Staff paper

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IASB® meeting

Date	**September 2025**
Project	**Equity Method**
Topic	**Changes in an investor's ownership interest—Purchase of an additional interest**
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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.

2. At its May 2025 meeting, 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. 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

4. The objective of this paper is for the IASB to consider the staff's initial analysis on how to address the feedback on the proposed answer to the application question:

   How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

5. The analysis in this paper focuses on the proposal on how the investor accounts for its share of the associate's net assets for the additional ownership interest. The paper does not address two other proposals in the Exposure Draft that are linked to the purchase of an additional ownership interest while retaining significant influence:

   (a) the proposal that an investor would recognise a gain from a bargain purchase of an additional ownership interest (even if the carrying amount of the previously held interest includes goodwill); and

   (b) the proposal that an investor that has reduced the carrying amount of its investment to nil and has not recognised its share of the associate's losses would not recognise those losses by reducing the carrying amount of the additional ownership interest.

Staff recommendation

6. The staff's recommendation is that as a next step in considering the feedback on the proposed answer to this application question in the Equity Method project, the IASB explores providing guidance on how to apply materiality and/or providing relief from the proposal in the Exposure Draft.

Structure of this paper

7. This paper is structured as follows:

   (a) proposals in the Exposure Draft (paragraphs 8–18 of this paper);

   (b) feedback on the proposal in the Exposure Draft (paragraphs 19–27 of this paper);

   (c) staff analysis (paragraphs 28–50 of this paper);

   (d) staff recommendation (paragraph 51 of this paper); and

   (e) questions for the IASB.

Proposals in the Exposure Draft

Description of the proposals in the Exposure Draft

8. The Exposure Draft proposed that an investor would measure the additional ownership interest at the fair value of the consideration transferred; and include in the carrying amount of the additional ownership interest its share of the fair value at the date of the purchase of the associate's net assets. The investor would account for any difference between these amounts as either goodwill (included in the carrying amount of the investment) or a gain from a bargain purchase (in profit or loss).

9. Applying the proposals, the carrying amount of the investment at the date of purchasing the additional ownership interest would be composed of:

	Interest held	**Additional ownership interest**
Share of the associate's net assets	Fair value at the date significant influence was obtained, plus post-acquisition changes[1].	Fair value at the date of purchase of the additional ownership interest.
Goodwill	Difference between cost of the associate and fair value of the investor's share of the associate's net assets at the date significant influence was obtained.	Difference between the consideration for the additional ownership interest and the fair value of the additional investor's share in associate's net assets at the date of the purchase.

10. The outcome of applying the proposal is that the carrying amount of the investment includes the investor's share of the associate's net assets measured at fair values at different dates. This outcome has been referred to as the 'layers' approach.

11. After the date of purchase, the investor would apply the equity method to the investment as a single asset.

12. Paragraph BC24 of the Basis for Conclusions on the Exposure Draft explains that measuring the investor's additional share of the associate's net assets at their fair value at the date of the purchase would:

   (a) provide relevant information about the investor's additional share of the associate's identifiable assets and liabilities, and be consistent with the IASB's view when developing IFRS 3 *Business Combinations* that measuring the acquiree's identifiable assets and liabilities at fair value provides relevant information;

[1] For simplicity, in the rest of the paper this will be referred to as the 'investor's carry-forward book-values'.

(b) be consistent with the requirements in IFRS 11 *Joint Arrangements* that an entity applies when it acquires an interest in a joint operation in which the activity of the joint operation constitutes a business. IFRS 11 requires the entity to apply all the principles on business combinations accounting in IFRS 3 that do not conflict with the guidance in IFRS 11, including measuring identifiable assets and liabilities at fair value; and

(c) faithfully represent any additional goodwill included in the investment, as the additional goodwill would be measured in the same way as the initial goodwill included in the investment on obtaining significant influence.

13. Other arguments that support the proposed layers approach are:

(a) fair value at the date of purchase provides relevant information and may have predictive value because fair value reflects market participants' current expectations about the amount, timing and uncertainty of future cash flows.

(b) fair value at the date of purchase enables users to make a better assessment of the cash-generating abilities of the associate's net assets acquired in the transaction and the accountability of management.

(c) fair value at the date of purchase reflects the full amount of capital invested in the entity's associates, as key measure for investors, and a necessary information to properly fulfil the stewardship objective.

(d) in a transaction at market terms, the consideration paid by the investor is normally similar to the fair value. Using a version of historical cost for the investor's additional share of the associate's net assets creates a mismatch between the measurement of the consideration and the measurement of the investor's additional share of the associate's net assets.

Requirements in IFRS Accounting Standards

14. The IASB addressed the application question in paragraph 4 of this paper because IAS 28 does not include requirements for when an investor purchases an additional interest in an associate while retaining significant influence.

15. There are requirements on changes in a shareholder's ownership interest in other IFRS Accounting Standards, but those requirements apply to fact patterns that are not the same as a purchase of an additional ownership interest in an associate while retaining significant influence.

16. IFRS 3 includes requirements for a business combination achieved in stages, which occurs when an acquirer obtains control of an acquiree in which it held an equity interest immediately before the acquisition date. In a business combination achieved in stages, the acquirer remeasures any previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate. Obtaining control changes the economic relationship between the acquirer and the acquiree and therefore how acquirer accounts for the acquiree. The economic relationship between an investor and an associate does not change when an investor purchases an additional ownership interest in an associate while retaining significant influence.

17. IFRS 10 *Consolidated Financial Statements* includes requirements for the purchase of a non-controlling interest. Changes in a parent's ownership interest in a subsidiary that do not result in the parent losing control of the subsidiary are equity transactions (that is, they are transactions with owners in their capacity as owners). The parent already has control and therefore recognised 100% of the assets and liabilities of the subsidiary in the consolidated financial statements when the business combination occurred. In contrast, when an investor purchases of an additional ownership interest in an associate, the investor purchases an additional share of the associate's net assets that it has not previously recognised.

18. IFRS 11 includes requirements for acquisitions of an additional interest in a joint operation in which the activity of the joint operation constitutes a business. The joint operator applies all of the principles in business combinations accounting in IFRS 3, including measuring identifiable assets and liabilities at fair value, other than items for which an exception is provided in IFRS 3. The joint operator recognises (and presents separately) the joint operation's assets it has rights to and the joint operation's liabilities it has an obligation for. This is not the case for an investor applying the equity method, that includes the share of the associate's net assets in the carrying amount of the investment.

Feedback on the proposal in the Exposure Draft

Feedback from comment letters

19. Respondents expressed mixed views on the proposals for purchases of an additional ownership interest while retaining significant influence. Respondents that did not support the proposal said:
    (a) the investor's additional share of the fair values of the associate's net assets is of little relevance to users;
    (b) the proposed layers approach results in the share of the associate's net assets being measured at a combination of fair values at different dates, which is complex and lacks consistency; and
    (c) the cost and the complexity of applying the proposal exceeds the benefit, especially for minor or frequent purchases of an additional interest in an associate.

20. Those respondents that questioned the relevance of measuring the investor's share of the associate's net assets at fair value at the date of purchase of the additional ownership interest, said they believe that users of financial statements evaluate information about associates as a single asset. In their view, how the investor's share of the associate's net assets is included in the carrying amount of the investment is measured is of little relevance. Some respondents that hold this view would prefer to remove the requirement in IAS 28 for the investor to measure its share of the associate's net assets at fair value on obtaining significant influence and would not proceed with the proposed layers approach in the Exposure Draft.

21. Some respondents observed that the layers approach reflects a view that each additional ownership interest is a separate asset, and they consider this to be inconsistent with other proposals in the Exposure Draft. For example, the proposal that an investor derecognises a proportion of the carrying amount of the investment when it disposes part of its investments in an associate reflects a different view that the investment is a single asset.

22. Some respondents, mainly national standard-setters, accepted the IASB's rationale for the proposed layers approach, however, these respondents said that they had significant concerns about the cost of applying of the proposal because:

    (a) the layers approach may be difficult and burdensome to apply in practice, as it may require a purchase price allocation for each purchase of an additional interest and thereafter any fair value adjustment will need to be accounted for separately (that is, for each layer).

    (b) the purchase price allocation is usually performed by external consultants. The costs and complexity of the proposals could be disproportionately burdensome for preparers lacking valuation resources.

    (c) the proposal for a purchase price allocation for each purchase of an additional interest will result in significant cost and complexity for preparers. Some of these respondents also noted that obtaining the fair value of net assets of an associate or joint venture at the date of each purchase can be challenging.

(d) there has long been a practical issue for investors to obtain information from associates due to a lack of control over these entities. Associates are often reluctant to share information beyond what is required for applying the equity method in the investor's financial statements.

(e) there might be practical difficulties in obtaining the information to perform the purchase price allocation, particularly if the associate is listed and the investor's access to information is legally restricted.

(f) investors might have many purchases of additional ownership interests and possibly at close intervals. The fair values might not change significantly over short periods of time, and requiring the investor to measure its additional share of the fair value of the associate's net assets at each purchase has little benefit to users of financial statements.

(g) measuring the investor's additional share of the associate's net assets at fair value might not have a material effect on the investor's future share of the associate's profit or loss.

23. Finally, some respondents pointed out an issue with the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* and the proposed layers approach. Paragraph 21 of IFRS 12 requires an investor to disclose summarised financial information on associates. Paragraph B14 of IFRS 12 specifies that when disclosing summarised financial information, the amounts included in the financial statements of the associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value adjustments made at the time of acquisitions. These respondents noted that the layers approach will make the disclosure complex to prepare.

24. Many respondents recommended that the IASB simplifies the proposal by allowing accounting policy choices or providing relief from the proposal. Some suggested alternatives to the Exposure Draft, however, no alternative is supported by a majority. Alternatives suggested include:

    (a) measuring the investor's share of the fair value of the associate's net assets using the investor's carry-forward book-values, as a proxy for the net asset's fair values. The difference between the consideration transferred and the investor's additional share of the carry-forward book-values of the associate's net assets would be recognised as goodwill included in the carrying amount of the associate.

    (b) measuring the investor's share of the fair value of the associate's net assets using the carrying amounts in the associate's financial statements. The investor would not make any adjustment for fair value to the additional share of the associate's net assets. The difference between the consideration transferred and the investor's additional share of the carrying amount of the associate's et assets would be recognised as goodwill included in the carrying amount of the associate.

    (c) recognising the consideration transferred for the additional interest in full as goodwill included in the carrying amount of the associate.

Feedback from joint CMAC-GPF meeting

25. The Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF) discussed the feedback from the consultation at their joint meeting in June 2025. Most members agreed with the feedback on the proposal in the Exposure Draft that estimating the fair values of the associate's net assets at the date of purchase of each additional ownership interest creates cost and complexity.

26. One CMAC member agreed with the proposal in the Exposure Draft, because it reflects the value of the capital invested and provides information to assess the management's stewardship.

27. Some CMAC and GPF members agreed that, if the IASB affirms its proposals, the IASB should provide relief.

Staff analysis

28. In the following paragraphs, we provide our initial analysis of the concerns raised by respondents in paragraph 19 of this paper.

Fair values of the associate's net assets is of little relevance to users

29. In outreach events on the Exposure Draft the staff heard that some users of financial statements evaluate associates as single investments. Arguably, the composition of the carrying amount of the associate has limited value to a user of financial statements, because in performing their financial analysis some users of financial statements will replace the carrying amount of the associate with a current value.

30. However, we note that:

    (a) fair valuing the investor's share of the associate's net assets when the investor obtains significant influence, and adjusting the investor's share of the associate's profit or loss to amortise the fair value adjustments is part of the equity method procedures in IAS 28. A discussion on this matter would require a fundamental analysis of the characteristics and purpose of the equity method, which is beyond the scope of the project; and

    (b) there is no evidence that all users replace the carrying amount of equity-accounted investments with a current value, or that they do it for all equity-accounted investments.

Combination of fair values

31. The proposal in the Exposure Draft results in the carrying amount of an investment in an associate including a combination of fair values at different dates—the date significance influence is obtained, and the dates of purchasing additional interests. When the IASB developed IFRS 3 (2004), it removed a similar approach that was required in the predecessor standard IAS 22 *Business Combinations*.

32. However, it should be noted that:

    (a) obtaining control is a significant economic event, that changes the economic relationship between the holder of the investment and the investee and therefore the accounting requirements for the investment. This is not the case when an investor acquires an additional ownership interest in an associate (see paragraph 16 of this paper); and

    (b) the IASB introduced the entity concept in IFRS 3, such that at the date of the business combination the subsidiary's net assets are recognised and subsequent purchases (or disposals) of an interest in a subsidiary are transactions with equity holders in the reporting entity (the group). The entity concept does not apply to the purchase of an additional interest in an associate, because the purchase is a transaction with other shareholders of the associates.

33. One alternative the IASB considered in developing the proposals in the Exposure Draft was to remeasure the investor's whole share of the associate's net assets at the date of purchasing the additional ownership interest to fair value. This approach would also have resulted in a single layer, remeasure at each purchase of an additional ownership interest. The IASB decided not to propose this approach because:

    (a) on the purchase of an additional interest the investor retains significant influence and as the relationship between the investor and the associate does not change so the accounting does not change.

(b) if an investor remeasured its share of the associate's net assets at the date of purchasing an additional ownership interest to fair value, the outcome would be the investor measuring its investment in the associate at fair value intermittently – only when it purchases an additional interest – which would be unlikely to provide useful information to users, particularly in the statement of profit or loss.

34. Some users of financial statements support this approach, because the investment would be measured at a carrying amount closer to the fair value, which these users consider provides relevant information. That said, respondents that commented on this approach agreed with the IASB's decision not to proceed with this proposal because of concerns about the recognition of gains and losses on remeasurement, and concerns over the volatility in the statement of profit and loss.

Implications of the suggested alternatives

35. As explained in paragraph 24 of this paper, some respondents suggested alternatives for measuring the investor's share of fair value of the associate's net assets. Paragraphs 36 to 39 of this paper consider these alternatives compared to the proposal in the Exposure Draft.

36. Assuming the fair value of the associate's net assets has increased since obtaining significant influence, any of the suggested alternatives in paragraph 24 of this paper compared to the proposal in the Exposure Draft would have the following effects:

(a) a smaller portion of the consideration transferred for the additional ownership interest would be attributed to the investor's share of the associate's net assets, with the alternative in paragraph 24(a) of this paper being in most cases the closest to the proposal in the Exposure Draft and the alternative in paragraph 24(c) of this paper being the farthest. Therefore, the investor would measure its share of the associate's profit at a higher amount (or its share of loss at a lower amount) in future periods; and

(b) a larger portion of the consideration transferred for the additional ownership interest would be recognised as goodwill and included in the carrying amount of the investment and not attributed to other assets that are depreciated or amortised.

37. Paragraphs BC313–BC314 of the Basis for Conclusion of IFRS 3 explains that the excess of the fair values over the book values of the acquiree's net assets at the date of acquisition is not itself an asset but reflects gains that the acquiree had not recognised on its net assets. As such, this item is part of those assets (in this case, it is part of the investor's share of the associate's net assets) and is not conceptually part of the goodwill. Therefore, including the excess of the fair values over the book values of the associate's net assets as goodwill (included in the carrying amount of the investment) conflicts with the IASB's views in IFRS 3.

38. In addition, caution is needed in adding to the goodwill included in the carrying amount of the investment, considering that – contrary to goodwill arising in a business combination – IAS 28 does not have a requirement to test the investment for impairment on an annual basis.

39. Given that the IASB considered alternatives in developing the Exposure Draft and our analysis of the alternatives proposed, in the staff's view the IASB should as a first step explore ways to make the proposal more operational and simpler to apply.

Exploring ways to make the proposals more operational and simpler to apply

40. In the following section of this paper the staff consider the feedback raised on the cost and complexity of the layers approach.

Guidance on how to apply materiality

41. We understand, from feedback during the comment period of the Exposure Draft, that investors may make small or recurring purchases of additional ownership interests in an associate for various reasons. For example, some entities may purchase marginal additional ownership interests to maintain their percentage of ownership in an associate when the associate issue shares to their employees after vesting of share-based payments.

42. We also agree with the respondents that said an investor should be required to determine the fair values at the date of each purchase *only if* the effect of using those fair values will be material.

43. It is important to note that under all the alternatives in paragraph 24 of this paper, the carrying amount of the additional ownership interest at the date of purchase is the same (this is because the alternatives focus on measuring the investor's additional share of the associate's net assets and not the consideration transferred for the additional ownership interest). The different attribution of the consideration transferred for the additional ownership interest, between the additional share of the associate's net assets and the goodwill affects the measurement of the investors share of the associate's profit or loss in subsequent periods. For purchases of marginal additional ownership interests, it is unlikely that measuring the investor's share of the associate's net assets at fair values at the date of purchase would have a material effect on the measurement of the investor's share of the associate's profit or loss in subsequent periods.

44. There are multiple factors that might affect whether the effect on the investor's share of the associate's future profits or losses could be material:

    (a) the absolute size of the additional ownership interest;

    (b) the size of the additional ownership interest relative to the size of the interest held by the investor;

    (c) the time interval between two purchases; and

    (d) the nature of the associate's net assets.

45. An assessment of the materiality will therefore depend on the fact and circumstances and cannot be assumed generally.

46. Materiality is a pervasive concept in IFRS Accounting Standards. The requirements in IFRS Accounting Standards only need to be applied if their effect is material to the financial statements which includes the primary financial statements and the notes. The IASB published IFRS Practice Statement 2 *Making Materiality Judgements* to provide companies with guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IFRS Accounting Standards.

47. In view of the concern expressed by respondents on the proposal, the IASB could consider providing guidance in applying the proposal. Additional guidance could include:

    (a) explaining that the entity's assessment of materiality should focus on the potential effect on the investor's share of the associate's profit or loss in future periods, rather than the amount of the purchase or the carrying amount of the investment; or

    (b) including illustrative examples.

Providing relief from the proposals

48. Providing guidance on the application of materiality may not help in all circumstances. The IASB could explore providing relief such as:

    (a) stating that in some circumstances, the investor's carry-forward book-values could be a proxy for the fair values at the date of the purchase of an additional ownership interest;

(b) exempting an entity from determining the fair values at the purchase date if a purchase occurs within a specified interval from a previous purchase;

(c) exempting an entity from determining the fair values at the purchase date if there is no indication that the fair values of the associate's net assets have materially changed since the last purchase;

(d) exempting an entity from determining the fair values at the purchase date if it requires undue cost or effort or if the investor is unable to obtain the necessary information; or

(e) allowing a measurement period in which the investor may adjust the provisional fair values of the associate's net assets.

49. If the IASB decided to explore any of the relief in paragraph 48(b)—(d) of this paper, it may also consider whether to specify requirements for when the investor uses the relief or otherwise be silent. For example, the IASB could require that entities that apply the relief from fair value measurement use the investor's carry-forward book-values.

50. We think that, barring the introduction of quantitative thresholds, introducing any of these reliefs would still require preparers, auditors and regulators to apply judgement to assess materiality.

Staff recommendation

51. The staff's recommendation is that as a next step in considering the feedback on the proposed answer to this application question in the Equity Method project, the IASB explores providing guidance on how to apply materiality and/or providing relief from the proposal in the Exposure Draft.

Questions for the IASB

Questions for the IASB
(a) Does the IASB agree with the staff recommendation in paragraph 51 of this paper? (b) If you agree, do you have initial comments on the suggestions in paragraphs 47 and 48 of this paper?