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## IASB® meeting

Date	<b>April 2026</b>
Project	<b>Equity Method</b>
Topic	<b>Cost of an associate—other matters</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

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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:
  - (a) to consider the feedback on three matters related to its proposals in the Exposure Draft on the measurement of the initial cost of an associate; and
  - (b) to decide whether to proceed with those proposals.
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 in consolidated financial statements.<sup>1</sup>

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<sup>1</sup> Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

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## Staff recommendations

4. We recommend the IASB:
  - (a) confirm the proposal to include in the carrying amount of the investment, the deferred tax effects related to adjusting the investor's share of the associate's identifiable assets and liabilities to fair value;
  - (b) clarify that, when an investor issues equity or debt instruments to obtain significant influence, the costs to issue a debt or equity instrument are accounted for in accordance with IAS 32 *Financial Instruments: Presentation* and IFRS 9 *Financial Instruments*; and
  - (c) not add a requirement to reassess whether the investor has correctly identified all the assets and liabilities of the associate, and to review the procedures used to measure the fair value of the share of the associate's identifiable assets and liabilities, before recognising a gain on a bargain purchase.

## Structure of this paper

5. This paper is structured as follows:
  - (a) background (paragraphs 6–10 of this paper);
  - (b) deferred taxes (paragraphs 11–26 of this paper);
  - (c) additional issues:
    - (i) costs to issue a debt or equity instrument (paragraphs 27–30 of this paper); and
    - (ii) reassessment before recognition of a bargain purchase gain (paragraphs 31–34 of this paper); and
  - (d) questions for the IASB.

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## Background

6. In developing the proposal, the IASB sought to answer the application question:

*How does an investor initially measure the carrying amount of an investment in an associate?*

7. The proposals in the Exposure Draft would require an investor that obtains significant influence of an associate to:

- (a) measure the investment at the cost of the associate (that is, the fair value of the consideration transferred including the fair value of any previously held interest);
- (b) recognise contingent consideration as part of the consideration transferred and measure it at fair value;
- (c) include in the carrying amount of the investment:
  - (i) the share of the associate's identifiable assets and liabilities at fair value at the date of purchase; and
  - (ii) the deferred tax effects on the fair value of the share of the associate's identifiable assets and liabilities<sup>2</sup>;
- (d) account for any difference between the cost of the associate and the fair value of the share of the associate's identifiable assets and liabilities as either goodwill included in the carrying amount of the investment or a gain from a bargain purchase in profit or loss<sup>3</sup>.

8. The paper discusses the proposals in paragraph 7(c)(ii), which would also apply to the purchase of an additional ownership interest.

9. This paper does not discuss other proposals in the Exposure Draft because:

- (a) the feedback to the Exposure Draft supported the proposal in paragraph 7(a);

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<sup>2</sup> For more detail, see [Agenda Paper 13A](#) of the April 2023 IASB meeting

<sup>3</sup> For more detail, see [Agenda Paper 13A](#) of the June 2022 IASB meeting

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- (b) the IASB confirmed its proposals in paragraph 7(a)–(b) at its November 2025 meeting;<sup>4</sup>
  - (c) the IASB confirmed its proposal in paragraph 7(c)(i) at its November 2025 meeting and tentatively decided to provide investors with a relief from measuring the additional share of the associate’s identifiable assets and liabilities at fair value at its March 2026 meeting;<sup>5</sup>
  - (d) Agenda Paper 13B *Purchases of additional ownership interests—other matters* of this meeting includes the analysis for the proposals in paragraph 7(d).
10. In addition to the proposal in paragraph 7(c)(ii), the paper discusses a sweep issue related to the IASB’s tentative decision on acquisition-related costs, and a suggestion made by a few respondents in their comment letters. All these issues would also apply to a purchase of an additional ownership interest.

## Deferred taxes

### ***Proposal and rationale***

11. Paragraph 23 of the Exposure Draft (carried forward unchanged from IAS 28 *Investments in Associates and Joint Ventures*) requires an investor at initial recognition to include in the carrying amount of the investment its share of fair value of the associate’s identifiable assets and liabilities. An investor includes in the carrying amount of the investment the identifiable assets and liabilities at fair value, adjusting the amounts reported in the associate’s financial statements; or identifying assets and liabilities not previously included in the investor’s financial statements (referred to as fair value adjustments).

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<sup>4</sup> See [Agenda Paper 13A](#) for the IASB November 2025 meeting.

<sup>5</sup> See [IFRS - IASB Update November 2025](#).

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12. In the Exposure Draft the IASB sought to answer an application question as to whether the investor is required to include the deferred tax effects related to those fair value adjustments, that is the inside basis differences, in the carrying amount of an investment in an associate. The IASB understood that various approaches are applied in practice.
13. Paragraph BC87 of the Basis for Conclusions explains that the IASB considered that including the deferred tax effects relating to the fair value adjustments would:
- (a) be consistent with paragraph 26 of IAS 28, which states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate. IFRS 3 *Business Combinations* requires an acquirer to recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with IAS 12 *Income Taxes*.
  - (b) provide a faithful representation of the financial effects of obtaining an investment in an associate, by reflecting the future tax consequences related to the fair value adjustments.
  - (c) provide useful information to users. For example, the adjustments to the investor's share of the associate's profit or loss in subsequent reporting periods would include both the reversal of the fair value adjustments and the reversal of the related deferred tax effects.
  - (d) align with the principles identified as underlying IAS 28 (Principles D and E). The deferred tax effects relate to measuring the associate's identifiable assets and liabilities at fair value at the date of obtaining significant influence (Principle D) and the subsequent reversal of the deferred tax effects relates to recognising the investor's share of changes in the associate's net assets (Principle E).

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14. The IASB acknowledged that its proposal would result in some costs and complexity for preparers but took the view that the benefits to users would outweigh the costs to preparers. The IASB also understood that the proposed approach is commonly applied in practice.

***Feedback on the proposal***

15. Although the IASB did not ask a question on this proposal in the Invitation to Comment some respondents provided feedback on the proposal—this feedback was mixed.<sup>6</sup>
16. Some respondents who commented agreed with the proposal to include the related deferred tax effects and said that:
- (a) this practice is already commonly applied;
  - (b) the proposal would lead to a faithful representation of the financial effects of obtaining an investment in an associate by reflecting the future tax consequences related to the fair value adjustments;
  - (c) the proposal is consistent with the concepts underlying the requirements for business combinations in IFRS 3; and
  - (d) benefits for users would outweigh the costs for preparers.
17. Some respondents disagreed with the proposal or expressed concerns, and raised the following objections:
- (a) the investor purchases an asset (the investment), not the underlying share of identifiable assets and liabilities. Therefore, the investor should apply the initial recognition in IAS 12 to the investment.

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<sup>6</sup> For more detail, see paragraphs 15–19 of [Agenda Paper 13B](#) for the May 2025 IASB meeting.

- (b) the proposal should differentiate between associates that are a business and those that are not, similar to IFRS 3. When the associate is not a business, the investor should apply the initial recognition exemption in IAS 12.
- (c) the proposal is costly and complex to apply, and does not provide significant benefit to the users of financial statements. This is the case especially when the investor frequently changes its ownership interest. Investors may not have the information required to determine the deferred tax effects, such as information on the tax rate applicable to the fair value adjustments, the expected timing of reversal or the recoverability of the deferred tax asset.

### **Staff analysis**

18. In relation to the argument in paragraph 17(a), paragraph 22(c) of IAS 12 explains that the initial recognition exemption is needed because, in its absence, an entity would have to recognise the deferred tax and adjust the carrying amount of the asset or liability by the same amount. Such adjustment would make the financial statements less transparent and open the possibility of a day-2 impairment. We do not think that the initial recognition exemption applies to the deferred tax effects relating to the fair value adjustments to the investor's share of the associate's identifiable assets and liabilities, because including that deferred tax effect adjusts the goodwill included in the carrying amount of the investment.<sup>7</sup> The deferred tax effects are included in the carrying amount of the investment, and they do not arise from the application of the IAS 12 requirement to the investment itself.
19. We acknowledge the argument in paragraph 17(b) might have some conceptual ground. IFRS 3 requires an acquirer to assess if the acquiree is a business, and if this is not the case, the acquirer applies the initial recognition exemption to the group of assets acquired.

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<sup>7</sup> For more detail, see [Agenda Paper 13A](#) for the IASB April 2023 meeting.

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20. However, at its September 2025 meeting the IASB decided not to add a question whether the initial recognition exemption in paragraphs 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.<sup>8</sup>
  21. We continue to believe that assessing whether IAS 28 should introduce different requirements for associates that do not constitute a business would have wider implications than the accounting for the deferred tax effects on fair value adjustments.
  22. We agree with the comment in paragraph 17(c), that in some cases determining and monitoring the deferred tax effects may be complex. However, we expect an investor to have some familiarity with the associate's jurisdiction tax regime, because these affect the investor's decision on how to ultimately recover its investment— either through payment of dividends or disposal so we would expect an investor to be familiar with the tax implications of its investment. In addition, the feedback to the Exposure Draft has shown that investors' access to information about their investees varies depending on their relationship with the associate.
  23. We think that in most cases, the fair value adjustments will be positive adjustments to the associate's assets such as property, plant and equipment or intangible assets (that is, the values will increase), which give rise to taxable temporary differences and a negative deferred tax effect. It is unlikely an investor would determine a positive deferred tax effect and be required to assess its recoverability to decide whether to include it in the carrying amount of the investment.

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<sup>8</sup> See [Agenda Paper 13A](#) for the IASB September 2025 meeting.

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24. In relation to comments from respondents who questioned the cost–benefit balance of the proposal (see paragraph 17(c) of this paper), in some cases it appears that these respondents are, in effect, questioning the cost–benefit balance of the requirement to make fair value adjustments. Reconsidering this requirement on initial recognition of an investment in an associate would require a fundamental review of the purpose of the equity method, which is beyond the scope of the project. On the purchase of an additional ownership interest, the staff notes that:
- (a) at its November 2025 meeting, the IASB tentatively decided to proceed with its proposal to require an investor, at the date of purchase, to include in the carrying amount of the investment its additional share of the fair value of the associate’s identifiable assets and liabilities; and
  - (b) at its March 2026 meeting, the IASB tentatively decided to provide a relief from using the fair value to measure the associate’s identifiable assets and liabilities.

### ***Recommendation***

25. We acknowledge the comments made by respondents, however, considering the analysis in paragraphs 18–24, we recommend the IASB confirm the proposal in paragraph 7c(ii) of this paper.
26. Paragraphs C3 and C5 of the Exposure Draft require an investor to apply the proposals prospectively to transactions occurring after the transition date (with some exceptions), including the proposal in paragraph 7(c)(ii) of this paper. The staff will discuss the transitions provisions at a future meeting of the IASB.

### **Additional issue—costs to issue a debt or equity instrument**

27. At its October 2025 meeting, the IASB tentatively decided to require acquisition-related costs incurred by an investor or joint venturer:

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- (a) *to obtain significant influence or joint control*—to be recognised as an expense in profit or loss in the period in which the costs are incurred.
- (b) *to purchase an additional ownership interest in an associate or joint venture*—to be recognised as an expense in profit or loss in the period in which the costs are incurred.
28. The proposed requirement is similar to the one in paragraph 53 of IFRS 3 which requires an acquirer to account for acquisition-related costs as an expense in the period in which they were incurred. However, paragraph 53 of IFRS 3 provides an exception to the requirement for costs to issue debt or equity instruments, which are recognised in accordance with IAS 32 and IFRS 9.
29. Paragraph 37 of IAS 32 requires an entity to deduct transaction costs of an equity transaction from equity to the extent that they are incremental costs attributable to the equity transaction that would have otherwise been avoided. Paragraph 5.1.1 of IFRS 9 requires an entity to measure a financial liability at fair value plus or minus, for a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.
30. We think that it was not the IASB's intention to require a different treatment for the costs incurred by an investor to issue a debt or equity instrument to purchase an interest in an associate. Therefore, we recommend the IASB clarify that, when an investor issues equity or debt instruments to either obtain significant influence or purchase an additional ownership interest in an associate, the costs to issue a debt or equity instrument are accounted for in accordance with IFRS 9 and IAS 32.

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## Additional issue—reassessment before recognition of a bargain purchase gain

31. Paragraph 36 of IFRS 3 requires an acquirer to reassess whether it has correctly identified all the assets and liabilities of the acquiree, and to review the procedures used to measure the amounts of the business combination, before recognising a gain on a bargain purchase. This requirement is meant to prevent an acquirer from recognising a gain arising from undetected measurement errors.
32. A few respondents recommended including the same requirement in IAS 28. Respondents said that reminding investors to carefully assess the identification of assets and liabilities assumed before recognising a bargain purchase gain is an important safeguard, which promotes faithful representation of gain from a bargain purchase.
33. We agree that an investor should exercise caution in applying the measurement requirements and that the suggestion has some merit. However, in our view, adding this requirement to IAS 28 is not necessary because:
  - (a) paragraph 55 of the Exposure Draft (carried forward unchanged from IAS 28) states that many of the procedures that are appropriate for applying the equity method are similar to the consolidation procedures. Furthermore, the concepts underlying the accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence. The requirement in paragraph 36 of IFRS 3 could be considered as part of those concepts.
  - (b) the objective of the project is to answer application questions in the scope of the project. The proposed requirements in paragraphs 24(b) and 25(b) of the Exposure Draft on a bargain purchase gain are not new requirements. No application questions relating to these requirements were included in the scope of the project.

- (c) at its September 2025 meeting, when the IASB discussed about the measurement period, Agenda Paper 13A of that meeting noted that the question on whether requirements in IFRS 3 or IFRS 10 are also applicable to associates had been raised in relation to other requirements, including paragraph 36 of IFRS 3. At the time, the staff had concluded that in general the question did not meet the high hurdle set by the IASB to add application questions to the project scope.
34. Therefore, we recommend the IASB not add a requirement to reassess whether the investor has correctly identified all the assets and liabilities of the acquiree, and to review the procedures used to measure the fair value of the share of the associate's identifiable assets and liabilities, before recognising a gain on a bargain purchase.

## Questions for the IASB

### Questions for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 25 of this paper?
2. Does the IASB agree with the staff recommendation in paragraph 30 of this paper?
3. Does the IASB agree with the staff recommendation in paragraph 34 of this paper?