IFRS® Accounting

Staff paper

Agenda reference: 4B

Accounting Standards Advisory Forum meeting

Date	**October 2025**
Project	**Equity Method**
Topic	**Other changes in an investor's ownership interest—Dilution gains or losses**
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Purpose of this session

- The Exposure Draft *Equity Method of Accounting (*published in September 2024) includes proposals on how to account for changes in the investor's ownership interest (increases or decreases) when applying the equity method of accounting. The proposals in the Exposure Draft, include dilutions of an investor's ownership interest as part of these changes.
- The purpose of the session is to ask ASAF members for their views on the presentation of dilutions gains or losses.

Questions for ASAF members

1. Do you agree with the proposal in the Exposure Draft on the presentation of dilution gains or losses?
2. If you do not agree, which of the alternatives in slide 10 do you support and why?
3. Do ASAF members think the IASB should clarify how the proposals apply to ‘indirect’ dilutions? (see slide 11)

Dilutions

Dilutions

An investor's interest in an associate is diluted, for example, when the associate issues new shares and the investor does not subscribe to any new shares (or subscribes them to a lower proportion than its percentage of ownership).

The investor's percentage of ownership decreases, while the associate's net assets increase because the associate receives cash or other assets in consideration for the new shares issued. Therefore, the investor's share of the associate's net assets could increase or decrease.

	Before share issue	After share issue
Shares held by investor (A)	300	300
Total shares issued by the associate (B)	1,200	1,500
Investor's ownership percentage (A/B)	25%	20%
Associate's net assets (C)	8,000	12,000
Investor's share of the associates' net assets ((A/B)*C)	2,000	2,400

Requirements of IAS 28

Paragraph 3 of IAS 28 defines the equity method as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter the investment for the post-acquisition change in the investor's share of the associate's net assets.

Paragraph 10 of IAS 28 requires an entity recognises:

- its share of the associate's profit or loss in its profit or loss
- its share of the associate's other comprehensive income (OCI) in its OCI
- distributions from the associate as a reduction of the carrying amount of its investment.

There is no requirement on how to present the investor's share of other changes in the associate's net assets, such as a change related to a new share issue.

Prior work of the IASB

In November 2012, the IASB published the Exposure Draft *Equity Method: Share of Other Net Asset Changes* *(2012 Exposure Draft).* The 2012 Exposure Draft proposed that an investor recognise, in the investor's equity, its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received. The proposed amendment was a short-term solution to address diversity in practice.

Approximately three quarters of the respondents disagreed with the proposal in the 2012 Exposure Draft. Many of these respondents argued that the proposed amendment was inconsistent with the Conceptual Framework, and that the dilution gains or losses should be recognised as income or expenses because they do not arise from contributions from or distributions to the investor's holders of equity claims.

In May 2014, the IASB decided not to proceed with the proposals in the 2012 Exposure Draft.

Proposal in the Exposure Draft

In the September 2024 Exposure Draft the IASB proposed an investor:

- recognises in profit or loss, gains or losses from disposals of an investor's ownership interest;
- applies the same accounting treatment as for disposals to other decreases in ownership interest;
- dilution gains or losses for the period be disclosed.

The IASB considered that other decreases in ownership interest, such as dilutions, are economically similar to disposals. Although the investor does not directly exchange consideration with the associate, the dilution changes the economic resources of the investor, that is the investor has a smaller share of a larger pool of assets.

The IASB explained that dilutions gains or losses are items of income or expense[1]. They do not relate to distributions from the holders of the investor's equity claims and therefore are not equity. In principle, all income and expenses are presented in profit or loss. The IASB did not identify any reason to require presentation in the investor's OCI[2].

[1]paragraph BC42 of the Basis for Conclusions
[2]paragraph BC44 of the Basis for Conclusions

Feedback to the proposal

Most of the respondents commenting on the presentation of dilutions gains or losses supported presentation in the investor's profit or loss (these respondents may have raised comments on other aspects of the proposals on other changes in the ownership interest).

A few respondents disagreed with presenting dilutions gains or losses in the investor's profit or loss and would support presenting those gains or losses in the investor's equity, as was proposed in the 2012 Exposure Draft.

Some respondents had other comments apart from presentation. They noted that:

- it is not clear if the proposal applies to an 'indirect' dilution – these are explained on slide 11;
- it is not clear if an investor that partially subscribe to an associate's share issue should recognise separately a purchase and a dilution, or only the net dilution;
- the proposals do not address how to account for an associate's share-based payment during the vesting period of the granted instruments.

Possible alternatives

No recognition of dilution gains or losses

This alternative would reflect a view that the investor's investment in the associate is not affected by a transaction the investor is not a party to.

However, paragraph 12 of IAS 28 requires an investor to determine its interest in an associate on the basis of the existing ownership interest. Therefore, the investor would be still required to monitor transactions in its associates to determine its ownership interest.

Presentation of dilution gains or losses in equity

This alternative would reflect a view that these gains or losses are not part of the investor's performance, because the investor is not party to the transaction.

It would also reflect a view that the investor's presentation should mirror the presentation in the associate's financial statements.

This alternative may not be consistent with the definition of income and expenses in the Conceptual Framework.

Presentation of dilution gains or losses in OCI

This alternative would also reflect a view that these gains or losses are not part of the investor's performance.

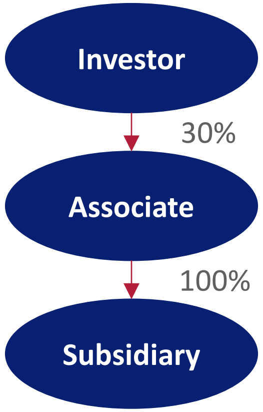
The IASB may **decide in exceptional circumstances** to require presentation of income and expenses in OCI when doing so provides more relevant information or more faithful representation of the entity's financial performance.

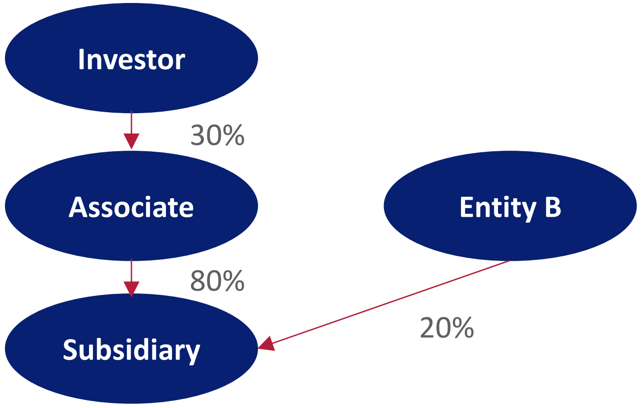
This alternative would require the IASB to decide if and when the dilution gains and losses are recycled (paragraph 7.19 of the Conceptual Framework).

‘Indirect’ dilutions

If an associate has subsidiaries, the investor’s share of the associate’s net assets is based on the associate’s consolidated financial statements.

If an associate’s subsidiary issues shares to a third party, the investor’s percentage of ownership in the associate (the ‘legal’ ownership interest) does not change but the investor’s share of the associate’s consolidated net assets (the ‘economic’ ownership interest) changes.





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