Staff paper

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Project	**Equity Method**
Topic	**Impairment of an investment—Impairment indicators**
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Introduction and purpose of this paper

1. The purpose of this paper is for the IASB to consider the feedback on its proposals in the Exposure Draft *Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)* (Exposure Draft) relating to impairment indicators, and to decide whether to proceed with those proposals.

2. Agenda Paper 13B *Impairment of an investment—Other matters* considers feedback on other aspects of the Exposure Draft relating to impairment of an investment in an associate.

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.[1]

[1] Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

Staff recommendations

4. In relation to the impairment indicators in paragraph 57 of the Exposure Draft, the staff recommends that the IASB:

   (a) retains the guidance from IAS 28 to explain that it might not be possible for the investor to identify a single, discrete event that is, in itself, an indication of impairment, and that the combined effect of several events might instead indicate an impairment; and

   (b) clarifies that the investor is required to consider observable information that comes to its attention when the investor determines whether its net investment in an associate might be impaired.

5. In relation to the impairment indicator described in paragraph 57(h) of the Exposure Draft, the staff recommends that the IASB:

   (a) proceeds with its proposal to replace 'decline…below cost' in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

   (b) proceeds with its proposal to remove from IAS 28 the reference to a 'significant or prolonged' decline in fair value;

   (c) proceeds with its proposal to explain that an investor considers observable price information, such as the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price; and

   (d) clarifies that for a publicly traded associate, the investor considers the quoted market price at the reporting date.

Structure of this paper

6. This paper is structured as follows:

   (a) development of the proposals in the Exposure Draft (paragraphs 8–16 of this paper);

   (b) feedback on the proposals in the Exposure Draft (paragraphs 1717–25 of this paper);

   (c) staff analysis (paragraphs 2626–**Error! Reference source not found.**58 of this paper);

   (d) staff recommendations (paragraphs 59–60 of this paper); and

   (e) questions for the IASB.

7. This paper includes four appendices:

   (a) Appendix A—Extract from IAS 28 *Investments in Associates and Joint Ventures*;

   (b) Appendix B—Extract from the Exposure Draft;

   (c) Appendix C—Extract from the Basis for Conclusions on the Exposure Draft;

   (d) Appendix D—Summary of the IASB's previous work on measuring the fair value of an investment in an associate.

Development of the proposals in the Exposure Draft

Background

8. Paragraph 40 of IAS 28 *Investments in Associates and Joint Ventures* requires an investor to apply paragraphs 41A–41C of the Standard to determine whether there is any objective evidence that its net investment in an associate is impaired. If application of paragraphs 41A–41C indicates that its net investment might be impaired, paragraph 40 of IAS 28 requires the investor to test its net investment for impairment in accordance with IAS 36 *Impairment of Assets*.

9. Among other things, paragraph 41C of IAS 28 states that:

> A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

10. One of the application questions within the project's scope is whether an investor assesses a decline in fair value in relation to the original cost of the investment or to its carrying amount at the reporting date. In developing a proposed answer to that application question, the IASB also considered some related matters, including whether to retain or remove the reference to a 'significant or prolonged' decline in fair value.

Proposals in the Exposure Draft

11. The IASB proposed in the Exposure Draft:

    (a) to replace 'decline…below cost' in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

    (b) to remove the reference to a 'significant or prolonged' decline in fair value; and

    (c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

12. The IASB also proposed to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36.

Rationale for the proposals in the Exposure Draft

13. In developing the proposals in the Exposure Draft on impairment indicators, the IASB noted that the requirement in paragraph 41C of IAS 28 was added to IAS 28 as part of the consequential amendments made on issuing IFRS 9 *Financial Instruments* in 2014, to replace a reference in IAS 28 to IAS 39 *Financial Instruments: Recognition and Measurement*. Paragraph 41C of IAS 28 replicated requirements in IAS 39 relating to the impairment of equity instruments classified as available-for-sale.[2] Those requirements included:

    (a) comparing the fair value of an available-for-sale instrument to its original cost; and

    (b) reclassifying an impairment loss from other comprehensive income to profit or loss when the decline in the fair value of the instrument below its original cost was significant or prolonged.

14. The IASB decided to propose replacing the reference in paragraph 41C of IAS 28 to 'cost' with 'carrying amount', and to remove the reference to 'significant or prolonged', because:

    (a) the rationale for assessing and measuring impairment losses on available-for-sale equity instruments does not apply to investments in associates accounted for using the equity method.

    (b) IAS 28 requires an investor to test a net investment in an associate for impairment in accordance with IAS 36. When applying IAS 36, the investor compares the recoverable amount of the net investment to its carrying amount, not to its original cost.

[2] The term 'available-for-sale' refers to one of the measurement categories into which financial assets were classified when applying IAS 39 *Financial Instruments: Recognition and Measurement*. That measurement category was eliminated when the classification requirements in IFRS 9 *Financial Instruments* replaced those in IAS 39.

(c) application difficulties have arisen in the past about how entities assessed whether the decline in the fair value of an available-for-sale equity instrument was significant or prolonged.

15. Also, during the IASB's consideration of accounting for the purchase of an additional interest in an associate, the IASB noted that a bargain purchase gain might be an indication of impairment. The IASB decided to propose clarifying the impairment requirements in IAS 28 to explain that information about the fair value of the investment might be observed from the price paid to purchase an additional ownership interest or the price received to sell an ownership interest.

16. Further details on the IASB's rationale for its proposals on impairment indicators are in Appendix A of this paper, which contains an extract from the Basis for Conclusions on the Exposure Draft.

Feedback on the proposal in the Exposure Draft

Feedback from comment letters[3]

17. Almost all respondents who commented agreed with the proposals described in paragraph 11(a) and 11(c) of this paper, and with the proposal to reorganise the requirements in IAS 28 to make them easier to apply (see paragraph 12 of this paper). Most respondents who commented agreed with the proposal to remove the reference to 'significant or prolonged' (see paragraph 11(b) of this paper), with the exception of preparers, who mostly disagreed, as did some standard-setters.

[3] This paper contains feedback from comment letters relating to impairment indicators, which were summarised in paragraphs 23–29 of May 2025 Agenda Paper 13C *Feedback from comment letters—Recognition of an investor's share of losses and Impairment indicators*. Feedback relating to other impairment matters is included in Agenda Paper 13B *Impairment of an investment—Other matters.*

18. Some of the respondents who agreed with the proposals said they would:

(a) be consistent with IAS 36 in comparing the fair value of the investment with its carrying amount, not its original cost;

(b) be consistent with the replacement of IAS 39 by IFRS 9 *Financial Instruments* in eliminating the 'available-for-sale' category, including its dedicated rationale in referring to a 'significant or prolonged', which does not apply in the context of an investment in an associate accounted for using the equity method;

(c) provide clarity and remove significant judgment associated with assessing whether a decline in fair value is significant or prolonged, ensuring a more robust impairment assessment; and

(d) make the recognition of impairment losses timelier and be an improvement in providing relevant information to users, enhancing comparability.

19. For example, Pan African Federation of Accountants (PAFA) commented:

> …The amendments provide clearer guidance by replacing "cost" with "carrying amount," aligning IAS 28 with IAS 36 principles. This establishes a more precise framework for assessing impairment and enhances comparability between investments accounted for under different methods. By removing the "significant or prolonged" requirement, the amendments simplify the evaluation process and more accurately reflect the nature of such investments. Furthermore, the additional guidance on determining fair value from recent transaction prices or market quotes enhances practical relevance.
>
> These changes will greatly improve comparability and enhance the clarity and effectiveness of the impairment assessment between entities, ensuring appropriate recognition of impairment losses…

20. Some of the respondents who disagreed with the proposal to remove the reference to 'significant or prolonged' said that the proposal:

(a) would be inconsistent with paragraph 12(a) of IAS 36 that states '…the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use'.

(b) might result in frequent impairment losses and subsequent reversals due to temporary price fluctuations, particularly for publicly traded associates, which might mean the benefit would not outweigh the costs.

(c) could result in performing an impairment test every time the fair value falls below the carrying amount of the investment, leading to increased burden and costs for preparers. In their view, it is not unusual for the value in use of strategic investments to be higher than its quoted price.

21. For example, Allianz SE said:

> We have the concern that the proposed changes will lead to frequent impairments and thus introduce an overly prudent measurement for associates measured at equity because their fair value would have to be determined at every reporting date, i.e. quarterly and the carrying amount would have to be reduced to reflect the lower of carrying or fair value. The remaining impairment indicators in IAS 36/ED IAS 28.57 might thus lose relevance. We have also concerns whether this increased volatility would improve the usefulness of the financial statements…

Other comments on the impairment indicators

22. A few respondents who commented suggested introducing additional requirements and clarifications into paragraph 57 of the Exposure Draft, for example:

(a) a few suggested introducing a requirement, similar to paragraph 8 of IAS 36, that if any of the indicators in paragraph 57 of the Exposure Draft are present, an investor is required to estimate the recoverable amount.

(b) a few said the presence of any of the indicators in paragraph 57 might be perceived as an automatic trigger for an impairment test or that it is mandatory to perform an impairment test; in their view, the IASB should instead clarify that these are a list of indicators for consideration.

(c) a few questioned whether the introduction of the wording 'shall consider, as a minimum, these indications' in paragraph 57 means that the investor is required to obtain evidence for each individual listed indicator to appropriately consider the indicators. They note that paragraph 41A of IAS 28 referred to 'observable data that comes to the attention of the entity'.

(d) in relation to paragraph 57(h) of the Exposure Draft:

    (i) similar to the point in (c) above, a few questioned whether the investor would be required to determine the fair value of the investment at each reporting date, including for unlisted investments, or whether this indicator applies only when there is observable evidence about fair value.

    (ii) a few questioned whether the term 'decline' means a development or a condition, for example, whether any reduction in fair value below carrying amount during the reporting period constitutes an indicator or it encompasses also a situation in which the fair value remains below the carrying amount at the reporting date.

    (iii) a few said that there could be cases where the observable transaction price may not fully reflect fair value due to strategic considerations or illiquid markets. On these grounds, they argued that a fair value decline alone is insufficient as a trigger for impairment test.

    (iv) a few questioned the use of a quoted market price as being representative of the fair value of the investment as a whole. These respondents noted that the quoted price is for an individual share but the investment may include a premium for significant influence. The same argument could apply to the price paid for a purchase of an additional interest or received in a partial disposal.

(e) a few suggested the IASB consider adding a gain from a bargain purchase (on the purchase of an additional ownership interest) as a stand-alone impairment indicator, and once it is present, requiring an investor to estimate the recoverable amount.

Feedback from outreach events[4]

23. Most participants agreed with the proposal that impairment should be assessed by comparing the recoverable amount with the carrying amount of the investment rather than with the cost of the investment.

24. Some participants, mostly preparers, disagreed with removing 'significant or prolonged' when assessing if a decline in fair value is objective evidence of impairment. They said that the removal could result in performing an impairment test more frequently when the fair value falls below the carrying amount of the investment, which would be burdensome in practice.

Other outreach

25. The staff recently undertook some limited outreach with some accounting firms and some members of the Global Preparers Forum to help the staff's understanding of feedback on specific aspects of the proposals in the Exposure Draft, particularly feedback on application of the impairment indicators and the proposal to remove 'significant or prolonged'.

[4] This paper contains feedback from outreach participants on impairment indicators, as summarised in paragraphs 25–26 of the May 2025 Agenda Paper AP13H: Outreach feedback summary. Feedback relating to other impairment matters is included in Agenda Paper 13X *Impairment of the investment—Other matters.*

Staff analysis

26. This section contains the staff analysis of feedback on:

(a) application of the impairment indicators (paragraphs 27–38);

(b) the proposal to replace ‘cost’ with ‘carrying amount’ (paragraphs 39–40);

(c) the proposal to remove ‘significant or prolonged’ (paragraphs 41–45);

(d) the proposal to add requirements about observable price information (paragraphs 46–52); and

(e) the suggestion to add a bargain purchase gain as a stand-alone impairment indicator (paragraphs 53–58).

Application of the impairment indicators

27. As noted in paragraphs 22(a)–22(c) of this paper, a few respondents made suggestions or requested clarifications on application of the impairment indicators in paragraph 57 of the Exposure Draft:

(a) a few suggested introducing a requirement, similar to paragraph 8 of IAS 36, to require an investor to test its investment in an associate for impairment if any of the indicators are present.

(b) in contrast to the feedback in (a), a few suggested the IASB clarify that the indicators are matters for consideration, rather than an automatic trigger that would require the investor to perform an impairment test if any of the indicators are present.

(c) a few questioned whether the introduction of the wording ‘shall consider, as a minimum, these indications’ means that the investor is required to obtain evidence across each listed indicator to appropriately consider the indicators. They note that paragraph 41A of IAS 28 referred to ‘observable data that comes to the attention of the entity’.

Should the presence of any individual indicator trigger an impairment test?

28. In relation to the feedback in paragraphs 22(a)–22(b), the staff notes that during the development of the Exposure Draft, the IASB did not comprehensively review the impairment requirements in IAS 28, because the project is focused on answering specific application questions rather than being a comprehensive review of the equity method. Therefore, the IASB did not consider, in general, how the impairment indicators in IAS 28 should be applied, including whether an investor should be required to perform an impairment test based on the presence of any individual indicator.

29. Furthermore, although the Exposure Draft included a proposal to align the wording of some of the impairment requirements in IAS 28 with wording used in IAS 36 (see paragraph 12 of this paper), that proposal related to the drafting of the requirements only and was not intended to change how the impairment indicators in IAS 28 apply.

30. We note that IAS 28 does not contain a specific requirement, similar to that in paragraph 8 of IAS 36, for an investor to perform an impairment test based on the presence of any individual indicator (other than in one specific case, as discussed in paragraph 31 of this paper). Moreover, IAS 28 includes guidance indicating that the presence of an individual indicator might not be sufficient to trigger an impairment test. For example:

    (a) paragraph 41A of IAS 28 states that it may not be possible to identify a single, discrete event that caused the impairment. Rather, the combined effect of several events may have caused the impairment.

    (b) paragraph 41B of IAS 28 states that a downgrade in the associate's credit rating or a decline in the fair value of the associate is not, in itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

31. However, in one specific case, the presence of an individual indicator is sufficient to trigger an impairment test—in contrast to the more general statement in paragraph

41B of IAS 28 that a decline in fair value of the associate is not, in itself, evidence of impairment, paragraph 41C of IAS 28 states that a *significant or prolonged* decline in the fair value of an investment in an equity instrument below its cost *is* objective evidence of impairment. This specific indicator is discussed further in paragraphs 41–45 of this paper.

32. As IAS 28 requires an investor to apply IAS 36 when testing a net investment in an associate for impairment, the staff thinks that introducing a requirement for an investor to perform an impairment test based on the presence of any individual indicator has merit because it would align the requirements in IAS 28 more closely with those in IAS 36. In the staff view, that closer alignment would likely improve the clarity and consistency of the impairment requirements applying to a net investment in an associate.

33. However, if the IASB were to consider introducing such a requirement, the IASB would need to also consider whether to retain, remove or modify each of the individual impairment indicators in paragraph 57 of the Exposure Draft. For example, the IASB would need to consider whether it would be appropriate for a downgrade in the associate's credit rating, by itself, to trigger an impairment test. Therefore, we think if the IASB were to consider this change to how the impairment indicators apply, it would require additional time and resources (for both the IASB and stakeholders). Also, considering such a change is outside the scope of the project.

34. Therefore, we do not think it is necessary for the IASB to consider further the suggestion to introduce into IAS 28 a requirement for an investor to perform an impairment test based on the presence of any individual indicator. Instead, the staff recommends that the IASB clarifies the proposals in paragraph 57 of the Exposure Draft by retaining applicable guidance from IAS 28 on applying the impairment indicators. In particular, the staff recommends the IASB retains guidance from IAS 28 to explain that it might not be possible for the investor to identify a single, discrete event or circumstance that is, in itself, an indication of impairment. Rather, the combined effect of several events might indicate an impairment.

Is the investor required to obtain evidence for each indicator?

35. As noted in paragraph 22(c) of this paper, a few respondents questioned whether the introduction of the wording ‘shall consider, as a minimum, these indications’ in paragraph 57 of the Exposure Draft means that the investor would be required to obtain evidence for each individual listed indicator to appropriately consider the indicators.

36. The wording ‘shall consider, as a minimum, these indications’ is based on similar wording in paragraph 12 of IAS 36. It was included in the Exposure Draft as part of the proposal to align wording in IAS 28 with wording in IAS 36 (see paragraph 12 of this paper). However, that drafting change was not intended to imply that the investor is required to obtain evidence for each of the indicators in paragraph 57, nor was it intended to change how the impairment indicators in IAS 28 apply. As these respondents noted, IAS 28 requires the investor to consider ‘observable data that comes to the attention of the entity’. The approach in IAS 28 is similar to IAS 36, which refers to 'observable' indications and 'available' evidence.[5]

37. Therefore, the staff recommends that the IASB clarify that the investor is required to consider observable information that comes to its attention when determining whether its net investment in an associate might be impaired.

38. This clarification would also answer the question raised by a few respondents about whether the investor would be required to determine the fair value of the net investment at each reporting date to apply the indicator in paragraph 57(h) of the Exposure Draft, including for unlisted investments, or whether the indicator applies only when there is observable evidence about fair value (see paragraph 22(d)(i) of this paper).

[5] For example, see paragraph 12(a), 12(e) and 12(g) of IAS 36 *Impairment of Assets*.

Proposal to replace ‘cost’ with ‘carrying amount’

39. As noted in paragraphs 17 and 23 of this paper, almost all comment letter respondents and most participants in outreach events agreed with the proposal to replace the reference in paragraph 41C of IAS 28 to ‘cost’ with ‘carrying amount’. Comments from the few respondents who disagreed with this proposal indicate that their disagreement stems from disagreement with the related proposal to remove ‘significant or prolonged’ (see paragraphs 41-45 of this paper).

40. The staff thinks that the feedback provides support for the IASB to proceed with the proposal to replace ‘cost’ with ‘carrying amount’ and therefore recommends doing so.

Proposal to remove ‘significant or prolonged’

41. As noted, in paragraph 16 of this paper, most respondents agreed with the proposal to remove the reference to ‘significant or prolonged’ in paragraph 41C of IAS 28. However, most preparers and some standard-setters disagreed.

42. In considering the comments of those who disagreed (see paragraphs 20-21 of this paper), the staff notes that:

    (a) although paragraph 12(a) of IAS 36 uses the word ‘significantly’ when referring to a decline in the value of an asset, and some other indicators in paragraph 12 of IAS 36 also refer to ‘significant’, not all the indicators in IAS 36 do so. In particular, the indicator in paragraph 12(d) of IAS 36 simply states that ‘the carrying amount of the net assets of the entity is more than its market capitalisation’. In the staff view, that indicator is the closest comparator to the indicator in paragraph 57(h) of the Exposure Draft.

(b) temporary fluctuations in the quoted market price for a publicly traded associate would not necessarily result in frequent impairment losses (and subsequent reversals). An investor would consider that quoted market price as part of determining whether its net investment in the associate *might* be impaired. An impairment loss would be recognised only if the investor also determines, in accordance with IAS 36, that the recoverable amount of the net investment is below its carrying amount. For example, if the value in use of the net investment is above its carrying amount, an impairment loss would not be recognised.

(c) the concern about the investor needing to perform an impairment test 'every time' the fair value falls below the carrying amount of the net investment might be alleviated (at least to some extent) if the IASB agrees with the staff recommendations in this paper to:

(i) clarify that the investor is required to consider observable information that comes to its attention when determining whether its net investment in an associate might be impaired (see paragraph 37 of this paper). Therefore, the indicator in paragraph 57(h) of the Exposure Draft would not apply to an associate for which there is no observable price information.

(ii) clarifies the proposals in paragraph 57 of the Exposure Draft by retaining guidance from IAS 28 on applying the impairment indicators (see paragraph 34 of this paper). The staff envisages that the investor would consider the indicator in paragraph 57(h) in conjunction with observable information about other pertinent facts and circumstances, rather than treating the indicator as an automatic trigger for an impairment test.

43. Furthermore, the staff thinks that the IASB could clarify that when considering a quoted market price for a publicly traded associate, the investor considers the market price *at the reporting date*. Accordingly, an investor would not need to consider price fluctuations during the reporting period. This clarification would also answer a question from a few respondents on this point (see paragraph 22(d)(ii) of this paper).

44. The staff acknowledges that the points in paragraphs 42–43 of this paper might not be sufficient to fully alleviate the concerns of those respondents who disagreed with the proposal to remove 'significant or prolonged'. To the extent that these concerns remain, these respondents have a different view than the IASB (when developing the proposal) and other respondents (see paragraphs 17–18 of this paper) on the balance between the benefits and costs of the proposal, such as:

    (a) the benefit of removing judgment about whether a decline in fair value is 'significant or prolonged'; and

    (b) the costs associated with potentially more frequent impairment testing in the case of an investor with an investment in a publicly traded associate.

45. Based on the analysis in paragraphs 41–44 of this paper, on balance, the staff recommends that the IASB:

    (a) proceeds with its proposal to remove 'significant or prolonged'; and

    (b) clarifies that, when considering the indicator in paragraph 57(h) of the Exposure Draft for a publicly traded associate, the investor considers the quoted market price at the reporting date.

Proposal to add requirements about observable price information

46. As noted in paragraph 17 of this paper, almost all respondents agreed with the proposal in the Exposure Draft to clarify that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment (see paragraph 57(h) of the Exposure Draft).

47. However, as noted in paragraph 22(d)(iv) of this paper, a few respondents commented that paragraph 57(h) refers to a quoted market price for the investment, but that price would be for an individual equity instrument. Also, paragraph 57(h) refers to the price paid for a purchase of an additional interest or received in a partial disposal. In both cases, in these respondents' view, the price might not reflect the fair value of the investment as a whole, for example, because of a premium for significant influence. Similarly, as noted in paragraph 22(d)(iii) of this paper, a few respondents said there could be cases where the observable transaction price may not fully reflect fair value due to strategic considerations or illiquid markets.

48. The IASB has previously considered questions relating to the unit of account when measuring the fair value of an investment in an associate. That previous work is summarised in Appendix D of this paper.

49. More generally, the staff notes that questions about how to measure the fair value of an investment in an associate are outside the scope of the Equity Method project. The proposal in the Exposure Draft to add requirements about observable price information was in the context of specifying information that an investor would consider as part of its assessment of whether its net investment in an associate might be impaired. The proposal was not intended to specify or affect how the investor would measure the fair value of its net investment in accordance with IFRS 13 *Fair Value Measurement*, if it were necessary to do so, such as when testing a net investment for impairment in accordance with IAS 36.

50. The staff acknowledges that the proposal might have caused existing questions about the unit of account when measuring the fair value of an investment in an associate to resurface. However, given that such questions are not new and given the IASB's previous work on this matter, the staff thinks that the IASB should not consider adding any such questions to the project's scope.

51. However, the staff thinks that some drafting changes to the indicator in paragraph 57(h) of the Exposure Draft would be helpful, so that the drafting reflects that:

   (a) the purpose of paragraph 57(h) of the Exposure Draft is to specify an *indicator* of impairment—it is not the purpose of that paragraph (or IAS 28 more generally) to specify how to measure fair value.

   (b) a quoted market price would be for the individual equity instruments of the associate, not the investor's net investment in the associate—to be accurate, but without providing further detail on any implications of this point.

52. Taking into account the points in paragraphs 46–51 of this paper, the staff recommends the IASB proceed with its proposal to explain that an investor considers observable price information—such as the price paid to purchase an additional interest in the associate or received to sell part of the interest, or a quoted market price—when considering the indicator in paragraph 57(h) of the Exposure Draft.

Suggestion to add a bargain purchase gain as a standalone indicator of impairment[6]

53. When developing the proposed requirements on accounting for the purchase of an additional ownership interest, the IASB noted that a bargain purchase gain could be an indicator of impairment. The IASB considered this matter further when developing its proposals on impairment indicators (see paragraphs BC27 and BC104 of the Basis for Conclusions on the Exposure Draft). The proposal in paragraph 57(h) of the Exposure Draft about observable price information includes a reference to the price paid to purchase an additional interest in the associate and therefore encompasses a situation in which a bargain purchase gain arises from such a transaction.

54. As noted in paragraph 22(e) of this paper, a few respondents suggested including a bargain purchase gain as a stand-alone impairment indicator and, once it is present, requiring an investor to perform an impairment test. These respondents highlighted a situation in which:

    (a) goodwill was included in the carrying amount of the investment on initial recognition of an investment in an associate; and

    (b) subsequently, a bargain purchase gain is recognised on purchase of an additional ownership interest in the associate.

55. In the situation described in paragraph 54, there is no goodwill recognised on the subsequent purchase of an additional interest, which could indicate that the previously recognised goodwill has been impaired.

[6] This paper does not consider the accounting treatment of a bargain purchase gain in the revised IAS 28, which will be discussed at a future meeting.

56. However, the staff notes that identifying whether previously recognised *goodwill* might be impaired is not the role of the impairment indicators. The indicators are not focused specifically on goodwill because goodwill is not tested separately for impairment—the *net investment as a whole* is tested for impairment. Accordingly, even if any previously recognised goodwill included in the carrying amount of the investment is no longer recoverable (either partly or fully), an impairment loss would not recognised if the carrying amount of the net investment as a whole is recoverable.

57. The staff also notes that the proposal in paragraph 57(h) of the Exposure Draft would already require an investor to consider the price paid to purchase an additional ownership interest when assessing whether there are indications that a net investment in an associate might be impaired. As noted in paragraph 53 of this paper, that proposal already captures the situation in which a bargain purchase gain is recognised on purchase of an additional ownership interest.

58. In the staff view, based on the analysis in paragraphs 53–57, including a bargain purchase gain as a stand-alone impairment indicator is unnecessary and would not be an improvement on the proposals in the Exposure Draft. Therefore, the staff thinks that it is not necessary for the IASB to consider this suggestion further.

Staff recommendations

59. In relation to the impairment indicators in paragraph 57 of the Exposure Draft, the staff recommends that the IASB:

    (a) retains guidance from IAS 28 to explain that it might not be possible for the investor to identify a single, discrete event that is, in itself, an indication of impairment, and that the combined effect of several events might instead indicate an impairment; and

    (b) clarifies that the investor is required to consider observable information that comes to its attention when the investor determines whether its net investment in an associate might be impaired.

60. In relation to the impairment indicator described in paragraph 57(h) of the Exposure Draft, the staff recommends that the IASB:

(a) proceeds with its proposal to replace 'decline…below cost' in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

(b) proceeds with its proposal to remove from IAS 28 the reference to a 'significant or prolonged' decline in fair value;

(c) proceeds with its proposal to explain that an investor considers observable price information, such as the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price; and

(d) clarifies that for a publicly traded associate, the investor considers the quoted market price at the reporting date.

Questions for the IASB

Questions for the IASB
(a) Does the IASB agree with the staff recommendations in paragraphs 5959–60 of this paper?
(b) Does the IASB have any other comments on this paper?

Appendix A—Extract from IAS 28

A1. This Appendix reproduces the requirements in paragraphs 40–43 of IAS 28 *Investments in Associates and Joint Ventures* relating to impairment.

Impairment losses

40 After application of the equity method, including recognising the associate's or joint venture's losses in accordance with paragraph 38, the entity applies paragraphs 41A–41C to determine whether there is any objective evidence that its net investment in the associate or joint venture is impaired.

41 [Deleted]

41A The net investment in an associate or joint venture is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the net investment (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows from the net investment that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that the net investment is impaired includes observable data that comes to the attention of the entity about the following loss events:

(a) significant financial difficulty of the associate or joint venture;

(b) a breach of contract, such as a default or delinquency in payments by the associate or joint venture;

(c) the entity, for economic or legal reasons relating to its associate's or joint venture's financial difficulty, granting to the associate or joint venture a concession that the entity would not otherwise consider;

(d) it becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for the net investment because of financial difficulties of the associate or joint venture.

41B The disappearance of an active market because the associate's or joint venture's equity or financial instruments are no longer publicly traded is not evidence of impairment. A downgrade of an associate's or joint venture's credit rating or a decline in the fair value of the associate or joint venture, is not of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information.

41C In addition to the types of events in paragraph 41A, objective evidence of impairment for the net investment in the equity instruments of the associate or joint venture includes information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates, and indicates that the cost of the investment in the equity instrument may not be recovered. A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment.

42 Because goodwill that forms part of the carrying amount of the net investment in an associate or a joint venture is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount whenever application of paragraphs 41A–41C indicates that the net investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the net investment subsequently increases. In determining the value in use of the net investment, an entity estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

43 The recoverable amount of an investment in an associate or a joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

Appendix B—Extract from the Exposure Draft

B1. This Appendix reproduces paragraphs 56–59 of the Exposure Draft *Equity Method of Accounting—IAS 28* Investment in Associates and Joint Ventures *(revised 202x)* relating to impairment.

Impairment losses

56 [IAS 28.40] After applying IFRS 9 to long-term interests and recognising its share of the associate's or joint venture's losses, if any, the investor or joint venturer shall apply paragraph 57 to determine whether there is objective evidence that its net investment in the associate or joint venture might be impaired.

57 [IAS 28.41A–41C] When determining whether there is objective evidence that the net investment in an associate or joint venture might be impaired, an investor or joint venturer shall consider, as a minimum, these indications:

(a) significant financial difficulty of the associate or joint venture.

(b) a breach of contract, such as a default or delinquency in payments by the associate or joint venture.

(c) the investor or joint venturer granting to the associate or joint venture, for economic or legal reasons relating to the associate's or joint venture's financial difficulty, a concession that the investor or joint venturer would not otherwise consider.

(d) it becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation.

(e) the disappearance of an active market for instruments issued by the associate or joint venture because of the associate's or joint venture's financial difficulty.

(f) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates.

(g) a downgrade of the associate's or joint venture's credit rating.

(h) a decline in the fair value of a net investment to less than its carrying amount. Information about the fair value might be observed from the price paid to purchase an additional ownership interest in the associate or joint venture or the price received to sell an ownership interest, or from a quoted market price for the investment.

58 [IAS 28.42] Because goodwill that forms part of the carrying amount of the net investment in an associate or joint venture is not recognised separately, it is not tested for impairment separately by applying the requirements for impairment testing of goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the net investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount whenever application of paragraph 57 indicates that the net investment might be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the net investment subsequently increases. In determining the value in use of the net investment, an investor or joint venturer estimates:

(a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or

(b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

59 [IAS 28.43] The recoverable amount of an investment in an associate or joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the investor or joint venturer.

Appendix C—Extract from the Basis for Conclusions

C1. This appendix reproduces paragraphs BC94–BC106 of the Basis for Conclusions on the Exposure Draft *Equity Method of Accounting—IAS 28* Investment in Associates and Joint Ventures *(revised 202x)* relating to impairment.

Impairment of the investment

BC94 Paragraph 40 of IAS 28 requires an investor to apply paragraphs 41A–41C of IAS 28 to determine whether there is any objective evidence indicating that its net investment in an associate might be impaired. If an indication of impairment exists, an investor tests its net investment in an associate for impairment in accordance with IAS 36.

BC95 Paragraphs 41A–41C of IAS 28 describe various events that are indications of impairment. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. An application question arises about whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition. Approaches applied in practice vary, but it is common for entities to compare the fair value of the investment with its carrying amount at the reporting date.

BC96 When considering that application question, the IASB also considered whether:

(a) to remove from paragraph 41C of IAS 28 the reference to ‘a significant or prolonged’ decline in fair value; and

(b) to add further guidance to IAS 28 on assessing whether a decline in fair value of the investment indicates it might be impaired.

Cost or carrying amount

BC97 The IASB decided to propose replacing ‘cost’ in paragraph 41C of IAS 28 with ‘carrying amount’—to require the investor to compare the fair value of the investment to its carrying amount, not its cost on initial recognition, when determining whether a decline in fair value indicates that an investment in an associate might be impaired.

BC98 The IASB considered the history of the requirement in paragraph 41C of IAS 28. Paragraphs 41A–41C were added to IAS 28 as part of consequential amendments made on issuing IFRS 9 in 2014, to replace a reference in IAS 28 to IAS 39 *Financial Instruments: Recognition and Measurement*. Paragraph 41C of IAS 28 replicated requirements in IAS 39 relating to the impairment of equity instruments classified as available-for-sale.[7] IAS 39 required those equity instruments to be measured at fair value with changes in fair value recognised in other comprehensive income. IAS 39 also required entities to assess an available-for-sale equity instrument for impairment by comparing its fair value with its original cost. That comparison was used to determine when to reclassify a loss from a decline in fair value of the instrument from other comprehensive income to profit or loss.

BC99 The IASB noted that the rationale for assessing and measuring the impairment of an available-for-sale equity instrument by comparing its fair value with its original cost does not apply to investments in associates accounted for using the equity method. IFRS Accounting Standards generally require an investor to recognise changes in the carrying amount of an investment in an associate in profit or loss, not in other comprehensive income (except for the investor's share of the associate's other comprehensive income). Also, IAS 28 requires an investor to test the investment for impairment and measure any impairment loss in accordance with IAS 36. When applying IAS 36, the investor measures the impairment of an investment in an associate by comparing the investment's recoverable amount with its carrying amount, not its original cost. In the IASB's view, it would be consistent with IAS 36 to assess whether a decline in the fair value of an investment in an associate indicates that the investment might be impaired by comparing the fair value of the investment with its carrying amount, not its original cost.

A significant or prolonged decline in fair value

BC100 Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. When deciding to propose replacing 'cost' with 'carrying amount' (see paragraphs BC97–BC99), the IASB also decided to propose removing 'significant or prolonged'.

[7] The term 'available-for-sale' refers to one of the measurement categories into which financial assets were classified when applying IAS 39 *Financial Instruments: Recognition and Measurement*. That measurement category was eliminated when the classification requirements in IFRS 9 *Financial Instruments* replaced those in IAS 39.

BC101 The IASB noted that, as discussed in paragraph BC98, paragraph 41C of IAS 28 replicates the requirements in IAS 39 for assessing and measuring impairment losses on equity instruments classified as available-for-sale. In addition to those requirements, IAS 39 did not permit an entity to subsequently recognise the reversal of an impairment loss on an available-for-sale equity instrument (for example, if the fair value of the asset is subsequently recovered). Therefore, when applying IAS 39, an entity recognised an impairment loss on an available-for-sale equity instrument in profit or loss only when the decline in the fair value of the instrument below its cost was significant or prolonged.

BC102 However, the impairment requirements in IAS 36 are not the same as those in IAS 39. If an investor recognises an impairment of an investment in an associate, it subsequently recognises a reversal of that impairment loss if the impairment no longer exists or decreases. The IASB, therefore, considered that the rationale for referring to a 'significant or prolonged' decline in fair value in IAS 39 did not apply in the context of an investment in an associate accounted for using the equity method.

BC103 The IASB also noted that application difficulties had arisen in the past about how entities assessed whether a decline in the fair value of an available-for sale equity instrument was significant or prolonged.

Additional impairment guidance

BC104 Paragraphs 41A–41C of IAS 28 describe various events that are indications of impairment. When developing the proposed requirements on accounting for the purchase of an additional ownership interest in an associate, the IASB noted that a bargain purchase gain might be an indication of impairment (see paragraph BC27).

BC105 The IASB decided to propose adding further guidance on the impairment requirements in IAS 28 to explain that information about the fair value of an investment might be observed from the price paid to purchase an additional ownership interest in an associate or the price received to sell an ownership interest.

BC106 The IASB found it reasonable to assume that a transaction in which an investor purchases an additional interest in an associate or sells such an interest is conducted at fair value, because these types of transactions often occur between independent parties. The transaction price paid or received therefore provides observable information about the fair value of the investment.

Appendix D—Previous work on measuring the fair value of an investment in an associate

D1. This appendix contains a summary of the IASB's previous work on measuring the fair value of an investment in an associate.

D2. In its September 2014 Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (2014 Exposure Draft), the IASB proposed amendments to IFRS Accounting Standards, including IAS 28 *Investments in Associates and Joint Ventures* and IFRS 13 *Fair Value Measurement*. The IASB proposed to clarify that even though the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole, if those investments are made up of financial instruments with a quoted market price in an active market (that is, a Level 1 input), the fair value measurement of those investments should be the product of the quoted price multiplied by the quantity of instruments held, without adjustments (referred to as P × Q). The IASB's rationale for the proposals included that the resulting measurements would be more relevant, objective and verifiable when they are based on unadjusted Level 1 inputs.

D3. The majority of respondents to the 2014 Exposure Draft supported the view that the unit of account is the investment as a whole rather than the individual financial instruments included in those investments. However, the majority of respondents disagreed that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be the product of the quote price multiplied by the quantity of instruments held. Their reasons for disagreeing included a lack of alignment between the proposed measurement with the unit of account (the investment as a whole) and that P × Q does not consider key characteristics of the asset being measured. However, a majority of users indicated a strong preference for P × Q because they thought it was less judgemental compared to other measurement techniques.[8]

[8] See the March 2015 AP6 *Comment letter analysis and feedback received from users* for more information.

D4. After considering the feedback received on the Exposure Draft and other research findings in the project, the IASB decided to use the work carried out in the project as input into the Post-Implementation Review (PIR) of IFRS 13.[9]

D5. In the PIR of IFRS 13, many stakeholders expressed a view that the IASB should clarify how IFRS 13 deals with this issue. However, the IASB decided that the costs of working on this issue would exceed the benefits because:

(c) the IASB's previous significant work on the topic and the PIR suggest that the issue is narrow and affects only a limited population of entities;

(d) users had not expressed major concerns with reporting in practice; and

(e) there are differences in views between preparers and users, meaning any follow-up work would be likely to require significant resource.[10]

[9] See January 2016 IASB Update.

[10] See page 14 of the *Project Report and Feeback Statement—Post-Implementation Review of IFRS 13* Fair Value Measurement for more information.