
IASB[®] meeting

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Project	Equity Method
Topic	Transactions with associates
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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 to consider:
 - (a) the feedback on the proposal in the Exposure Draft that an investor would recognise gains and losses in full resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary (recognise gains and losses in full); and
 - (b) the staff's initial analysis on how to address that feedback.
3. This paper does not consider the feedback on the proposal to require an investor to disclose gains or losses resulting from 'downstream' transactions with its associates. The feedback on this proposed disclosure requirement will be considered in a future agenda paper.

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4. This paper should be read in conjunction with its supporting Agenda Paper 13C *Transactions with associates—consideration of possible earnings management and enhancing disclosures (or guidance)* of this meeting, which considers the feedback from some respondents who raised concerns about possible earnings management and suggested enhancing disclosures or providing guidance.
 5. 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.¹

Staff recommendation

6. The staff recommend, as a next step in considering the feedback on the proposal to recognise gains or losses in full resulting from all transactions with associates and joint ventures, the IASB explores concerns about possible earnings management and whether enhancing disclosures or adding guidance could resolve these concerns.

Structure of this paper

7. This paper is structured as follows:
 - (a) development of the proposals in the Exposure Draft (paragraphs 9–17 of this paper);
 - (b) feedback on the proposal in the Exposure Draft (paragraphs 18–32 of this paper);
 - (c) staff’s initial analysis (paragraphs 33–42 of this paper);
 - (i) one-line consolidation (paragraphs 35–37 of this paper).

¹ 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) suggestions to retain the requirements in paragraph 28 of IAS 28 (paragraphs 38–42 of this paper).
 - (d) next steps and staff recommendation (paragraphs 43–45 of this paper); and
 - (e) questions for the IASB.
8. There are two appendices to this paper:
- (a) Appendix A—Application questions—Transactions with associates.
 - (b) Appendix B—Extracts from [Basis for Conclusions on the Exposure Draft](#).

Development of the proposals in the Exposure Draft

Background

9. Paragraph 28 of IAS 28 requires an investor to recognise gains or losses resulting from transactions with an associate only to the extent of the unrelated investors' interests in the associate. That requirement applies to both downstream transactions (such as a sale or contribution of assets from an investor to an associate) and upstream transactions (such as a sale of assets from an associate to an investor).
10. The IASB amended the requirement in paragraph 9 of this paper when it issued [Sale or Contribution of Assets between an Investor and its Associate or Joint Venture \(Amendments to IFRS 10 and IAS 28\)](#) in 2014, which requires recognising gain or loss in full when a transaction constitutes a business, however, the effective date of the amendment is deferred indefinitely.
11. The application questions relating to the requirement in paragraph 28 of IAS 28 are described in Table 1 of Appendix A of this paper. The IASB first considered the application question: *'How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?'*, and proposed revised requirements to answer that question. Those

proposed requirements, if finalised, would resolve another six application questions described in Table 1 of Appendix A of this paper.

12. The application question described in paragraph 11 of this paper relates to an inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28:
- (a) paragraphs 25 and B97–B99 of IFRS 10 require an investor to recognise, in full, the gains or losses on the loss of control of a subsidiary, remeasuring any retained interest at fair value; whereas
 - (b) paragraph 28 of IAS 28 requires an investor to restrict the gains or losses recognised to the extent of the unrelated investors' interests in an associate, by eliminating the investor's share of the gain or loss arising from the transaction.
13. The IASB noted that the requirement in IFRS 10 specifically relates to transactions in which an investor loses control of a subsidiary, whereas the requirement in IAS 28 relates to all transactions between an investor and its associate. Therefore, the IASB took into account the wider application of the IAS 28 requirement when considering how to resolve the inconsistency between the requirements in IFRS 10 and IAS 28 (see Appendices A–B of this paper).

Proposals in the Exposure Draft

14. The IASB proposed requiring an investor:
- (a) to recognise gains and losses in full resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary; and
 - (b) to disclose information about the gains or losses recognised by the investor from downstream transactions with associates (which will be considered in a future agenda paper).

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15. The IASB also proposed amendments to IFRS 10 to remove the indefinitely-deferred requirements introduced by [*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*](#).

Rationale for the proposal in the Exposure Draft

16. In developing the proposals in paragraph 14 of this paper, the IASB considered:
- (a) user information needs—compared to other approaches, recognising gains and losses in full resulting from all transactions with associates would provide users with the most useful information, for example, to help estimate future cash flows and analyse the associate’s performance.
 - (b) costs to preparers—compared to other approaches, recognising gains and losses in full resulting from all transactions with associates would be simpler and, therefore, less costly to apply. An entity with an investment in an associate would no longer be required:
 - (i) to gather the information required for elimination entries;
 - (ii) to exercise judgement when allocating the restricted gain or loss if the transaction involves the transfer of a business; or
 - (iii) to track the restricted gain or loss in future periods to determine when it should be recognised in the investor’s financial statements.
 - (c) objective of eliminating the investor’s portion of the gain or loss—the requirement in paragraph 28 of IAS 28 could be viewed as implying that the boundary of the reporting entity is extended to include the associate (or the investor’s share of the associate); however an associate is not within the definition of the group in both the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and other IFRS Accounting Standards. The IASB observed that:
 - (i) it is unclear why IAS 28 requires the investor’s share of a gain or loss on a transaction with an associate to be eliminated; and

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- (ii) although paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10, that does not mean that all equity method procedures need to be aligned with consolidation procedures.
 - (d) other requirements in IFRS Accounting Standards dealing with similar matters—regardless of whether an entity loses control of a subsidiary or a non-monetary asset, other IFRS Accounting Standards require the entity to recognise, in full, the resulting gain or loss.
17. Further details on the various approaches the IASB considered and its rationale in developing the proposals in paragraph 14 of this paper, are in Appendix B of this paper, which contains extracts from the Basis for Conclusions on the Exposure Draft relating to transactions with associates.

Feedback on the proposal in the Exposure Draft

Feedback from comment letters²

18. Most respondents who commented agreed with the proposal to recognise gains and losses in full. There are, however, some geographical differences in the response:
- (a) almost all respondents in the Global, Europe, the Americas, and Africa regions agreed with the proposals; and
 - (b) many respondents in the Asia-Oceania region agreed with the proposals, whereas some disagreed.

² For further details, see [AP13D: Feedback from comment letters—Transactions with associates and Proposed disclosures for IFRS 12](#).

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19. Respondents who agreed with the proposal said requiring investors to recognise gains and losses in full:
- (a) provides users with more useful information than that provided by restricting gains and losses; for example, it would ensure consistency on how gains and losses are recognised for all transactions and enable better estimation of future cash flows when analysing the associates' performance.
 - (b) resolves the longstanding inconsistency between IAS 28 and IFRS 10, reducing current diversity in practice.
 - (c) is consistent with both the *Conceptual Framework* and other IFRS Accounting Standards, because an associate is not within the definition of a group and, hence, there is no conceptual reason to restrict gains and losses.
 - (d) is simple and less burdensome/costly to apply than the requirement to restrict gains and losses; that is, an investor would no longer be required to gather the information required for restricting gains and losses (which also resolves difficulties in accessing information that sometimes arise when accounting for upstream transactions) nor would an investor need to track the restricted gains or losses in future periods to determine when to recognise the restricted proportion.
 - (e) resolves other application questions related to the requirement to restrict gains and losses under IAS 28 (as described in Table 1 of Appendix A of this paper).
20. The European Federation of Financial Analysts Societies (EFFAS) said:
- ...This, we believe, will help users of the financial statements to assess the impact of these types of transactions and the quality of the earnings and the financial position of the group...
21. Autorité des Normes Comptables (ANC) said:
- ...ANC supports the justification of the proposed solution, as outlined in paragraphs BC77 and BC79 of the Basis for Conclusions on the Exposure Draft, according to which the obligation to eliminate gains and losses within the consolidated financial statements should only apply to transactions between

a parent and the entities that are part of the group as defined by IFRS 10, i.e., including subsidiaries and excluding other investees such as associates and joint ventures.

...The proposed solution is also welcomed from a practical point of view and in terms of cost/benefit ratio. In particular, the preparers consulted by the ANC noted that the elimination currently required by paragraph 28 of IAS 28 is generally monitored through manual journal entries and that the change in requirement should not give rise to material costs to modify consolidation systems...

22. KPMG IFRG Limited said:

...This approach would improve consistency for transactions involving loss of control of subsidiaries to an associate (i.e. resolving the existing conflict with IFRS 10), and we expect this approach would reduce costs for preparers by removing the need to identify and track when transactions are settled with third parties. It would also address a number of other application issues related to whether eliminations should be made for other transactions with associates and joint ventures (e.g. interest income and expense and leases).

23. A few respondents who agreed with the proposal cautioned about possible earnings management/structuring opportunities, mainly for investments in joint ventures. One respondent suggested creating an exception to the proposed requirement to recognise gains or losses in full if the transaction lacks commercial substance. Other respondents suggested enhanced disclosures to mitigate this potential risk. These respondents, however, expressed different views on the information for the disclosures, for example:

- (a) one respondent said that the proposal to disclose gains or losses from ‘downstream’ transactions would deter structuring opportunities.
- (b) one respondent suggested the IASB also introduce a requirement to disclose gains or losses from ‘upstream’ transactions.
- (c) one respondent suggested the IASB introduce additional disclosures to improve transparency, for example, on the rationale for the transactions and how they were priced.

- (d) one respondent, who agreed that disclosure limits structuring opportunities, cautioned about disclosing commercially sensitive information and proposed either to exclude ‘downstream’ transactions that are within the ordinary course of business or to require disclosure only of aggregated information.

24. The Societe Francaise des Analystes Financiers (SFAF) said:

...We agree to recognise in full gains and losses, whether upstream and downstream, with an associate. We believe this choice makes the understanding of financial statements a lot simpler and clearer to users...We nevertheless believe that, in order to limit structuring opportunities, disclosures should be enhanced and detailed to provide all information to users to understand the nature and extend of these gains and losses.

25. Some respondents who commented, mostly from Japan and China, disagreed with the proposal to recognise gains and losses in full. These respondents expressed different reasons:

- (a) the proposal changes the requirements in paragraph 28 of IAS 28, therefore it is inconsistent with the project approach, which is to answer application questions without undertaking a fundamental review of the equity method.
- (b) the requirements in paragraph 28 of IAS 28 are consistent with the view that the equity method is a one-line consolidation method, therefore it follows that for the purposes of the equity method the associate is part of the group.
- (c) the proposal might lead to earnings management/structuring opportunities, mainly for investments in joint ventures, for example, through transactions that are not on arm’s length terms. One respondent suggested the IASB provide clear guidance on how the proposed requirement applies to transactions that lack commercial substance.

26. These respondents suggested alternatives, including:

- (a) a few suggested recognising partial gain or loss for all transactions (see Alternative 2 in paragraph BC67(b) of the Basis for Conclusions on the Exposure Draft).

- (b) a few suggested reviving the 2014 indefinitely deferred amendment to IAS 28, which would recognise gain or loss in full or partially, depending on whether the transaction involved the transfer of a business (see Alternative 4 in paragraph BC68(b) of the Basis for Conclusions on the Exposure Draft).
- (c) a few suggested excluding this question from the project's scope but did not suggest how to resolve the inconsistency between IAS 28 and IFRS 10.

27. For example, the Japanese Institute of Certified Public Accountants said:

In addition, we must say that we strongly disagree with the proposed accounting treatment in Question 4, which requires an investor to recognise in full the gains and losses resulting from transactions with its associates (and joint ventures). We believe the proposal not only will significantly change the existing accounting treatments and impose unintended consequence on preparers and auditors in practice, but also may cause the risk of introducing accounting structuring...

28. A few respondents who commented expressed concerns about the proposed disclosure requirements. These respondents said the proposed disclosure requirements might capture the disclosure of gains and losses from 'downstream' transactions that are not transfers of assets:

- (a) in their view, determining and disclosing gains and losses from the provision of services, leases or financing transactions would be more complex than restricting gains or losses, because generally, preparers do not currently restrict gains or losses from these types of transactions.
- (b) they suggested the IASB clarify what "gains and losses from 'downstream' transactions" encompass.

Feedback from outreach events³

29. 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.
30. Some participants, mostly those from Japan and China, disagreed with this proposal because, in their view:
- (a) the requirements in paragraph 28 of IAS 28 are well-established and, therefore, they found no reason to change those requirements.
 - (b) the proposal changes significantly the requirements in IAS 28 and goes beyond the principles that underlie IAS 28 and, therefore, is inconsistent with the project objective to answer application questions without fundamentally changing the Standard.
 - (c) the proposal might lead to earnings management/structuring opportunities, mainly for investments in joint ventures, although a few participants were also concerned about investments in associates. For example, an investor could be incentivised to structure a transaction that lacks commercial substance or to manipulate transaction prices with its associates if its business activities relating to transactions with third parties are not performing well.
31. These respondents have mixed views on alternative proposals; some suggested restrictions of gains or losses for all transactions, while others suggested restrictions of gains or losses only when a transaction constitutes an asset.
32. A few of these participants suggested that, if the IASB finalises the proposal, the IASB should require gains or losses from ‘upstream’ transactions as well as ‘downstream’ transactions to be disclosed because this information is needed for

³ This section includes feedback from outreach events that took place after the feedback summarised in [AP13H: Outreach feedback summary](#).

users. However, they also suggested the IASB should limit the level of disaggregation, particularly for transactions that are within the ordinary course of business, and ensure that entities are not required to disclose commercially sensitive information.

Staff's initial analysis

33. Considering paragraphs 9–32 of this paper, the staff note that most comment letter respondents and most participants in outreach events agreed with the proposal to recognise gains and losses in full. Therefore, this section outlines the staff's initial analysis of matters raised by those respondents who disagreed with the proposal and their concerns. Those concerns can be grouped into three categories:
- (a) one-line consolidation.
 - (b) suggestions to retain the requirements in paragraph 28 of IAS 28.
 - (c) possible earnings management and enhancements to disclosures (or guidance).
- As noted in paragraph 4 of this paper, the supporting Agenda Paper 13C of this meeting considers the feedback on this matter.
34. The analysis of the matters set out in paragraph 33(a)–33(b) of this paper includes the suggested alternatives outlined in paragraph 26 of this paper.

One-line consolidation

35. As noted in paragraph 25(b) of this paper, there is a view that consolidation accounting described in IFRS 10 should be (or is) applied to associates and joint ventures when applying the equity method and that the equity method is a one-line consolidation method. Under this view, the requirements to restrict gains and losses in paragraph 28 of IAS 28:
- (a) should be retained to ensure that gains and losses resulting from transactions within the group boundary (including equity method accounted for

investments) are recognised only when there is a sale to a third party or over the useful life of the asset; and

- (b) should also be expanded to include all transactions, such as those involving loss of control of a subsidiary, as outlined in Alternative 2 in paragraph BC67(b) of the Basis for Conclusions on the Exposure Draft.

- 36. The views of respondents in paragraph 35 of this paper contrast with respondents who agreed with the proposal in the Exposure Draft, see paragraphs 16(c) and 19(c) of this paper.
- 37. The suggestion to expand the requirement in paragraph 28 of IAS 28 to all transactions with associates in paragraph 35(b) of this paper is an approach the IASB considered, but decided not to propose, when developing the proposals in the Exposure Draft (see Appendix B of this paper for further details). The IASB decided recognising gains or losses in full would provide more useful information to users and be simpler and less costly for preparers to apply, see paragraphs 16(a)–16(b), 19(a) and 19(d) of this paper.

Suggestion to retain the requirements in paragraph 28 of IAS 28

- 38. As noted in paragraphs 25(a) and 30(a)–30(b) of this paper, some respondents said the requirements in paragraph 28 of IAS 28 are well-established with no application issues in practice in their jurisdictions, and the proposal goes beyond the principles that underlie IAS 28. These respondents suggested:
 - (a) excluding the application question ‘*How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28*’ from the project’s scope; or
 - (b) proceeding with the 2014 indefinitely deferred amendment to IAS 28 (that is, Alternative 4 in paragraph BC68(b) of the Basis for Conclusions on the Exposure Draft). Alternative 4 would require recognising:
 - (i) full gains or losses when a transaction constitutes a business; and
 - (ii) partial gains or losses when a transaction constitutes an asset.

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39. The view that the requirements in paragraph 28 of IAS 28 do not give rise to application issues in practice differs from the information that the IASB considered when deciding on the scope of the project in March 2021.⁴ The IASB included five application questions within the original scope of the project and added two questions to the project's scope later in the project regarding the requirements in paragraph 28 of IAS 28, as outlined in Table 1 of Appendix A of this paper.
40. The first application question, outlined in Table 1 of Appendix A of this paper, is related to the 2014 indefinitely deferred amendment, which needs to be resolved. In developing the proposals in the Exposure Draft, the IASB first addressed this application question and then applied its proposed answer to the remaining application questions. Paragraph BC66 of the Basis for Conclusions on the Exposure Draft explains that the IASB took into account the wider application of the IAS 28 requirement when considering how to resolve the inconsistency between the requirements in IFRS 10 and IAS 28.
41. Were the IASB to follow the suggestion of respondents in paragraph 38(a) of this paper (to exclude the application question relating to IFRS 10 and IAS 28 from the project's scope), it would also need to decide whether to remove the remaining application questions relating to paragraph 28 of IAS 28 from the project scope or seek to resolve them. Table 1 of Appendix A of this paper sets out these questions.
42. The IASB considered the indefinitely deferred 2014 amendment, as suggested in paragraph 38(b) of this paper, in developing the proposal in the Exposure Draft. As explained in paragraph BC69 of the Basis for Conclusions on the Exposure Draft, the IASB decided not to proceed with that approach following stakeholder feedback that it would introduce unnecessary complexity. Stakeholders also raised concerns about the conceptual rationale for distinguishing between different types of transactions, including whether it would be consistent with the IASB's thinking in developing IFRS 10.

⁴ See [AP13: Project update and next steps of March 2021 IASB meeting](#).

Next steps and staff recommendation

43. Considering paragraphs 9–42 of this paper, whilst most respondents agreed with the proposal to recognise gains and losses in full, some respondents disagreed and raised concerns about the proposal, including possible earnings management. Agenda Paper 13C of this meeting sets out the staff's initial analysis on earnings management.
44. The staff are not asking the IASB to make any tentative decisions at this meeting on the proposals in the Exposure Draft. The staff think that, as a next step, before the IASB makes any tentative decisions, it should further explore concerns about possible earnings management, including why these respondents prefer the current requirement in paragraph 28 of IAS 28. In forming this view, the staff have considered the analysis in paragraphs 9–42 of this paper, including the fact that most respondents agreed with the proposals to recognise gains and losses in full, and also that retaining the current requirement in paragraph 28 of IAS 28 would not answer the application questions in Table 1 of Appendix A of this paper. Once that work is completed, the staff will bring their findings and recommendations to the IASB.
45. Therefore, the staff recommend, as a next step in considering the feedback on the proposal to recognise gains or losses in full resulting from all transactions with associates and joint ventures, the IASB explores concerns about possible earnings management and whether enhancing disclosures or adding guidance could resolve these concerns.

Questions for the IASB

Questions for the IASB

- (a) Does the IASB agree with the staff recommendation in paragraph 45 of this paper?
- (b) Do you have comments on Agenda Paper 13C of this meeting?

Appendix A—Application questions—transactions with associates

A1. As noted in paragraph 11 of this paper, Table 1 of this appendix outlines various application questions relating to the requirement in paragraph 28 of IAS 28 that the proposal in the Exposure Draft (to recognise gains and losses in full) aimed to answer.

Table 1—Application questions—Transactions with associates

Question	Transactions with associates	Notes ⁵
1	How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?	These application questions were defined in the project's scope from the outset.
2	Does an investor recognise the portion of its share of the gain in a downstream transaction that exceeds the carrying amount of its investment in the associate?	
3	Does an investor eliminate its share of a gain or loss in an upstream transaction from the carrying amount of the investment in the associate or the acquired asset?	
4	Is the provision of services and transactions that are not transfers of assets an upstream or downstream transaction?	
5	Should the requirement for the adjustment of gains or losses in intra-group transactions between subsidiaries apply by analogy to transactions between investees that are accounted for applying the equity method?	
6	Does an investor eliminate its share of a gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss?	These application questions were added to the project's scope as considered resolved by the IASB proposal in the Exposure Draft.
7	When an investor sells an item of property, plant or equipment to an associate and leases it back: (a) IFRS 16 <i>Leases</i> requires an entity to recognise only the amount of gain or loss that relates to the rights transferred; whereas (b) IAS 28 requires an investor to adjust its share of the gain or loss. Does applying both requirements 'double-count' the elimination of the investor's share of the gain or loss?	

⁵ See [AP13B of IASB July 2023 meeting](#), [IASB Update July 2023](#) and ages 5–6 of [Summary of IASB's tentative decisions](#).

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

- B1. This appendix contains extracts from the Basis for Conclusions on the Exposure Draft related to transactions with associates and the implications of applying the proposals to investments in joint ventures.

Transactions with associates

- BC63 Paragraph 28 of IAS 28 requires an investor to recognise gains or losses resulting from transactions with an associate only to the extent of the unrelated investors' interests in the associate.³ That requirement applies to both downstream transactions (such as a sale or contribution of assets from an investor to an associate) and upstream transactions (such as a sale of assets from an associate to an investor). Various application questions relating to that requirement have arisen, as described in Table 1.
- BC64 The IASB first considered the application question about how an investor recognises gains or losses arising from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28, and decided to propose revised requirements on transactions with associates to answer that question. Those proposed requirements would, if finalised, resolve the other application questions described in Table 1 relating to transactions with associates.
- BC65 The application question described in paragraph BC64 relates to an inconsistency between the requirements in IFRS 10 and IAS 28:
- (a) paragraphs 25 and B97–B99 of IFRS 10 require an investor to recognise, in full, the gains or losses on the loss of control of a subsidiary, remeasuring any retained interest at fair value; whereas
 - (b) paragraph 28 of IAS 28 requires an investor to restrict the gains or losses recognised to the extent of the unrelated investors' interests in an associate, by eliminating the investor's share of the gain or loss arising from the transaction.

³ Paragraph BC63 describes a requirement in paragraph 28 of IAS 28 that is currently in effect. The IASB amended that requirement when it issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in 2014, but the effective date of those amendments has been deferred indefinitely.

BC66 The IASB noted that the requirement in IFRS 10 specifically relates to transactions in which an investor loses control of a subsidiary, whereas the requirement in IAS 28 relates to all transactions between an investor and its associate. Therefore, the IASB took into account the wider application of the IAS 28 requirement when considering how to resolve the inconsistency between the requirements in IFRS 10 and IAS 28. The IASB decided to propose requiring an investor:

- (a) to recognise in full gains and losses resulting from all upstream and downstream transactions with its associate (paragraphs BC67–BC84); and
- (b) to disclose information about the gains or losses recognised by the investor from downstream transactions with an associate (paragraphs BC142–BC146).

BC67 In reaching this decision, the IASB considered various approaches. The two main approaches considered were:

- (a) Alternative 1—to apply the approach used in IFRS 10 to all transactions. As a result, an investor would recognise in full the gains and losses on all transactions with an associate.
- (b) Alternative 2—to apply the approach used in IFRS 10 first in a transaction involving the loss of control of a subsidiary and then overlay this with the approach used in IAS 28 to restrict the gains or losses recognised to the extent of the unrelated investors' interests in an associate. As a result, an investor would recognise only partial gains or losses on all transactions with an associate.

BC68 The IASB also considered two other approaches:

- (a) Alternative 3—to apply the approach used in IAS 28 (partial gain or loss) or IFRS 10 (full gain or loss), depending on whether the transaction involved the transfer of an output of the entity's ordinary activities. This approach would require an entity to consider whether the transaction is within the scope of IFRS 15 *Revenue from Contracts with Customers*.
- (b) Alternative 4—to apply the approach used in IFRS 10 (full gain or loss) or in IAS 28 (partial gain or loss), depending on whether the transaction involved the transfer of a business. This approach is based on the requirements in *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, which the IASB issued in 2014 and later deferred indefinitely.

- BC69 Following feedback from stakeholders on the four alternatives, the IASB focused on Alternatives 1 and 2. The feedback suggested that Alternatives 3 and 4 would introduce unnecessary complexity because of the judgement needed to determine which requirements to apply to a transaction. Stakeholders also raised concerns about the conceptual rationale for distinguishing between types of transactions in Alternatives 3 and 4, including whether doing so would be consistent with the IASB's thinking when developing IFRS 15 (for Alternative 3) and IFRS 10 (for Alternative 4).
- BC70 The IASB decided to propose requirements based on Alternative 1 instead of Alternative 2, having considered:
- (a) user information needs (paragraphs BC72–BC74);
 - (b) costs to preparers (paragraph BC75);
 - (c) the objective of eliminating the investor's portion of the gain or loss (paragraphs BC76–BC80); and
 - (d) the requirements in other IFRS Accounting Standards dealing with similar matters (paragraphs BC81–BC83).
- BC71 Consequently, the IASB also decided to propose amendments to IFRS 10 to remove the requirements introduced by *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.

User information needs

- BC72 Stakeholder outreach with users about Alternative 1 (full gain or loss) and Alternative 2 (partial gain or loss) suggested that, when evaluating the financial statements of an investor with investments in equity-accounted associates, users' approaches vary depending on how they assess the significance of the associate's contribution to an investor's earnings:
- (a) if users assess the associate's contribution as significant, users generally evaluate the associate separately. Valuation will be based on the associate's financial statements, if available, which do not restrict gains or losses for transactions between an investor and its associate.
 - (b) if users assess the associate's contribution as insignificant, users will often rely on information about the associate's earnings as reported in the investor's financial statements. These earnings will, when applicable, restrict gains or losses for transactions between an investor and its associate.

BC73 Overall, most users supported Alternative 1 and said it would provide them with the most useful information, for example, to help estimate future cash flows and analyse the associate's performance, particularly when the associate's financial statements are not available and users rely on information about the associate's earnings as reported in the investor's financial statements.

BC74 Users also supported enhanced disclosures about these gains or losses, regardless of whether the investor recognises the full gain or loss or only a partial gain or loss (see paragraphs BC142–BC146).

Costs to preparers of financial statements

BC75 Stakeholder outreach about the implementation and application costs of Alternative 1 and Alternative 2 suggested that:

- (a) some implementation costs would arise if the IASB were to develop requirements based on Alternative 1, because it would require a change to current practice for some types of transactions (particularly for transactions involving the sale or contribution of an asset that is not housed in a subsidiary).
- (b) once implemented, Alternative 1 would be simpler and, therefore, less costly to apply than Alternative 2. For example, applying Alternative 1, an entity with an investment in an associate would no longer be required:
 - (i) to gather the information required for elimination entries (which would also resolve difficulties in accessing information that sometimes arise when accounting for upstream transactions);
 - (ii) to exercise judgement when allocating the restricted gain or loss if the transaction involves the transfer of a business; or
 - (iii) to track the restricted gain or loss in future periods to determine when it should be recognised in the investor's financial statements (for example, on the sale of an item of inventory to a third party or over the useful life of an item of property, plant or equipment).

The objective of eliminating the investor's portion of the gain or loss

BC76 The IASB noted that the key difference between Alternative 1 and Alternative 2 is that, unlike IAS 28, Alternative 1 would not require

an investor to eliminate its portion of the gain or loss in a transaction with an associate. The IASB, therefore, considered the objective of the elimination requirement in IAS 28.

BC77 In a group, the parent controls its subsidiaries and, therefore, their assets and liabilities. In accordance with IFRS 10, a parent cannot recognise gains or losses on transactions with its subsidiaries because consolidated financial statements report the parent and its subsidiaries as a single economic entity. As such, in consolidated financial statements, subsidiaries are within the boundary of the reporting entity. Therefore, such gains or losses are eliminated in consolidated financial statements.

BC78 The requirement in paragraph 28 of IAS 28 to eliminate the investor's portion of the gain or loss in a transaction with an associate could be viewed as implying that, in applying the equity method, the boundary of the reporting entity is extended to include the associate (or the investor's share of the associate). This view is consistent with two of the principles identified as underlying IAS 28 (see Table 2) that are relevant to the boundary of the reporting entity and the objective of the elimination requirement:

- (a) Principle B—application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in an investor's statement of financial position; and
- (b) Principle C—an investor's share of an associate's or joint venture's net assets is part of the reporting entity.

BC79 In contrast, in both the *Conceptual Framework* and other IFRS Accounting Standards, an associate is not within the definition of a group. For example, the *Conceptual Framework* explains that control over another entity determines the boundary of the reporting entity when preparing consolidated financial statements.

BC80 The IASB observed that it is unclear why IAS 28 requires the investor's share of a gain or loss on a transaction with an associate to be eliminated. Also, although paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10, that does not mean that all equity method procedures need to be aligned with consolidation procedures.

Other requirements in IFRS Accounting Standards

BC81 When an investor loses control of a subsidiary, IFRS 10 requires the group to derecognise the subsidiary's assets and liabilities and measure any investment retained in the former subsidiary at fair

value. The group, therefore, recognises the full gain or loss on loss of control of a subsidiary. When developing those requirements, the IASB concluded that:

- (a) the loss of control of a subsidiary is, from the group's perspective, the loss of control of the subsidiary's individual assets and liabilities and, therefore, those assets and liabilities should be derecognised; and
- (b) the retained interest should be measured at fair value because the loss of control of a subsidiary is a significant economic event—the parent–subsidiary relationship ceases to exist and an investor–investee relationship begins that differs significantly from the former parent–subsidiary relationship.

BC82 When an entity disposes of an item of property, plant or equipment, IAS 16 *Property, Plant and Equipment* requires the entity to derecognise the asset. The entity recognises the full gain or loss on disposal of the asset.

BC83 Therefore, regardless of whether an entity loses control of a subsidiary or a non-monetary asset, other IFRS Accounting Standards require the entity to recognise, in full, the resulting gain or loss. The IASB noted that it would be consistent with the requirements discussed in paragraphs BC81–BC82 to require an investor to recognise the full gain or loss on the sale or contribution of assets to an associate (Alternative 1). For example, if an investor contributed an item of property, plant or equipment to an associate in exchange for an additional interest in the associate, that exchange would be a significant economic event. The entity would no longer control the item of property, plant or equipment, and the nature of the asset the investor controlled would change.

The IASB's decision on Alternatives 1 and 2

BC84 After considering the matters summarised in paragraphs BC72–BC83, the IASB decided to propose requiring investors to recognise the full gains or losses resulting from all transactions with associates, which would change the requirement in paragraph 28 of IAS 28. The proposal is based on Alternative 1, that is applying the approach used in IFRS 10 to all transactions with an associate. The IASB is consequently proposing to remove the requirements in paragraph 29 of IAS 28.

...

Implications of applying the proposals developed for investments in associates to other types of investments

BC107 ...

Investments in joint ventures

BC108 IAS 28 sets out requirements on how to apply the equity method to both investments in associates and investments in joint ventures—those requirements apply to all entities that are investors with joint control of, or significant influence over, an investee (unless exempt from doing so).

BC109 The IASB decided that its proposed solutions to the application questions set out in Table 1 would also apply to investments in joint ventures. The IASB observed that the alternative could result in two versions of the equity method in IAS 28—one for investments in associates and another for investments in joint ventures. Such an outcome would require the IASB to reconsider:

- (a) its decision when developing IFRS 11 to require the equity method to be applied to investments in joint ventures. When reaching that decision, the IASB acknowledged that significant influence and joint control are different. However, it decided that the equity method is the most appropriate method to account for investments in joint ventures because it is a method that accounts for an investor's interest in the net assets of an investee.
- (b) the requirement in paragraph 24 of IAS 28 that if an investment in an associate becomes an investment in a joint venture (or vice versa), the entity continues to apply the equity method and does not remeasure the retained interest. When developing that requirement, the IASB acknowledged that in such situations, the nature of the investment changes. However, both types of investment continue to be accounted for using the equity method. Therefore, if the IASB were to develop new requirements for investments in joint ventures, it would need to reconsider how an investor accounts for a change in the nature of the investment from an investment in an associate to an investment in a joint venture (or vice versa). That could introduce new complexities into IFRS Accounting Standards and could lead to new application questions.

BC110 The IASB also noted that its rationale for the proposed solutions to the application questions also applies to investments in joint ventures. For example, the IASB decided:

- (a) ...
- (b) to require an investor to recognise the full gain or loss on all transactions with an associate. The rationale for that decision also applies to transactions with a joint venture (see paragraphs BC63–BC84).

BC111 Some stakeholders cautioned about requiring a joint venturer to recognise the full gain or loss on transactions with a joint venture, because such a requirement could potentially allow a venturer to manage its earnings. The nature of the relationship between a joint venturer and the joint venture (joint control rather than significant influence) could increase the risk that transactions are made on terms that are not equivalent to those in arm's length transactions. The IASB noted that its proposed requirement to disclose any gains or losses arising from downstream transactions would provide information to help users to understand how the joint venturer's financial performance might be affected by such transactions (see paragraphs BC142–BC146).