views on the alternatives discussed in this agenda paper?

Appendix A—Comparison of Alternative 1 and Alternative 2

A1. As noted in paragraph 40 of this paper, the staff have developed the following diagrams that compare the accounting for acquisition-related costs for both alternatives.

Diagram 1—obtaining significant influence—an associate

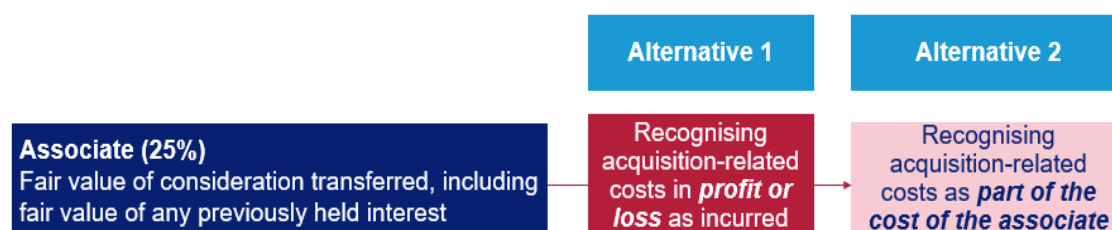


Diagram 2—changes in an investor's interest—from a financial asset (equity instrument) to an associate

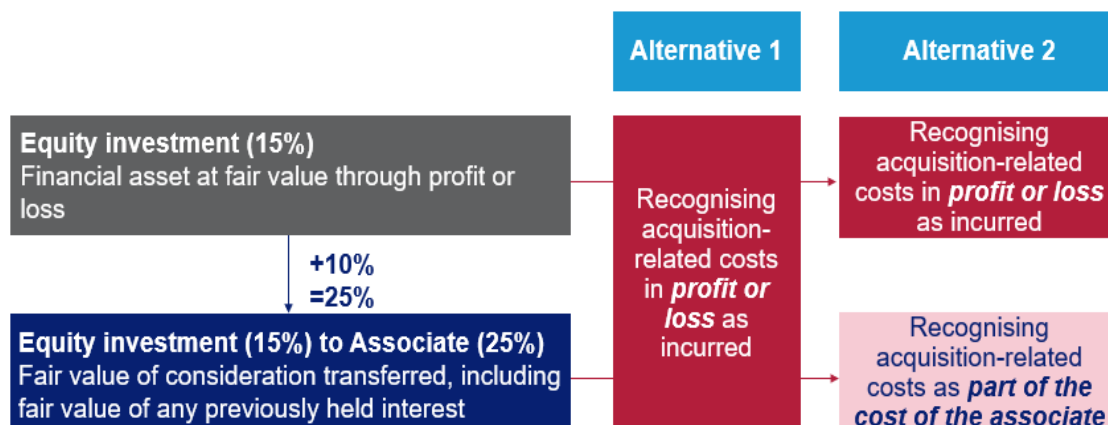
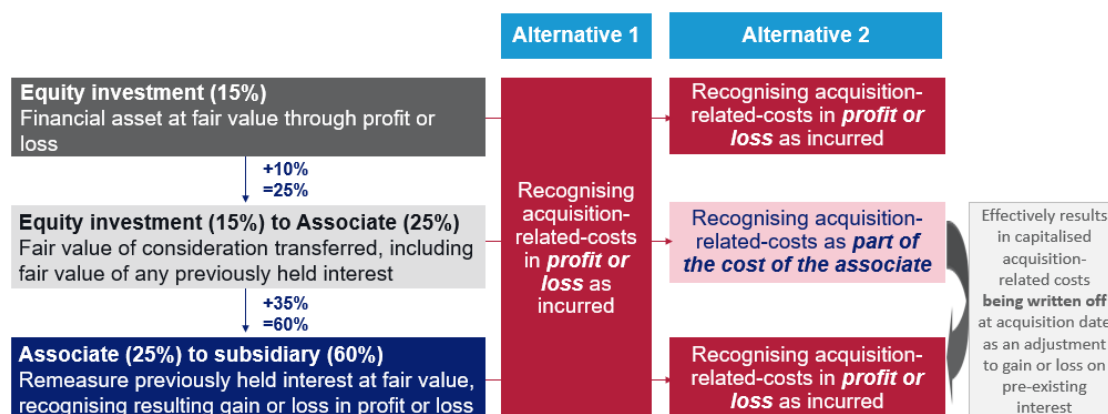


Diagram 3—changes in an investor's interest—from a financial asset (equity instrument) to an associate and then to a subsidiary



Appendix B—Extracts from [IFRS IC July 2009 Agenda Decision](#)

- B1. IAS 28 *Investments in Associates*—Potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting (emphasis added)

The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) had added to its agenda EITF Issue No. 08-6 Equity Method Investment Accounting Considerations. EITF 08-6 addresses several issues resulting from the joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interest that culminated in the issue of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and SFAS 141(R) and SFAS 160.

At its meeting in May 2009, the **IFRIC deliberated** two of the **issues considered in EITF 08-6**:

- How the initial carrying amount of an equity method investment should be determined
- ...

The IFRIC noted that IFRSs consistently require assets not measured at fair value through profit or loss to be measured at initial recognition at cost. **Generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issuance of the asset such as professional fees for legal services, transfer taxes and other transaction costs.** Therefore, the **cost of an investment in an associate** at initial recognition **determined in accordance with paragraph 11 of IAS 28 [the equivalent requirement is now in paragraph 10 of IAS 28]** comprises its **purchase price** and **any directly attributable expenditures necessary to obtain it.**

...

The IFRIC concluded that the agenda criteria were not met mainly because, given the guidance in IFRSs, it did not expect divergent interpretations in practice. Therefore, the IFRIC decided not to add these issues to its agenda.