
IASB[®] meeting

Date	September 2025
Project	Equity Method
Topic	Scope of the project—Consideration of additional application questions
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Introduction

1. In September 2024, the International Accounting Standards Board (IASB) published the Exposure Draft [*Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures \(revised 202x\)*](#) (the Exposure Draft). The Exposure Draft proposed amendments to IAS 28 that answered application questions within the project's scope, including improvements to disclosure requirements.
2. At its meeting in May 2025, the IASB discussed the feedback from:
 - (a) comment letters on the Exposure Draft, see [Agenda Papers 13A–13G](#) of that meeting; and
 - (b) outreach activities on the Exposure Draft, see [Agenda Paper 13H](#) of that meeting.
3. At its meeting in June 2025, the IASB decided to apply a high hurdle to application questions that respondents to the Exposure Draft had suggested should be added to the project scope.¹

¹ See [IFRS - IASB Update June 2025](#)

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4. In this paper 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.

Objective of this paper

5. The objective of this paper is for the IASB to decide whether to add application questions to the scope of the project.
6. Respondents to the Exposure Draft suggested adding further application questions to add to the scope of the project. From these questions, we identified three application questions for the IASB to consider adding to the scope of the project:
- (a) measurement of the cost of an associate—acquisition-related costs;
 - (b) scope of application of the equity method—qualifying criteria to use the ‘fair value’ option; and
 - (c) scope of application of the equity method—obtaining significant influence of an associate that does not constitute a business.

Staff recommendation

7. The staff’s recommendation is that the IASB:
- (a) adds to the scope of the project the application question: *‘How does an investor recognise acquisition-related costs when applying the equity method?’*; and
 - (b) does not add application questions on:
 - (i) qualifying criteria to use the fair value option; and
 - (ii) obtaining significant influence over an associate that does not constitute a business.

Structure of this paper

8. This paper is structured as follows:
- (a) approach to adding questions to the scope of the project (paragraphs 9 to 14 of this paper);
 - (b) potential application questions to add to the scope of the project (paragraphs 15 to 54 of this paper);
 - (c) other comments (paragraphs 55 to 64 of this paper);
 - (d) staff recommendation (paragraphs 65 of this paper); and
 - (e) question for the IASB.

Approach to adding questions to the scope of the project

Selection criteria

9. In October 2020, the IASB decided that the objective of the Equity Method project would be to answer questions on the application of the equity method. The project's scope excluded (among other things) questions on the scope of application of the equity method.²
10. The IASB decided to develop answers to application questions if the question:
- (a) had not already been resolved;
 - (b) could be resolved efficiently and effectively without:
 - (i) fundamentally revising IAS 28; or
 - (ii) amending other IFRS Accounting Standards (other than by making consequential amendments);
 - (c) affected the consistent application of IAS 28; or
 - (d) involved a matter that was widespread or occurred frequently.³

² See paragraph BC8 of the [Basis for Conclusions on the Exposure Draft](#)

³ See paragraph BC11 of the [Basis for Conclusions on the Exposure Draft](#).

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11. As noted in paragraph 3 of this paper, in June 2025 the IASB decided that it would consider adding application questions to the scope of the project only if:
- (a) the application question would meet the criteria in paragraph 10 of this paper;
 - (b) the answer to the application question could be resolved in a timely manner; and
 - (c) the answer to the application question would not result in re-exposure of the proposals in the Exposure Draft—that is to use a high hurdle when considering adding application questions to the scope of the project.

Application of the criteria

12. The IASB compiled the initial list of application questions to include in the project scope from various sources, including:
- (a) its past work;
 - (b) submissions to the IFRS Interpretations Committee (IFRIC);
 - (c) feedback from the Global Preparers Forum;
 - (d) the research report *The Equity Method* published by the Korea Accounting Standards Board in September 2014; and
 - (e) outreach with national standard-setters, accounting firms and regulators.
13. Respondents to the Exposure Draft suggested further application questions to add to the scope of the project⁴. The staff evaluated these questions applying the criteria in paragraphs 10 and 11 this paper. Most of the questions raised do not meet the criteria to be added to the scope of the project because:
- (a) the application questions were assessed at the start of the project and it was concluded that they did not meet the selection criteria. Respondents did not provide new evidence to modify the conclusion.

⁴ See paragraph 19-37 of [ap13g-cl-feedback-expected-effects.pdf](#)

- (b) the application questions would affect and require amendments to other IFRS Accounting Standards.
 - (c) the application questions were raised only by a few respondents and therefore were not considered pervasive.
14. We have identified three application questions for the IASB to consider adding to the scope of the project.

Potential application questions to add to the scope of the project

Measurement of the cost of an associate—acquisition-related costs

15. The Exposure Draft proposed an investor measure the cost of an associate at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate, measured at the date the investor obtains significant influence.
16. Most respondents 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 and asked the IASB to add this question of the scope of the project.
17. Respondents said the proposal to align the defined term ‘cost of an associate’ with some aspects of the requirements in IFRS 3 *Business Combinations* (such as the requirements for contingent consideration) creates uncertainty on how the proposed requirements interact with the July 2009 IFRIC Agenda Decision, that states:

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 of 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] comprises its purchase price and directly attributable expenditures necessary to obtain it.

Staff analysis

18. We agree with respondents that the proposed defined term creates uncertainty on the interaction between the proposal in the Exposure Draft and the July 2009 IFRIC Agenda Decision.
19. In the staff's view, the question meets the criteria in paragraph 10 in this paper because:
 - (a) the uncertainty is unresolved because it has been created by the proposals in the Exposure Draft;
 - (b) the application question could be resolved by clarifying the proposed defined term 'cost of the associate' in IAS 28;
 - (c) the uncertainty has the potential to affect the consistent application of the IAS 28; and
 - (d) the matter would be widespread because acquisition-related costs are likely to be incurred for most acquisitions of associates.

20. In the staff's view, this question meets the criteria in paragraphs 11(b) and 11(c) of this paper because:

- (a) the range of possible answers to the application is limited, either require the costs be expensed as incurred or alternatively recognise them as part of the cost of the associate. This second alternative might require some work to describe or define what costs would qualify as acquisition-related. The IASB might also want to consider whether its proposed answer has unintended consequences for other IFRS Accounting Standards that use the cost measurement, such as IAS 16 *Property, Plant and Equipment*. However, we think that it would be possible to find a timely solution.
- (b) if the IASB were to decide to recognise acquisition-related costs as part of the cost of the associate, this would align with the IFRIC Agenda Decision and would not change current practice hence, we do not envisage that this decision would require consultation. If the IASB were instead to decide to require acquisition-related costs to be expensed as incurred, this would be a change in the proposals. Paragraph 6.26 of the Due Process Handbook states (emphasis added):

It is inevitable that the final proposals will include changes from those originally proposed. The fact that there are changes does not compel the Board to re-expose the proposals. The Board needs to consider whether the revised proposals include any **fundamental** changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the basis for conclusions accompanying the exposure draft. The Board also needs to consider whether it will learn anything new by re-exposing the proposals. If the Board is satisfied that the revised proposals respond to the feedback received and that it is unlikely that re-exposure will reveal any new concerns, it should proceed to finalise the proposed requirements.

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21. The staff would undertake outreach on the possible change to the proposed defined term ‘cost of the associate’ to identify any concerns among stakeholders. However, we think this outreach and the feedback to the Exposure Draft would enable the IASB to be satisfied it would not learn anything new by re-exposing a revised defined term ‘cost of the associate’ that clarifies recognition of acquisition-related costs.
22. Based on the analysis in paragraphs 15 to 21 of this paper, we think that the application question meets the criteria to be added to the scope of the project.

Scope of application of the equity method—qualifying criteria to use the ‘fair value’ option

23. Paragraphs 5–6 of the Exposure Draft (retained unchanged from paragraphs 18–19 of IAS 28) permit an investor to elect to measure an investment in an associate (or a portion thereof) at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* if the investment or the portion is held by a venture capital organisation, mutual fund, unit trust and similar entities investment-linked insurance funds.
24. Paragraph 5 of the Exposure Draft (paragraph 18 of IAS 28) was previously amended by IFRS 17 *Insurance Contracts* to clarify:

An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features.

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25. Applying the election affects not only the measurement of the investment in the associate but also the presentation of income and expenses from the associate in the statement of comprehensive income. Generally, IFRS 18 *Presentation and Disclosures in Financial Statements* requires an entity to classify income and expenses from investments in associates in the investing category of its statement of profit or loss, therefore outside operating profit. However, for investments in associates that an entity invests in as a main business activity paragraph 55 of IFRS 18 requires that the entity classifies the income and expenses from these investments in the operating category if the assets are not accounted for applying the equity method.
26. Paragraph BC12 of the Basis for Conclusion of IAS 28 explains that the IASB provided the election in IAS 28 because fair value measurement for entities in the scope of the election provides more useful information to users of the financial statements of those entities than applying the equity method.
27. Some entities that were eligible to apply paragraphs 18–19 of IAS 28 (paragraphs 5–6 of the Exposure Draft) might not have taken the election on initial recognition of an investment before IFRS 18 was issued, however, they may wish to do so when IFRS 18 become effective. In developing IFRS 18, the IASB therefore decided that an entity should be permitted to apply the election on initial application of IFRS 18.
28. Paragraph C7 of IFRS 18 states that at the date of initial application of that Standard, an entity eligible to apply paragraph 18 of IAS 28 is permitted to change its election for measuring an investment in an associate or joint venture from the equity method to fair value through profit or loss in accordance with IFRS 9.
29. As part of their responses to the Exposure Draft, a few respondents from Europe, including respondents from the insurance industry, commented on paragraphs 5–6 of the Exposure Draft.

Comments from respondents in the insurance industry

30. The respondents from the insurance industry said investments in associates are often part of their operations. They would elect to measure investments at fair value on initial application of IFRS 18 so that income and expenses from these investments are presented in the operating category of the statement of comprehensive income.
31. These respondents said, however, that the scope of entities within paragraphs 5–6 of the Exposure Draft is unclear⁵. They noted that there are different views about which entities are eligible to apply the election in these paragraphs:
- (a) no investments directly held by an insurance entity are in scope.
 - (b) *only* investments directly held by the insurance entity as the underlying items for insurance contracts with direct participation features are in scope.
 - (c) any investments directly held by the insurance entity that are held for insurance activities are in scope.
32. These respondents also noted that IAS 28 requires an entity to apply the election at initial recognition (or, as noted above, on initial application of IFRS 18), however, they said the relationship between these investments and insurance liabilities may change over time, for example when there is a change in investment strategy. These respondents said entities should be permitted to revoke the election in paragraphs 5 and 6 of the Exposure Draft.
33. These respondents recommended that the IASB provides guidance on, or expand the scope of, entities which qualify to apply the election in paragraphs 5 and 6 of the Exposure Draft. In their view, this would avoid inconsistent application of the election leading to diversity in practice.

⁵ See response to Question 11 – Other comments in [CL 102 European Insurance CFO Forum](#)

Comments from other respondents

34. A respondent not from the insurance industry said fair value of the investments in associates provides more relevant information to users of financial statements than the equity method of accounting, especially when the fair value is publicly available.
35. During outreach on the Exposure Draft, the staff was told by some users of financial statements that measuring associates at fair value would provide relevant information for some investments in associates that are in substance financial investments.

Staff analysis

36. The application question about which entities qualify to apply the election is not new and was considered in the initial analysis of questions to be included in the scope of the project. However, the question was excluded because the IASB had decided to focus on questions on the application of the equity method, not on when to apply it.
37. We applied the criteria in paragraph 10 of this paper:
- (a) the request for clarification about which entities qualify to apply the election is not new, but as explained in paragraph 25 of this paper the application of the election now interacts with the requirements in IFRS 18, which was issued after the start of the equity method project;
 - (b) the application question could be resolved within IAS 28;
 - (c) answering this application question would help consistent application of IAS 28, particularly in the insurance industry; and
 - (d) the feedback on the Exposure Draft and comments received during its development coupled with the issue of IFRS 18 suggests the matter could be widespread.
38. We then considered the criteria in paragraphs 11(b) and 11(c) of this paper. We think the time to develop a solution would vary because there are several ways to approach the question.

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39. One approach could be to clarify the scope of application of paragraphs 5–6 of the Exposure Draft. This would address the issue raised in paragraph 31 of this paper.
40. A second approach could be to expand the scope of entities eligible to apply the election. If the IASB were to take this approach it would need to consider:
- (a) whether the qualifying criteria should be based on the characteristics of the investor (as is the case now) or of the associate (for example, being traded on an active market);
 - (b) how to define those characteristics; and
 - (c) whether fair value would be an election or a requirement when the qualifying criteria are met.
41. A third approach could be to extend the scope of the election to all entities. If the IASB were to take this approach it would need to consider matters such as whether the election should be irrevocable, under which circumstances the investor could revoke the election and how to recognise and measure the investment when the election is revoked.
42. Whether the second approach could be completed timely depends on the extent of the amendment to the scope of entities eligible to apply the election. We think the second approach would require research to understand what amendment is needed to capture the scope of investors and investments, to ensure the concerns raised by respondents are resolved.
43. It should also be noted that any clarification about which entities qualify to apply the election would need to be effective or on before the effective date of IFRS 18 (1 January 2027). In the staff's view, approaches one and two cannot be achieved in the timetable for this project, therefore the clarification would need to be undertaken as a separate project.

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44. The third approach might be completed in a timely manner as it would extend the scope of the election to all entities. However, this option was not part of the Exposure Draft. As noted in paragraph 20(b) of this paper the IASB needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated or discussed in the Basis for Conclusions accompanying the Exposure Draft. Consequently, the IASB would need to carefully consider if such a change would need to be re-exposed.
45. Based on this analysis, we conclude that the question does not meet the high hurdle the IASB set in paragraph 11 of this paper and therefore do not recommend the question be added to the scope of the project. However, we acknowledge the concerns raised, particularly from entities in the insurance industry, and note the IASB may wish to consider separately how to address those concerns.

Scope of application of the equity method—obtaining significant influence of an associate that does not constitute a business

46. The Exposure Draft proposes clarifying that, when obtaining significant influence of an associate, the investor includes the deferred tax effects of its share of the fair values of the associate's net assets in the carrying amount of the investment.
47. Some respondents disagreed with the proposal and, among the arguments raised, respondents noted that, if the associate does not constitute a business, the investor should apply paragraphs 15(b) and 24 of IAS 12 *Income Taxes*. These paragraphs provide an 'initial recognition exemption' from recognising deferred tax assets or liabilities when an entity acquires an asset or incurs a liability in a transaction that:
- (a) is not a business combination;
 - (b) at the time of the transaction, affects neither accounting profit nor taxable income; and
 - (c) at the time of the transaction, does not give rise to equal taxable and deductible temporary differences.

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48. IAS 28 does not specify whether an associate must be a business. In contrast, IFRS 3 *Business Combinations* specifies that it does not apply to acquisitions of an asset or group of assets that does not constitute a business. In such cases, paragraph 2 of IFRS 3 requires the acquirer to allocate the cost to the individual assets and liabilities on the basis of their relative fair values and specifies that such a transaction does not give rise to goodwill.
49. We have no evidence of whether there are cases of entities applying by analogy paragraph 2 of IFRS 3 when they obtain significant influence of an associate that does not constitute a business.

Staff analysis

50. At the start of the project, when selecting the application questions to include in the scope of the project, the staff considered application questions on whether requirements in IAS 28 or other IFRS Accounting Standards would apply to an associate that does not constitute a business. For example, it was asked whether an investor may have significant influence over an entity that does not constitute a business, or whether the requirements in paragraph 25 of IFRS 10 *Consolidated Financial Statements* apply also when a parent loses control of a subsidiary that does not constitute a business and retains an interest in the former subsidiary.
51. These questions were excluded from the scope of the project because finding a solution might require a fundamental revision in the principles of IAS 28 (see paragraph 10(b) of this paper).
52. We still think assessing whether IAS 28 should introduce different requirements for associates that do not constitute a business, similar to paragraph 2 of IFRS 3 for business combination, and what these different requirements should be, might have wide-ranging implications. Therefore, we do not recommend adding the application question.

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53. Even if the IASB decided to limit the question to the comments raised in paragraph 47 of this paper on the exemption from recognising deferred tax effects, it may not be simple to find a solution in a timely manner. The IASB would need to consider:
- (a) whether the investor should be required or allowed to assess if the associate constitutes a business; and
 - (b) whether the investor should rely on the requirements in IFRS 3 to make the assessment or would a simplified assessment be needed whilst taking into consideration that the investor does not have the same access to information that a parent has in relation to a subsidiary.
54. Based on this analysis, in the staff's view answering whether the initial recognition exemption in paragraph 15(b) and 24 of IAS 12, should be applied when an investor obtains significant influence of an associate that does not constitute a business does not meet the high hurdle the IASB set in paragraph 11 of this paper.

Other comments

Guidance from IFRS 3 on measurement period

55. Some respondents asked the IASB to clarify if the requirements in IFRS 3 for a business combination can also be applied to obtaining significant influence of an associate. In particular, respondents referred to the requirement in paragraph 46 of IFRS 3 on the measurement period during which the acquirer might adjust the provisional amounts recognised for a business combination.
56. The application question is not new and was considered at the start of the project when selecting the application questions to include in the scope of the project. However, it was decided that the question did not affect consistent application of the Standard because the requirement does not change the recognition and measurement requirements for the investment.

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57. The question on whether requirements for subsidiaries in IFRS Accounting Standards could be applicable to an investment in an associate is not limited to paragraph 46 of IFRS 3. For example, similar questions were raised in relation to:
- (a) the requirements for potential voting rights in IFRS 10;
 - (b) the exemption for combination of entities under common control in paragraph 2(c) in IFRS 3;
 - (c) the requirement in paragraphs B56–B62 of IFRS 3 for acquirer share-based payment awards exchanged for awards held by the acquiree’s employees; or
 - (d) the requirement in paragraph 36 of IFRS 3 that the acquirer shall reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed before recognising a gain from a bargain purchase.
58. A pervasive assessment of which requirements in IFRS 3 or IFRS 10 could be applicable to the acquisition and accounting for an investment in an associate would involve a significant amount of time.
59. We therefore concluded that in general the questions do not meet the high hurdle the IASB set in paragraph 11. However, we think that the specific requirement on the measurement period might be considered when the IASB assesses possible relief from applying the proposal on purchases of an additional ownership interest in an associate (see Agenda Paper 13B of this meeting).

Gains or losses from transactions between two associates

60. IAS 28 does not have requirements on gains and losses from transactions between two associates of the same investor (‘sidestream’ transactions).
61. At the start of the project, a question was received on whether the equity method requires gains and losses from sidestream transaction to be restricted, however, originally the question was not included in the scope of the project. We understand there were two different views on sidestream transactions:

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- (a) view one: an investor does not restrict gains and losses on these transactions, because paragraph 28 of IAS 28 requires restricting gains and losses only from ‘upstream’ and ‘downstream’ transactions.
- (b) view two: an investor restricts gains and losses on these transactions, because paragraph 26 of IAS 28 states that many of the procedures that are appropriate for applying the equity method are similar to the consolidation procedures. A parent entity is required to eliminate gains and losses from transactions between two subsidiaries and therefore an investor should do the same for sidestream transactions.
62. In developing the proposals in the Exposure Draft, the IASB proposed to amend the requirement for restricting gains and losses from transaction between an investor and its associates. Paragraph 53 of the Exposure Draft proposes that an investor shall recognise in full the gains and losses resulting from all ‘upstream’ and ‘downstream’ transactions.
63. A few respondents said that, because paragraph 53 of the Exposure Draft does not mention sidestream transactions and the IASB retained the reference to consolidation procedures in paragraph 55 of the Exposure Draft⁶, it could be argued that an investor is required to restrict gains and losses from sidestream transactions. These respondents asked the IASB to provide clarification, especially in relation to how a parent accounts for transactions between two subsidiaries accounted for under the equity method in its separate financial statements.

⁶ Paragraph 55 of the Exposure Draft (retained unchanged from IAS 28) states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence over an associate.

64. Given the feedback on the proposal in the Exposure Draft we agree with respondents that clarification in the Standard would be helpful. However, we think this is not a separate application question that needs be added to the scope of the project. Instead, we think that the question could be dealt with when the IASB considers the feedback on the proposal to recognise in full gains or losses from transactions between an investor and its associates, including the effect of the proposal on transactions between two subsidiaries accounted for under the equity method in the parent's separate financial statements.

Staff recommendation and question for the IASB

65. The staff's recommendation is that the IASB:
- (a) adds to the scope of the project the application question: *'How does an investor recognise acquisition-related costs when applying the equity method?'*; and
 - (b) does not add application questions on:
 - (i) qualifying criteria to use the fair value option; and
 - (ii) obtaining significant influence over an associate that does not constitute a business.

Question for the IASB

Does the IASB agree with the staff recommendation in paragraph 65 of this paper?