IFRS Accounting

Staff paper

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IASB® meeting

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

1. Agenda Paper 13A *Impairment of an investment—Impairment indicators* considers feedback on the IASB's 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. The purpose of this paper is to consider other aspects of the feedback relating to impairment of an investment in an associate.

2. 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

3. The staff recommends that the IASB does not consider further:

   (a) a suggestion to move the impairment requirements from IAS 28 *Investments in Associates and Joint Ventures* and integrate them into IAS 36 *Impairment of Assets*; and

   (b) two application issues relating to the reversal of an impairment loss.

Structure of this paper

4. This paper considers comments from respondents on:

   (a) the location of impairment requirements (paragraphs 6–9);

   (b) the unit of account used for impairment compared with the unit of account used for the purchase of an additional ownership interest (paragraphs 10–13);

   (c) the reversal of an impairment loss (paragraphs 14–19); and

   (d) staff recommendations.

5. This paper also includes two appendices:

   (a) Appendix A illustrates a concern about potentially 'double-counting' the losses of an associate.

   (b) Appendix B discusses a potential amendment to the requirement in IAS 28 on the reversal of an impairment loss in response to two issues raised by a few respondents.

Location of impairment requirements

Feedback on the proposals

6. A few respondents suggested aligning the impairment section in IAS 28 with IAS 36 by moving the impairment requirements from IAS 28 in their entirety and integrating them into IAS 36 with a few targeted amendments to IAS 36. In their view, doing so would be a logical and effective way to improve the interaction between IAS 36 and IAS 28, eliminating potential inconsistencies between the two Standards. One participant at an outreach event made similar suggestions.

Staff analysis

7. The staff thinks the suggestion described in paragraph 6 of this paper has merit. Given that paragraph 42 of IAS 28 (paragraph 58 of the Exposure Draft) requires an investor to perform an impairment test in accordance with IAS 36, it seems reasonable that the investor should also apply IAS 36 when determining whether to perform an impairment test.

8. However, when considered in the context of the project's scope, in the staff view, the suggestion to move the impairment requirements in their entirety and integrate them into IAS 36 would mean considering matters that are outside the scope of the project. Although the Exposure Draft included a proposal to align the wording of the requirements in IAS 28 with requirements in IAS 36 (see paragraph 12 of Agenda Paper 13A *Impairment of an investment—Impairment indicators*), that proposal related to drafting only. The suggestion to move the impairment requirements in their entirety to IAS 36 would require a broader reconsideration of the IAS 28 impairment requirements. For example, the IASB would need to consider:

    (a) whether to require an investor to test its net investment in an associate for impairment based on the presence of any individual impairment indicator (as discussed in paragraphs 28–34 of Agenda Paper 13A *Impairment of an investment—Impairment indicators*);

(b) which of the individual impairment indicators in IAS 28 that specifically relate to a net investment in an associate should be retained in the amended IAS 36; and

(c) whether to retain and, if so, how to integrate into IAS 36, the other impairment requirements in IAS 28, such as the requirements in paragraph 42 of IAS 28 (paragraph 58 of the Exposure Draft) on determining the value in use of a net investment in an associate.

9. Considering the matters described in paragraph 8 of this paper would require additional time and resources. Furthermore, the project is aimed at answering application questions that meet specified criteria.[2] In the staff view, a wider reconsideration of the impairment requirements in IAS 28 is outside the scope of the project. Therefore, the staff recommends that the IASB does not consider this matter further.

Unit of account

Feedback on the proposals

10. In addition to the more specific unit of account issues discussed in paragraphs 46–52 of Agenda Paper 13A *Impairment of an investment—Impairment indicators*, a few respondents commented that the impairment section of the Exposure Draft indicates that the carrying amount of an investment in an associate is viewed as a single unit of account, whereas there are multiple layers when accounting for additional ownership interests in an associate.

[2] See paragraph BC11 of the Basis for Conclusions on the Exposure Draft for the criteria that the IASB used to select applicable questions to include in the project's scope.

Staff analysis

11. At its November 2025 meeting, the IASB considered similar comments from respondents about the use of different units of account in relation to its proposal to use a single unit of account to account for the disposal of part of an investment and the proposal to use multiple layers to account for the purchase of an additional ownership interest. Paragraphs 17–19 of Agenda Paper 13C *Disposal of a portion of an investment in an associate* set out the staff analysis of these comments.

12. The staff noted that during the development of the Exposure Draft, the IASB considered whether its proposed approach for the purchase of an additional ownership interest would have any implications for subsequent measurement and derecognition of the investment. In relation to impairment, the IASB noted that:

    (a) if the investment is viewed as a single unit of account, an investor would test the entire carrying amount of the investment for impairment, which is consistent with the requirements in paragraph 42 of IAS 28; whereas

    (b) if the investment is viewed as comprising multiple layers for impairment testing purposes, that could result in recognising an impairment loss on some layers but not on others (see paragraphs BC31–BC32 of the Basis for Conclusions on the Exposure Draft).

13. The staff also noted that paragraph 4.49 of the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) states that, in some circumstances, it might be appropriate to select one unit of account for recognition and a different unit of account for measurement. The staff therefore consider that it is not inconsistent with the *Conceptual Framework* to select a different unit of account on initial recognition and subsequent measurement.

Reversal of an impairment loss

Feedback on the proposals

14. Paragraph 58 of the Exposure Draft requires an investor to recognise a reversal of an impairment loss in accordance with IAS 36 'to the extent that the recoverable amount of the net investment subsequently increases'. A few respondents:

    (a) noted that an investor could recognise an impairment loss in one period, in anticipation of losses it expects the associate to incur in the following period, but the associate would not recognise those losses until incurred. In the following period, the investor recognises its share of the associate's losses, including losses already taken into account in the impairment loss previously recognised. However, the investor cannot reverse the impairment loss previously recognised because the recoverable amount of the net investment has not increased. Those respondents recommended the IASB revise the wording of paragraph 58 of the Exposure Draft to avoid this potential double-counting.

    (b) said that the requirement in paragraph 58 of the Exposure Draft is inconsistent with IAS 36, because IAS 36 does not require an increase in recoverable amount in order to recognise a reversal of an impairment loss. These respondents asked the IASB to clarify whether any reversal of an impairment loss on a net investment in an associate is limited to the subsequent increase in recoverable amount or whether the usual requirements of IAS 36 apply.

Staff analysis

15. The requirement in paragraph 58 of the Exposure Draft was carried forward unchanged from paragraph 42 of IAS 28. Therefore, the issues raised by respondents are existing practice issues, rather than new issues arising from proposals in the Exposure Draft. (See Appendix A of this paper for an example to illustrate the potential 'double-counting' issue described in paragraph 14(a) of this paper.)

16. The staff considered whether it is possible to efficiently and effectively resolve both issues without requiring significant time and resources. The staff notes that both issues relate to the phrase ‘to the extent that the recoverable amount of the net investment subsequently increases’. In the staff’s view, that specific phrase is an unnecessary part of the requirement on reversing an impairment loss, when considered in conjunction with the requirements on recognising an impairment loss set out earlier in paragraph 42 of IAS 28, and therefore that phrase could be removed. Appendix B of this paper provides further information about the staff’s view and a potential amendment to IAS 28 to remove the phrase.

17. The staff conducted limited outreach on the potential amendment to IAS 28 outlined in Appendix B of this paper and received mixed feedback on its merits. Therefore, if the IASB wished to explore this matter further, the staff think that further outreach would be necessary to determine whether the potential amendment would solve the issues.

18. The staff also note that the issues described in paragraph 14 of this paper are not part of (or related to) the application questions within the scope of the project. Also, as only a few respondents raised these issues, the feedback on the Exposure Draft does not provide evidence that these issues are widespread.

19. Based on the analysis in paragraphs 15–18 of this paper, the staff recommends that the IASB does not consider these issues further.

Staff recommendations

20. The staff recommends that the IASB does not consider further:

    (a) a suggestion to move the impairment requirements from IAS 28 *Investments in Associates and Joint Ventures* and integrate them into IAS 36 *Impairment of Assets*; and

    (b) two application issues relating to the reversal of an impairment loss.

Question for the IASB

Question for the IASB
Does the IASB agree with the staff recommendations in paragraph 20 of this paper?

Appendix A—Illustration of concern about 'double-counting' losses

A1. This appendix contains an example to illustrate a concern raised by a few respondents to the Exposure Draft *Equity Method of Accounting—IAS 28* Investment in Associates and Joint Ventures *(revised 202x)* about the possible 'double-counting' of the losses of an associate, as described in paragraph X of this paper.

A2. In Year 1, an investor's net investment in an associate comprises:

Opening balance of the net investment	CU120
Investor's share of the associate's profit or loss	(CU10)
Impairment loss	(CU18)
Closing balance and recoverable amount of the net investment	CU92

A3. In Year 2, the investor recognises a loss of CU15 for its share of the associate's profit or loss, which reduces the carrying amount of the net investment to CU77. At the end of Year 2, the investor estimates that the recoverable amount of the net investment is:

(a) Scenario 1: CU90.

(b) Scenario 2: CU100.

A4. If the investor limits any reversal of an impairment loss to an amount equal to the subsequent increase in the recoverable amount of the net investment:

(a) in Scenario 1, the investor would not recognise any reversal of the impairment loss, because the recoverable amount at the end of Year 2 (CU90) is less than the recoverable amount of the net investment when recognising an impairment loss in Year 1 (CU92). However, the recognition of the investor's share of the associate's losses in Year 2 (CU15) has resulted in a carrying amount (CU77) that is less than the recoverable amount of the net investment at the end of Year 2 (CU90), suggesting that a portion of the impairment loss (CU13) should be reversed.

(b) in Scenario 2, the investor would recognise a reversal of a portion of the impairment loss (CU8), because the recoverable amount has increased from CU92 to CU100. However, the recognition of the investor’s share of the associate’s losses in Year 2 (CU15) has resulted in a carrying amount (CU77) that is much lower than the recoverable amount of the net investment at the end of Year 2 (CU100), suggesting that the entire amount of the impairment loss (CU18) should be reversed.

Appendix B—Potential amendment to the requirement on the reversal of an impairment loss

B1. This appendix discusses a potential amendment to the requirement in paragraph 42 of IAS 28 (and in paragraph 58 of the Exposure Draft) relating to a reversal of an impairment loss, in response to two issues raised by a few respondents about that requirement, as described in paragraph 14(a)–(b) of this paper.

B2. The staff notes that both issues relate to the phrase 'to the extent that the recoverable amount of the net investment subsequently increases'. In the staff view, that specific phrase is an unnecessary part of the requirement on reversing an impairment loss, when considered in conjunction with the requirements on recognising an impairment loss set out earlier in paragraph 42 of IAS 28, which state (emphasis added):

> *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.

B3. As highlighted above, those requirements specify that:

(a) goodwill included in the carrying amount of a net investment in an associate is not tested separately for impairment; the requirements in IAS 36 for goodwill impairment testing do not apply; and

(b) any impairment loss recognised is not allocated to goodwill (or any other asset) that forms part of the carrying amount of the investment.[3]

[3] Paragraph BCZ45 of the Basis for Conclusions on IAS 28 explains that the IASB decided an entity should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in an associate because the investment is the only asset that the entity controls and recognises.

B4. After specifying those requirements, paragraph 42 of IAS 28 states:

> 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.

B5. In the staff view, the key point of the requirement on reversing an impairment loss is that the investor *could* recognise a reversal of an impairment loss—given that none of the impairment loss is allocated to goodwill, the prohibition on subsequently reversing an impairment loss on goodwill in paragraph 124 of IAS 36 does not apply.[4] In the staff view, that key point could be made without referring to an increase in the recoverable amount of the net investment. For example, the IASB could amend the sentence to state:

> Accordingly, any reversal of that impairment loss is recognised in accordance with the requirements in IAS 36 for an asset other than goodwill ~~to the extent that the recoverable amount of the net investment subsequently increases~~.

[4] In paragraph BCZ46 of the Basis for Conclusions on IAS 28, the IASB noted that reversing an impairment as an adjustment to the investment in an associate is consistent with IAS 36, which permits the reversal of impairment losses for assets other than goodwill.