Staff paper

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Project	**Equity Method**
Topic	**Transactions with associates—Disclosure requirements**
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to discuss aspects of its tentative decisions on disclosure requirements related to gains and losses on transactions with associates considering:
   (a) the scope of transactions to be disclosed for 'upstream' and 'downstream' transactions with associates; and
   (b) the possible introduction of an exemption from disclosing some or all of the information about gains or losses from transactions with associates or joint ventures, if the disclosure could be expected to seriously prejudice the investor.

2. This paper does not discuss the implications of the disclosure requirements related to gains and losses on transactions with associates on IFRS 19 *Subsidiaries without Public Accountability: Disclosures* and IAS 27 *Separate Financial Statements*.

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 recommendation

4. The staff recommends the IASB:

   (a) expand the disclosure objective in paragraph 20 of IFRS 12 *Disclosure of Interests in Other Entities* that investors would use in determining what gains and losses from transactions with associates should be disclosed;

   (b) require investors to disclose the nature of transactions with associates and whether they are included in the disclosure of gains and losses;

   (c) provide an exemption from disclosing gains and losses from transactions with associates if, and only if, the information disclosed:

      (i) can be attributed to an individual associate; and

      (ii) the transactions are in the course of the investor's ordinary activities;

   (d) do not prescribe whether the reconciliation between the opening balance and closing balance of restricted gains and losses to be disclosed separately from or combined with the reconciliation between the opening and closing balance of the carrying amounts of investments in associates; and

   (e) do not change its tentative decision to require the disclosure of the reconciliation of restricted gains and losses and information to be provided therein.

Structure of this paper

5. This paper is structured as follows:

   (a) background (paragraphs 6–10);

   (b) scope of 'upstream' and 'downstream' transactions (paragraphs 11–57);

   (c) commercially sensitive information (paragraphs 58–67);

   (d) reconciliation of restricted gains (and losses) (paragraphs 68–89);

   (e) summary of staff recommendation and questions to the IASB (paragraph 90);

(f) Appendix A—History of 'upstream' and 'downstream' transactions with associates in IAS 28; and

(g) Appendix B—Illustrating the reconciliation of restricted gains.

Background

6. In its May 2026 meeting, the IASB considered the feedback in the Exposure Draft *Equity Method of Accounting—IAS 28* Investments in Associates and Joint Ventures *(revised 202x)* (the Exposure Draft) related to its proposals on transactions with associates.[2]

7. At that meeting, the IASB tentatively decided to introduce an accounting policy choice that permits an investor to choose either full or restricted recognition of gains or losses on all transactions with associates, except for gains or losses on transfer of businesses, which would be recognised in full.

8. The IASB also tentatively decided that if an investor chooses to recognise gains or losses in full, the investor discloses:

   (a) the accounting policy for recognising gains or losses on transactions with associates; and

   (b) gains or losses from 'downstream' transactions with its associates (as proposed in the Exposure Draft).

[2] See Agenda Paper 13B *Transactions with associates—Staff analysis of feedback*, Agenda Paper 13C: *Transactions with associates—Staff analysis of feedback on proposed disclosure requirement*, Agenda Paper 13D *Transactions with associates—Ways forward* of the May 2026 IASB meeting and the May 2026 IASB *Update*.

9. Similarly, the IASB tentatively decided that if an investor chooses to restrict the recognition of gains or losses, the investor discloses:

   (a) the accounting policy for recognising gains and losses on transactions with associates;

   (b) a reconciliation between the opening and closing balance of restricted gains and losses (the reconciliation of restricted gains) including:

      (i) the opening balance of the restricted gains and losses;

      (ii) the amounts of restricted gains and losses recognised in profit and loss included in the opening balance;

      (iii) the amounts of restricted gains and losses during the period, separately disclosing the amounts recognised in profit and loss in the current period; and

      (iv) the closing balance of restricted gains and losses.

   (c) the amount of gains and losses restricted at the end of the period and where it is included in the statement of financial position; and

   (d) the line items in the statement of comprehensive income where the restricted gains and losses have been recognised.

10. The IASB asked the staff to also consider:

   (a) the scope of transactions to be disclosed for ‘upstream’ and ‘downstream’ transactions with an associate; and

   (b) the possible introduction of an exemption from disclosing some or all of the information about gains or losses from transactions with associates, if the disclosure could be expected to seriously prejudice the investor.

Scope of 'upstream' and 'downstream' transactions

Background

11. In requiring the proposed disclosure of gains and losses from downstream transactions in the Exposure Draft the IASB was informed by needs of users of financial statements (see paragraph BC144 of the Basis for Conclusions on the Exposure Draft). Users of financial statements find the information useful because it would:

    (a) help users to assess earnings quality—users said that insufficient disaggregation of earnings in the investor's financial statements often restricts their ability to assess earnings quality;

    (b) allow users to adjust the recognised gain or loss, if desired, in their analysis; and

    (c) allow users to assess the reasonableness and sustainability of these transactions and their pricing for benchmarking against market terms.

12. Feedback on the Exposure Draft confirmed the usefulness of the information the disclosure would provide. Respondents to the comment letters said that information about gains and losses from transactions with associates would provide users with useful information:[3]

    (a) to assess the earnings quality and the probability of these transactions recurring in the future and their pricing for benchmarking against market terms, enhancing the comparability of investors' financial performance; and

    (b) to estimate future cash flows of the associate or joint venture.

[3] See paragraph 20 of Agenda Paper 13D *Feedback from comment letters—Transactions with associates and Proposed disclosures for IFRS 12* of the May 2025 IASB meeting.

13. The proposed disclosure supports the disclosure objective in IFRS 12 *Disclosure of Interests in Other Entities* to provide information about the nature, extent and financial effects of entity's interests in joint arrangements and associates (see paragraph 20(a) of IFRS 12).

14. At its May 2026 meeting, the IASB tentatively decided to require the disclosure of gains and losses on transactions with associates.

    (a) For investors that choose to recognise gains and losses in full, investors would disclose the gains and losses from 'downstream' transactions.

    (b) For investors that choose to restrict recognition of gains and losses, gains and losses would be disclosed in the reconciliation of restricted gains.

15. The IASB received feedback that the scope of the proposed requirement in the Exposure Draft to disclose gains and losses resulting from 'downstream' transactions is unclear, that is whether it includes transactions that are not transfers of assets, for example services, leases and borrowings (see paragraph 22 of Agenda Paper 13C of the May 2026 IASB meeting). In IAS 28 *Investments in Associates and Joint Ventures*, gains and losses on 'upstream' and 'downstream' transactions with associates are restricted.[4]

16. In analysing the concern, the staff:

    (a) considered the development of SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates* (see paragraphs 17–20);

    (b) considered the guidance from the large accounting firms' manuals (see paragraphs 21–23); and

    (c) discussed the topic with some of the large accounting firms (see paragraphs 24–25).

[4] The paper would refer to transactions that are not transfers of assets interchangeably with transactions whose effects are immediately recognised in profit and loss (that is, no asset is recognised or derecognised on either the investor or the associate).

Development of SIC-3

17. The notion of 'upstream' and 'downstream' transactions in IAS 28 was introduced by SIC-3. The full extract of SIC-3, its basis for conclusions and its incorporation into IAS 28 is in Appendix A of this paper.

18. SIC-3 addressed the issue: 'to what extent an investor should eliminate unrealised profits and losses resulting from transactions between an investor (or its consolidated subsidiaries) and associates accounted for using the equity method'.

19. SIC-3 was interpreting paragraph 16 of the then IAS 28 *Accounting for Investments in Associates* which states that many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures set out in the then IAS 27 *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*. The consolidation procedures were previously based on the notion of unrealised profits and losses. Paragraphs 17–18 of the then IAS 27 states:[5]

> 17. Intragroup balances and intragroup transactions and resulting unrealised profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.
>
> 18. Intragroup balances and intragroup transactions, including sales, expenses and dividends, are eliminated in full. Unrealised profits resulting from intragroup transactions that are included in the carrying amount of assets, such as inventory and fixed assets, are eliminated in full. Unrealised losses resulting from intragroup transactions that are deducted in arriving at the carrying amount of assets are also eliminated unless cost cannot be recovered. Timing

[5] It should be noted that IFRS Accounting Standards have since evolved from the notion of 'unrealised profits and losses' being eliminated for transactions between a parent and its subsidiary in preparing the former's consolidated financial statements or for transactions between an investor and its equity-accounted investees (see paragraph B86(c) of IFRS 10 *Consolidated Financial Statements*).

differences that arise from the elimination of unrealised profits and losses resulting from intragroup transactions are dealt with in accordance with International Accounting Standard IAS 12, *Accounting for Taxes on Income*.

20. SIC-3 and previous versions of IAS 28 (when SIC-3 was incorporated into IAS 28) did not *define* 'upstream' and 'downstream' transactions, although similar to the current IAS 28 (see paragraph 28 of IAS 28) it *described* examples of 'upstream' and 'downstream' transactions.

    (a) 'Upstream' transactions are, for example, sales of assets from an associate to the investor.

    (b) 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate.

Guidance from the large accounting firms' manuals

21. The guidance in the accounting firms' manuals specifies that gains and losses on transactions with associates that are transfers of assets (for example, sale of inventories or transfers of items of property, plant and equipment) should be restricted.

22. The guidance in the accounting firm manuals on transactions with associates that are not transfers of assets refers to interest income/expense between an investor and its investee, there is no general discussion on transactions with associates that are not transfers of assets. However, the staff think this guidance can be analogised to transactions that are not transfers of assets.

23. The guidance in the manuals is broadly consistent:

    (a) An investor can develop its accounting policy where it may either recognise in full or restrict the recognition of gains and losses from transactions with associates that are not transfers of assets.

(b) If the transactions with the associate are not transfers of an asset but the related expenses are recognised as part of an asset (for example, a capitalised borrowing cost within the scope of IAS 23 *Borrowing Costs* or a direct cost that is a cost of conversion for an item of inventory within the scope of IAS 2 *Inventories*), the gains and losses from those transactions should be restricted.

Discussion with the large accounting firms

24. The staff met with three of the large accounting firms and discussed practice on restricting gains and losses from transactions with associates, including whether gains and losses on transactions with associates that are not transfers of assets are restricted.

25. All three firms made similar comments, including:

(a) in practice gains on borrowing costs that are capitalised (and other costs that are recognised as part of an asset) are restricted. Predominant practice is not to restrict the gains and losses on transactions that are not transfers of assets where costs are immediately recognised in profit or loss.

(b) in practice determining the gains and losses from transactions that are not transfers of assets where costs are immediately recognised in profit or loss would be difficult because of lack of information.

(c) two firms asked about the usefulness of the information about gains and losses from transactions with associates (they questioned the objective of the proposed disclosure requirement).

(d) one firm questioned the usefulness of disclosing 'new' restricted gains that were recognised and reversed to profit or loss during the current period.

(e) one firm said if the IASB defined 'upstream' and 'downstream' transactions, there could be implications on the recognition and measurement requirements of IAS 28. That is, if the IASB concluded that gains and losses on transactions that are not transfers of assets should be disclosed then investors would have to restrict the gains or losses from those transactions in accordance with their accounting policy.

Ways forward

26. The staff thinks that the IASB has three possible ways forward on this topic:

    (a) leave it to practice (see paragraphs 27–31);

    (b) expand the disclosure objective in paragraph 20 of IFRS 12 (see paragraphs 32–38); or

    (c) define what transactions with associates would require disclosure of gains and losses (see paragraphs 39–47).

Leave it to practice

27. The IASB could consider not doing anything and leave practice to develop. We think investors that choose to restrict the recognition of gains and losses would continue with their current accounting policy for restricting gains and losses on transactions with associates that are not transfers of assets.

Implication to investors (preparers)

28. As noted, investors who choose and continue to restrict the recognition of gains and losses on transactions with associates are likely to continue their current practice. That is, if they are currently not restricting the gains and losses on transactions that are not transfers of assets, these investors would likely continue not restricting them (and vice-versa). We think it is likely this will be their practice on complying with the disclosure requirements.

29. For investors who choose to recognise in full the gains and losses on transactions with associates, the staff thinks that they will continue to apply their current practice in determining which gains and losses on downstream transactions with associates should be disclosed. That is, they are likely to disclose the gains and losses on transactions with associates they previously restricted.

30. As it is unclear whether gains and losses on transactions with associates that are not transfers of assets should be disclosed, we think diversity in practice could develop and thus the information would not be comparable for users of financial statements.

Implication to users of financial statements

31. As noted in paragraph 30, in the absence of a clarification from the IASB investors may or may not disclose gains and losses from transactions with associates that are not transfers of assets. This would give rise to diversity in practice and thus negatively affect comparability to the disadvantage of users of financial statements.

Expand the disclosure objective in paragraph 20 of IFRS 12

32. The IASB could expand the disclosure objective in paragraph 20 of IFRS 12 that investors would use in determining what gains and losses from transactions with associates, including those that are not transfers of assets, should be disclosed.

33. Paragraph 20 of IFRS 12 requires an entity to disclose information that enables users of financial statements to evaluate:

    (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates; and

    (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates.

34. Given the disclosure objectives in paragraph 20 of IFRS 12, the IASB could require an investor to disclose information on gains and losses on transactions with associates that enables users of financial statements to evaluate the extent and financial effects of transactions with associates. We think that such an objective would help investors to determine what information to disclose that would enable its users of financial statements to assess the financial effects, including earnings quality and the sustainability of transactions with associates. Information about gains and losses on transactions during the period that were recognised in profit and loss would meet this disclosure objective (see paragraph 78(b) and (d)).

35. We understand that in current practice only transfers of assets are considered upstream and downstream transactions. To achieve the disclosure objective, investors would need to decide what, if any, other transactions with associates should be disclosed to enable users of their financial statements to evaluate the financial effects of these transactions.

36. For example, an investor that provides legal, property management and other services to an associate would also need to disclose the gain on these transactions if the investor considered that disclosing the gain on these transactions would help users of financial statements understand the financial effects of these transactions. Similarly, if gains and losses from transactions that are not transfers of assets were not material applying the disclosure objective, investors may decide not to disclose those gains and losses.

Implications to investors (preparers)

37. Expanding the disclosure objective in paragraph 20 of IFRS 12 would enable investors to exercise judgement on disclosing gains and losses from these transactions. However, as with other judgements necessary in preparing financial statements, investors would incur costs in making judgement on this aspect.

Implications to users of financial statements

38. There could still be diversity in practice (some investors may conclude differently based on their own facts and circumstances) but that diversity is based on judgement by the investors considering the disclosure objective in IFRS 12. To address this, the IASB could, in addition to the requirement in IAS 8 *Basis of Preparation of Financial Statements* to disclose the judgements that management has made in the process of applying the investor's accounting policies that have the most significant effect on the amounts recognised in the financial statements (see paragraph 27G of IAS 8), consider requiring investors to also disclose the nature of transactions with associates and whether they are included in the disclosure of gains and losses. This would inform users of financial statements which transactions with associates gains and losses are disclosed for and those that are not included in the disclosure of gains and losses.

Define what transactions would require disclosure of gains or losses

39. The IASB could consider defining which transactions with associates the gains or losses should be disclosed for.

40. For investors that choose to restrict the recognition of gains and losses, since it is expected that they would continue their current practice, the IASB could require those investors to disclose the gains and losses on transactions they restrict.

41. For investors that choose to recognise in full gains and losses, the IASB could require those investors to disclose gains and losses on downstream transactions that resulted in recognition or derecognition of an asset for the investor because determining the gains and losses from these transactions are not expected to be costly for investors. In determining the gains and losses from these transactions, the investor either need not gather information from the associate or it is information they already have access to:

    (a) if the transaction resulted in derecognition of an asset (for example, a sale of inventory to the associate), the investor would need to only compare the value of the consideration it received and the carrying amount of the asset it derecognised; and

(b) if the transaction resulted in recognition of an asset (for example, a capitalised borrowing cost applying IAS 23), based on current practice the gains and losses from this type of transaction are restricted, therefore systems are already in place to gather this information from the associate (see paragraph 25(a)).

42. The following are examples of transactions that would be in the scope of the disclosure requirement:

(a) a sale of inventory from the investor to its associate;

(b) an associate providing freight services to the investor and the investor has used the service in purchasing an inventory applying IAS 2, and the freight cost is included as cost of the inventory;

(c) an associate extended a loan to the investor, and the investor capitalised the borrowing cost on that loan as part of the cost of a qualifying asset applying IAS 23; or

(d) an investor entered into an agreement to permit the associate to use its intellectual property and the associate recognising that intellectual property as an asset.

43. If the IASB proceed with this way forward, it should also consider what is meant by 'recognition or derecognition of an asset'. That is, whether such a qualifier is unreasonably broad because a literal reading of 'recognition or derecognition of an asset' could be applied very broadly. For example, should the gain or loss on borrowing costs on a loan from an investor to an associate that is used to fund working capital that an investor accrues and recognises interest receivable from an associate be disclosed?

Implications to investors (preparers)

44. This way forward would have the least disruptive effect in practice.

(a) For investors who continue to restrict the recognition of gains and losses, they would continue their practice and would provide information on transactions whose gains and losses they restrict.

(b) For investors who choose to recognise in full the gains and losses, determining the gains and losses is only required for those downstream transactions that resulted in recognition or derecognition of an asset. This should not be too costly, while still providing users of financial statements useful information.

Implications to users

45. Because transactions with associates that would require disclosure of gains and losses would be defined, there should be consistency in practice and comparability of financial statements would not be undermined.

46. As confirmed in the feedback on the Exposure Draft, users of financial statements find information about gains and losses from transactions with associates useful (see paragraph 12). Based on the information available on the website of the World Trade Organization (WTO), in 2025 services account for about a quarter of the total value of global exports (US$9.55 trillion of the total US$35.81 trillion) and global imports (US$8.69 trillion of the total US$35.30 trillion).[6] This implies that transactions that are services in nature are substantial to the global economy. Users of financial statements who find information about gains and losses from transactions with associates that are services in nature whose effects are immediately recognised in profit and loss (that is, no asset is recognised or derecognised) would not be provided of this information. Furthermore, if an investor's ordinary activity is to provide a service (for example, a freight service business); when those services are provided to its associate no asset is being derecognised (as opposed to an investor in a retail

[6] See World Trade Organization website.

business that sold goods to its associate). Information about gains on these transactions would not be provided to users of financial statements which arguably should be as useful compared to an investor in a retail business.

47. Some information about these transactions would be provided by the investor applying IAS 24 *Related Party Transactions*. IAS 24 would require an investor to disclose its transactions with its associates because those are related party transactions. That disclosure would require an investor to disclose, among others, the amount of the transaction—which is the *gross* amount and not the gain or loss (see paragraph 18 of IAS 24).

Staff analysis

48. Information about gains and losses helps users understand the financial effects of an investor's interests in its equity-accounted investments (see paragraphs 11–12). The staff thinks this is useful information irrespective of the nature of the transaction. Given the developments in business and technology, transactions that are services in nature are expected to grow. As per the WTO:

> In 2025, world trade in goods and commercial services, on a balance of payments basis, increased by 7% to US$ 34.65 trillion, up from 4% growth in the previous year. Goods trade grew by 6%, while services expanded at a faster rate of 8%. The share of services in global trade reached 27.6%, its highest level since 2005, reflecting the continued resilience and expanding role of services in global trade.

49. Based on the discussion with the large accounting firms and reading of their guidance in their manuals, the staff thinks that currently investors are restricting gains and losses on transactions with associates only for transfers of assets. The staff acknowledge that requiring the disclosure of gains and losses from transactions that are not transfers of assets would be a change in practice to many, if not most,

investors that have such transactions. We also acknowledge that collating the information about these gains and losses could be burdensome.

50. The staff continues to believe what was asserted in Agenda Paper 13C *Transactions with associates—Staff analysis of feedback on proposed disclosure requirement* of the May 2026 IASB meeting—that investors should be able to determine the gains and losses from transactions that are not transfers of assets albeit they may have to exercise judgements and use estimates. Investors are unlikely to have rendered a service to the associate without measuring the cost of the service prior to rendering it. Furthermore, investors are often required to be able to justify the costs of services to associates for local taxation purposes (for example, in jurisdictions where there are transfer pricing mechanisms).[7]

51. Balancing the usefulness of the information to users of financial statements and the costs for investors, particularly to those who are not monitoring the gains and losses from transactions with associates whose effects are recognised immediately in profit and loss, is critical.

52. Previously, the IASB has made a tentative decision not to require the disclosure of gains and losses from 'upstream' transactions with associates for investors who choose to recognise in full the gains and losses based on cost–benefit reasons. It should be considered whether the hurdle of cost–benefit from not requiring the disclosure of gains and losses from 'upstream' transactions are similar to not disclosing gains and losses from transactions with associates whose effects are immediately recognised in profit and loss.

[7] The Organisation for Economic Co-operation and Development (OECD) in its OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (issued July 2017) sets out examples of transfer pricing methods which involves the determination of 'cost' or 'profit' like a cost plus method and transactional net margin method.

Staff conclusion

53. Information about gains and losses on transactions with associates is important to users of financial statements, enabling them to evaluate the nature, extent and financial effects of an investor's interests in its associates. However, the staff acknowledges that for investors who currently do not monitor the gains and losses on transactions that are not transfers of assets or those whose effects are immediately recognised in profit and loss, requiring them to provide such information would introduce change and new costs for collating information.

54. Specifying which transactions gains and losses should be disclosed for would likely introduce consistency and enhance comparability for users of financial statements. However, such precision may not always provide useful information to users of financial statements (see paragraph 46).

55. The staff thinks there is no strong conceptual reasons why the disclosure of transactions with associates should be differentiated based on the accounting policy choice an investor makes on recognising gains and losses. Furthermore we do not think the disclosure of gains and losses should be a function of the nature of the transaction.

56. Anchoring the disclosure of gains and losses on transactions with associates against a disclosure objective would balance the costs to investors while still providing useful information to users of their financial statements. As noted in paragraph 38, there could still be diversity in practice but that diversity is based on judgement by the investors considering a disclosure objective in IFRS 12. Furthermore, we think that the diversity in this instance is not as arbitrary compared to if the IASB did nothing.

Staff recommendation

57. The staff recommends that the IASB:

(a) expand the disclosure objective in paragraph 20 of IFRS 12 that investors would use in determining what gains and losses from transactions with associates should be disclosed.

(b) require investors to disclose the nature of transactions with associates and whether they are included in the disclosure of gains and losses.

Commercially sensitive information

Background

58. The IASB received feedback that the disclosure of gains and losses from transactions with associates would lead to disclosure of profit margins which are commercially sensitive information and could therefore undermine investor's competitiveness. In its May 2026 meeting, an IASB member agreed with the feedback and cited a particular scenario in which the disclosure of such information would be commercially sensitive: supposing an investor only has a handful of equity-accounted affiliates, the disclosure of gains or losses from transactions with associates when taken together with the disclosures required in IAS 24 would result in margins from these transactions being directly attributed to the investees, and this could disadvantage the business of the investor.

Sensitive information in IFRS literature

59. Entities are exempt from disclosing the information required by IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* when disclosing such information could prejudice seriously the position of the entity in a dispute with other parties. Paragraph 92 of IAS 37 states:

> In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.

60. In its Business Combinations, Disclosures, Goodwill and Impairment (BCDGI) project, the IASB proposed disclosures of performance and expected synergy information in a business combination. The IASB also proposed to exempt an entity from disclosing some of the information in specific circumstances designed to respond to preparers' concerns on commercial sensitivity and litigation risk.[8]

Staff analysis

61. The staff agrees with the observation made by an IASB member that disclosing gains and losses from transactions with associates would be commercially sensitive in the circumstance described in paragraph 58. Nevertheless, the staff thinks that such a scenario would be rare because it would only occur when there are only a handful of equity-accounted investments. And even so, in instances where such a handful of equity-accounted investees has a high volume of transactions with the investor with

[8] See Exposure Draft *Business Combinations—Disclosures, Goodwill and Impairment* and Agenda Paper 18A Package of performance and expected synergy Information disclosures of the May 2026 IASB meeting.

varying margins, disclosing the gains and losses from these transactions is not expected to result in commercially sensitive information being disclosed.

62. Of the respondents who raised concerns on commercial sensitivity:

   (a) some respondents said information would be particularly sensitive for transactions that are in the course of an entity's ordinary business, recurring transactions or those that are in the scope of IFRS 15 *Revenue from Contracts with Customers*;

   (b) one respondent said they would be a competitively disadvantaged, particularly compared with their peers that report under US GAAP; and

   (c) one respondent said that no other IFRS Accounting Standard requires disclosures of profit margins on specific transactions, other than disaggregation in the segment reports.

63. The staff thinks that the design of the exemption, if offered, should be of a high hurdle so as not to risk users of financial statements being deprived of useful information.

Staff conclusion

64. The staff thinks that it would only be appropriate to offer an exemption from disclosing gains and losses if the disclosure could be expected to seriously prejudice the investor if, and only if, the information disclosed would result in determining a margin that would be attributed specifically to an associate, and the transactions are in the course of the investor's ordinary activities.

65. The staff agree that attributing a margin specifically to an individual associate could commercially disadvantage the investor. However, we think attributing a margin specifically to an associate would only be commercially sensitive if the transaction is in the investor's ordinary activities (in the case of a downstream transaction). Because the transaction is in the investor's ordinary activities, then these transactions are expected to be regular and recurring in nature and would typically be entered into with

other parties. As such, disclosing the information could be commercially disadvantageous for the investor.

66. If a transaction is not in the investor's ordinary activities, for instance if it was a financing transaction and the investor is in the manufacturing industry, the disclosure of gain or loss is not expected to prejudice seriously the investor's competitiveness. Most respondents who explained why such a disclosure proposed in the Exposure Draft would be commercially sensitive suggested an exemption similar to an exemption based on investor's ordinary activities. The notion of 'ordinary activities' is used in IFRS 15 as part of the definition of revenue and as such the staff thinks it would not be difficult to apply.

Staff recommendation

67. The staff recommends that the IASB provide an exemption from disclosing gains and losses from transactions with associates if, and only if, the information disclosed:

   (a) can be attributed to an individual associate; and

   (b) the transactions are in the course of the investor's ordinary activities.

Reconciliation of restricted gains (and losses)

Background

68. As noted in paragraph 9(b), the IASB has tentatively decided to require investors that choose to restrict the recognition of gains and losses from transactions with associates to disclose a reconciliation between the opening and closing balance of restricted gains and losses (reconciliation of restricted gains).

69. The reconciliation of restricted gains complements the proposal in the Exposure Draft to disclose the reconciliation between the opening and closing balance of the carrying amounts of investments in associates (reconciliation of the investment). Both the

reconciliation of the investment and the disclosure of gains and losses from downstream transactions for investors that recognise such gains and losses in full, respond to the information needs of users of financial statements.

70. The IASB, in tentatively deciding to require disclosure of a reconciliation of restricted gains, is addressing the information needs of users and the negative effect on comparability in the financial statements because of permitting an accounting policy for the recognition of gains and losses on transactions with associates (see paragraph 51 of Agenda Paper 13C of the May 2026 IASB meeting).

71. In its June 2026 meeting, the IASB tentatively decided to confirm its proposal in the Exposure Draft to require investors to disclose a reconciliation of the investment.[9]

72. This section of the paper analyses:

(a) whether the reconciliation of restricted gains should be combined with the proposed reconciliation of the carrying amounts of investments (paragraphs 73–77);

(b) the contents of the reconciliation of restricted gains (paragraphs 78–88);

Separate reconciliation or combined with the reconciliation of carrying amounts of investments

Background

73. IAS 28 does not specify where the adjustment of restricted gains are presented.

(a) For upstream transactions, an investor could make the adjustment either against the carrying amount of the investment or the related asset transferred from the associate.

[9] See the June 2026 IASB *Update*.

(b) For downstream transactions, an investor would make the adjustment against the carrying amount of the investment.

74. Considering paragraph 73, the reconciliation of restricted gains could either be disclosed separately from or combined with the reconciliation of the investment.

Staff analysis

75. If an investor adjusts the restricted proportion of the gain against the carrying amount of the investment, then the reconciliation of carrying amounts of investments would include the movements in the restricted amounts of gains. Accordingly, the reconciliation of restricted gains could be disclosed together with the reconciliation of the investment.

76. If, on the other hand, an investor does not adjust the restricted proportion of the gain against the carrying amount of the investment, then the reconciliation of restricted gains would have to be disclosed separately from the reconciliation of the investment.

Staff conclusion

77. The staff thinks that the investor should not be precluded from either disclosing the reconciliation of restricted gains separately or combining it with the reconciliation of carrying amounts of investments, where applicable. Depending on the investor's own facts and circumstances, the investor may conclude that disclosing the reconciliation separately would be most suitable for users of its financial statements.

Contents of the reconciliation of restricted gains

Background

78. An illustration of the reconciliation of restricted gains based on the IASB's tentative decision in its May 2026 meeting is included in Appendix B of this paper. Based on the IASB's tentative decision, the reconciliation should include information on:

   (a) the opening and closing balance of the restricted gains;

   (b) the amounts of restricted gains during the period;

   (c) the amounts of restricted gains recognised in profit and loss included in the opening balance; and

   (d) the amounts of restricted gains recognised in profit and loss in the current period (that is, the reversals in (b)).

79. After the meeting, the staff met and discussed with the Accounting Regulatory Department, Ministry of Finance of China (China NSS). The China NSS reached out with their stakeholders and shared feedback with the staff. These stakeholders expressed concerns about the depth of additional information investors must disclose when they choose to restrict the recognition of the gains and losses from transactions with associates; in their view the reconciliation of restricted gains would be too costly for the investors to prepare. The stakeholders also said that the disclosure of the balance of restricted gains together with the disclosure of gains and losses from downstream transactions (as proposed in the Exposure Draft) should be sufficient to meet the needs of users of financial statements.

80. In addition, as noted in paragraph 25(d), one of the large accounting firms questioned the usefulness of disclosing 'new' restricted gains that were reversed to profit or loss during the current period.

Staff analysis

81. In paragraph 70, the staff notes that the reconciliation of restricted gains provides users of financial statements with useful information.

82. During outreach with users of financial statements over the course of the project, many users said they are not familiar with some of the procedures of the equity method; for some users this included the restrictions of gains and losses on transactions with associates. These users said that information about restricted gains, if they are material, would be useful as it provides information about financial effects of an investor's interests with the associate and also enables them to better evaluate the value and the performance of the investment. The proposed disclosure of gains and losses on downstream transactions with associate also responds to feedback from users during the PIR of IFRS 12 who said more information is needed about interests in other entities.

83. The staff acknowledges that because this information is currently not required in IFRS Accounting Standards, preparing the reconciliation will be an additional cost for the investors. However, the staff disagree that it would be too costly to prepare.

84. In the staff's view, a disclosure of *only* the opening and closing balance of the amounts of restricted gains would not be sufficient for users of financial statements. It would only incrementally provide how much the net movement is without providing the effect of these restricted gains on the financial performance of the investor. As noted in paragraph BC144 of the Basis for Conclusions on the Exposure Draft, the proposed requirement to disclose gains and losses on downstream transactions (which is required for investors who would recognise in full such gains and losses) would help users assess earnings quality. The staff thinks that the disclosure of reconciliation of restricted gains also responds to this information need.

85. Investors that choose to restrict the recognition of the gains and losses from transactions with associates will do so because they have the information to restrict

gains and losses.[10] In order to restrict the gains at the end of the period, the investor will have the information about assets still held by the investee (that is, in a downstream transaction) and related gains or losses associated with it. Consequently, an investor will know the closing and opening balance of restricted gains. Taking the disclosure of related party transactions in IAS 24, the investor should be able to determine the gains and losses from those transactions (even with use of estimates). As such, mathematically the investor should be able to determine the restricted gains and losses recognised in profit and loss.

86. The staff acknowledges that determining the restricted gains recognised in profit and loss that were from previous reporting period separately from those in the current reporting period could be challenging, especially when the system of the investors is not designed to track individual movements. Nevertheless, the staff notes that an investor is not precluded from applying judgement and making estimates to determine such amounts. For example:

    (a) where the transactions with associates involve inventories within the scope of IAS 2, an investor could make a reasonable estimate of inventory turnover to estimate the number of days of inventories held by the associate at the end of reporting period; or

    (b) where the goods or assets involved are considered fast-moving (that is, high turnover) the investor could assume that the restricted gains in the opening balance is recognised in profit or loss during the year.

87. The staff also acknowledges that to prepare the reconciliation, timely access to information about the associates would be critical which could be challenging at times particularly when an associate is traded in a public market (for example, listed in a stock exchange). Nevertheless (as noted in the March 2026 ASAF meeting), despite

[10] Stakeholders who advocated to retain the restriction of gains and losses on transactions with associates said current practice is well established with information systems being in place. Entities only make investments in associates after negotiation with investees whereby agreements are put in place to ensure information can be accessed. The also said that if transactions are material, the investor should have the ability to obtain information even from associates, not only from joint ventures. They acknowledged, however, that there could be an issue with the use of privileged information of listed associates, which investors might not be able to access. See paragraph 95 of Agenda Paper 13B of the May 2026 IASB meeting.

these challenges, investors can still comply with IAS 28 and prepare their financial statements.[11]

Staff conclusion

88. The information that would be provided by the reconciliation of restricted gains is important to users of financial statements which justify the additional costs that would be incurred by investors to prepare the disclosure.

Staff recommendation

89. Considering paragraphs 73–88, the staff recommends that the IASB:

    (a) do not prescribe whether the reconciliation of restricted gains to be disclosed separately from or combined with the reconciliation of investment; and

    (b) do not change its tentative decision to require the disclosure of the reconciliation of restricted gains and information to be provided therein.

[11] See paragraph 31 of the March 2026 ASAF Summary.

Summary of staff recommendation and questions to the IASB

90. The staff recommends that the IASB:

(a) expand the disclosure objective in paragraph 20 of IFRS 12 that investors would use in determining what gains and losses from transactions with associates should be disclosed.

(b) require investors to disclose the nature of transactions with associates and whether they are included in the disclosure of gains and losses.

(c) provide an exemption from disclosing gains and losses from transactions with associates if, and only if, the information disclosed:

(i) can be attributed to an individual associate; and

(ii) the transactions are in the course of the investor's ordinary activities.

(d) do not require whether the reconciliation of restricted gains to be disclosed separately from or combined with the reconciliation of investment.

(e) do not change its tentative decision to require the disclosure of the reconciliation of restricted gains and information to be provided therein.

Questions for the IASB
1. Does the IASB have any comments on the paper? 2. Does the IASB agree with the staff recommendation on paragraph 90?

Appendix A—History of 'upstream' and 'downstream' transactions with associates in IAS 28

A1. SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates* was issued by the Standing Interpretations Committee in July 1997. Extract of SIC-3 are presented below.

> **ISSUE**
>
> 1. Although IAS 28.16 refers to consolidation procedures set out in IAS 27, it does not give explicit guidance on the elimination of unrealised profits and losses resulting from "upstream" or "downstream" transactions between an investor (or its consolidated subsidiaries) and associates. "Upstream" transactions are, for example, sales of assets from an associate to the investor (or its consolidated subsidiaries). "Downstream" transactions are, for example, sales of assets from the investor (or its consolidated subsidiaries) to an associate.
>
> 2. The issue is to what extent an investor should eliminate unrealised profits and losses resulting from transactions between an investor (or its consolidated subsidiaries) and associates accounted for using the equity method.
>
> **CONSENSUS**
>
> 3. Where an associate is accounted for using the equity method, unrealised profits and losses resulting from "upstream" and "downstream" transactions between an investor (or its consolidated subsidiaries) and associates should be eliminated to the extent of the investor's interest in the associate.
>
> 4. Unrealised losses should not be eliminated to the extent that the transaction provides evidence of an impairment of the asset transferred.

BASIS FOR CONCLUSIONS

5. IAS 28.16 states that many consolidation procedures are similar for subsidiaries and associates. Regarding subsidiaries, IAS 27.17 requires that unrealised profits and losses resulting from intragroup transactions should be eliminated in full. However, unlike subsidiaries, associates are not under the control of the investor.

6. IAS 31.32 allows a venturer to report its interest in a jointly controlled entity using the equity method. IAS 31.39 and .40 require the proportionate elimination of intercompany profits and losses resulting from transactions with a joint venture. The rationale of these provisions for entities under joint control regarding the elimination of intercompany profits and losses applies to entities under significant influence as well. In addition, the consistent application of the equity method requires that intercompany profits and losses resulting from transactions with joint ventures and with associates be treated in the same way.

7. IAS 31.39 and .40 require the immediate recognition of any unrealised losses resulting from transactions between a venturer and a joint venture when they represent a reduction in the net realisable value of current assets or a decline, other than temporary, in the carrying amount of a long-term asset. The same rationale applies to transactions between an investor and an associate.

A2. SIC-3 was incorporated to IAS 28 *Investments in Associates* in December 2003. Paragraph 22 of the then IAS 28 states:

> Profits and losses resulting from 'upstream' and 'downstream' transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor's financial statements only to the extent of unrelated investors' interests in the associate. 'Upstream' transactions are, for example, sales of assets from an associate to the investor. 'Downstream' transactions are, for example, sales of assets from the investor to an associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated.

Appendix B—Illustrating the reconciliation of restricted gains

B1. Assume the following facts:

- an investor has a 40%-owned associate accounted for using the equity method;
- opening balance of the restricted gains amounted to CU50,000;
- downstream transactions with the associate (sales of goods) amounted to CU500,000, of which CU200,000 is gross profit/gain of the investor; and
- as at the end of the reporting period, inventories held by the associate from its transactions with the investor amounted to CU225,000 (or a gain of CU90,000); these inventories are attributable to the transactions during the period.

B2. Based on the IASB's tentative decision, the reconciliation of restricted gains for the current period could be presented as follows (the table below is an illustration and is not intended to portray how the disclosure should always be provided):

Description	*Amounts (in CU)*	*Calculations*
Opening balance	50,000	
Restricted gains during the year	80,000	CU200,000 gains from downstream transactions multiplied by 40% ownership interest
Restricted gains recognised in profit or loss:		
from restricted gains recognised in the current period	(44,000)	CU80,000 restricted gain recognised during the period minus closing balance of CU36,000
from restricted gains recognised in previous periods	(50,000)	Opening balance of the restricted gains
Closing balance	**36,000**	CU90,000 gains from inventories held by the associate at the end of the reporting period multiplied by 40%

B3. The table in paragraph B4 illustrates the reconciliation of restricted gains when presented together with the reconciliation of the carrying amounts of investments in associates.

B4. Additional facts are as follows:

- opening balance of the investments in associates amounted to CU500,000;
- dividends received by the investor amounted to CU80,000; and
- net income by the associate amounted to CU100,000.

Description	*Amounts (in CU)*	*Calculations*
Opening balance	500,000	
Investor's share of the associate's profit	40,000	CU100,000 net income of the associate multiplied by 40% ownership interest
Dividends received	(80,000)	
Restricted gains during the year	(80,000)	CU200,000 gains from downstream transactions multiplied by 40% ownership interest
Restricted gains recognised in profit or loss:		
from restricted gains recognised in the current period	44,000	CU80,000 restricted gain recognised during the period minus closing balance of CU36,000
from restricted gains recognised in previous periods	50,000	Opening balance of the restricted gains
Closing balance	**474,000**	