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## IASB<sup>®</sup> meeting

Date	<b>June 2026</b>
Project	<b>Equity Method</b>
Topic	<b>Separate financial statements</b>
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## Introduction and purpose of this paper

1. At its September 2025 meeting, the International Accounting Standards Board (IASB) started redeliberating the proposals in the Exposure Draft [Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures \(revised 202x\)](#) (the Exposure Draft).
2. The purpose of this paper is for the IASB:
  - (a) to consider the feedback related to its proposals in the Exposure Draft on applying the equity method in an entity's separate financial statements; and
  - (b) to decide whether to proceed with those proposals.
3. References to 'investor', 'associate' and 'significant influence' should be read as also referring to 'joint venturer', 'joint venture' and 'joint control' in relation to investments in joint ventures in consolidated financial statements.<sup>1</sup>

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

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## Staff recommendations

4. We recommend the IASB:
  - (a) require an entity to apply the same accounting policy for investments in associates and joint ventures accounted for under the equity method in both its consolidated and separate financial statements;
  - (b) if an entity has recognised gains and losses in full in the consolidated financial statements, permit the entity to either recognise gains and losses in full or to restrict gains and losses on transactions with subsidiaries accounted for under the equity method in the separate financial statements;
  - (c) confirm its proposal that an entity does not remeasure its previously held interest in an investment accounted for under the equity method if the entity acquires control of that investment and continues applying the equity method;
  - (d) confirm its proposal that an entity does not remeasure a retained interest in a former subsidiary, if the entity loses control of the subsidiary and continues applying the equity method to the retained interest;
  - (e) do not add to the scope of the project questions on the measurement of cost, step acquisition and loss of control of an investment in a subsidiary accounted for at cost in separate financial statements.
5. The staff will bring back recommendations for disclosures on investments accounted for under the equity method in separate financial statements at a future meeting.

## Structure of this paper

6. This paper is structured as follows:
  - (a) background (paragraphs 8–10 of this paper);
  - (b) gains or losses from transactions between an entity and its equity-accounted investments (paragraphs 11–45 of this paper);
  - (c) step acquisition and loss of control of a subsidiary (paragraphs 46–56 of this paper);

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- (d) other matters – investments accounted for at cost (paragraphs 57–65 of this paper); and
  - (e) questions for the IASB.
7. Appendix A is an extract from the Basis for Conclusion on the Exposure Draft that relate to:
- (a) application of the proposals in the Exposure Draft to investments in subsidiaries in separate financial statements; and
  - (b) step acquisition (loss of control) of a subsidiary in separate financial statements.

## Background

8. When the IASB started developing proposals to answer the application questions, it noted that the equity method is required or permitted for different categories of investments, including investments in subsidiaries in the parent's separate financial statements. The IASB first developed answers to the application questions in the context of investments in associates and later considered the implications of its tentative decisions for subsidiaries accounted for using the equity method in separate financial statements.

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9. The proposals in the Exposure Draft:
- (a) would require a parent to apply the requirements proposed in the Exposure Draft when that parent uses the equity method to account for its investments in subsidiaries in separate financial statements. This would require a parent to recognise gains or losses from transactions with its subsidiaries in full, creating a new difference (see paragraph 52 of this paper) between the parent's separate financial statements and the consolidated financial statements, where those gains or losses are eliminated in full;<sup>2</sup>
  - (b) would require a parent that obtains control of an associate and continues to account for the investment in the subsidiary using the equity method not to remeasure its previously held interest. This also introduces a new difference between the requirements for the parent's separate financial statements and the requirements for consolidated financial statements, because paragraph 42 of IFRS 3 *Business Combinations* requires an entity to remeasure its previously held interest in the acquiree in a business combination achieved in stages;<sup>3</sup> and
  - (c) would require a parent that loses control of a subsidiary and continues applying the equity method to the retained interest not to remeasure a retained interest in a former subsidiary. This also introduces a new difference between the requirements for the parent's separate financial statements and the requirements for consolidated financial statements, because paragraph 25(b) of IFRS 10 *Consolidated Financial Statements* requires an entity to remeasure any retained interest in the former subsidiary when it loses control.<sup>4</sup>
10. One Board member expressed an Alternative View to the proposals in the Exposure Draft. The Board member noted that:

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<sup>2</sup> See [Agenda Paper 13a](#) for the IASB October 2023 meeting.

<sup>3</sup> See [Agenda Paper 13a](#) for the IASB February 2024 meeting.

<sup>4</sup> See [Agenda Paper 13](#) for the IASB June 2024 meeting.

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- (a) the proposed amendments intend to address application questions on applying the Equity Method, but do not address the purpose and nature of the equity method and that of separate financial statements (including the rationale for the accounting options in IAS 27 *Separate Financial Statements*);
  - (b) associate and joint ventures are not part of the reporting entity in consolidated financial statements. This characteristic is an important reason in supporting the proposal in paragraph 9(a) of this paper. However, this characteristic is not present when the investee is a subsidiary. Subsidiaries are part of the reporting entity because the parent controls their individual assets and liabilities; and
  - (c) because of the proposed amendments, differences will arise between shareholders' equity or the net profit attributable to the owners of the parent in consolidated financial statements and the equivalent in the parent's separate financial statements. These differences could increase the cost of compliance for preparers in jurisdictions where the separate financial statements are required or permitted to be prepared in accordance with IFRS Accounting Standards and add complexity to the users of financial statements.

## **Gains or losses from transactions between an entity and its equity-accounted investments**

### ***Rationale for the proposal***

11. The IASB's rationale for its proposal in paragraph 9(a) of this paper is set out in paragraphs BC112–BC126 of the Basis for Conclusions on the Exposure Draft and reproduced in the Appendix of this paper.

### ***Feedback on the proposal***

12. Question 6 of the Invitation to Comment on the Exposure Draft, asked if respondents agreed with the IASB's proposal to require a parent to apply the proposal in the Exposure Draft to investments in subsidiaries in separate financial statements.

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13. At its May 2025 meeting, the IASB discussed a summary of the feedback on the proposal from respondents and from participants at outreach events.<sup>5</sup> The views of respondents to this question were polarised.
14. It is likely, that the views of respondents are affected by the use of the equity method in separate financial statements in the respondent's jurisdiction. For example, one respondent said that in their jurisdiction the equity method for subsidiaries is not permitted in the separate financial statements. Conversely, the use of the equity method for subsidiaries in separate financial statements is pervasive in other jurisdictions, such as Latin America (where some jurisdictions require its use in separate financial statements for subsidiaries) and the Netherlands.
15. Respondents that disagreed with the proposal mostly shared the Alternative View expressed in the Exposure Draft, and commented that:
- (a) in separate financial statements, as in consolidated financial statements, subsidiaries are part of the reporting entity because a parent controls the individual assets and liabilities. Therefore, the rationale used by the IASB to propose that an investor does not restrict gains or losses from transactions with associates does not apply to subsidiaries;
  - (b) in jurisdictions where separate financial statements are the basis for compliance with legal requirements, such as dividends, recognition of gains and losses in full would:
    - (i) potentially introduce, for these transactions, accounting requirements that do not reflect their economic substance; and

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<sup>5</sup> See paragraphs 5–14 of Agenda Paper 13E [Feedback from comment letters—Separate Financial Statements, Proposed Disclosures for IAS 27 and Reduced disclosures in IFRS 19](#) and paragraphs 28–29 of Agenda Paper 13H [Outreach feedback summary](#).

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- (ii) increase the risk of earnings management and of declaring dividends based on unrealised gains and losses. This concern was expressed especially from respondents in Brazil, a jurisdiction that requires the use of the equity method for investments in subsidiaries in separate financial statements.
16. These respondents share the view that applying the equity method to subsidiaries in the separate financial statements should be consistent with the procedures used in consolidation and result in the same net assets and profit or loss attributable to the investment in both consolidated and separate financial statements. These respondents therefore consider that the IASB should require, or permit, a parent to continue eliminating intragroup gains or losses in its separate financial statements. A few of these respondents highlighted that their view is aligned with the IASB's decision to retain paragraph 26 of IAS 28, that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10.
17. Respondents who agreed with the proposal supported the view that the IASB should preserve a single version of the equity method. In their view, not doing so would create unnecessary complexity. These respondents commented that separate financial statements do not permit all of the consolidation procedures described in IFRS 10, and that differences between the two sets of financial statements already exist. They added that compliance with legal requirements is best addressed by local laws and regulations.
18. A few respondents questioned whether the equity method should be permitted in the separate financial statements, with one respondent recommending removing the option.

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***IASB tentative decisions in redeliberations***

19. At its May 2026 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.
20. The IASB's tentative decision, to permit an accounting policy choice, is an entity-wide decision, that is, the investor applies the accounting policy to all investments in associates and joint ventures accounted for under the equity method in the investor's consolidated financial statements.
21. Applying the same tentative decision to subsidiaries in separate financial statements, a parent could choose to restrict the intragroup gains or losses on transactions that are not transfers of businesses. This would help to align the profit or loss in the separate financial statements with the profit or loss attributable to the subsidiary in the consolidated financial statements.

***Staff analysis for separate financial statements***

22. It is important to put the feedback on the proposals in the Exposure Draft in the context of the scope of the project, which is to address application questions on the equity method. A full analysis of whether a parent should retain the restriction of the gains or losses from transactions with subsidiaries when the parent applies the equity method to subsidiaries in the separate financial statements would require assessing wider conceptual issues that are not part of this project, as explained in paragraph BC126 of the Basis for Conclusions of the Exposure Draft.

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23. The feedback raises questions on how the parent-subsidary relationship applies in separate financial statements. In consolidated financial statements, the parent-subsidary relationship is different from other investor-investee relationships. On acquiring control, the parent discontinues accounting for the investment and starts accounting for the individual assets and liabilities of the subsidiary. In separate financial statements, it is unclear if the parent-subsidary relationship applies differently from other investor-investee relationships.
24. Paragraph 7 of the Basis for Conclusions on IAS 27 explains that the IASB draws a distinction between accounting for investments in subsidiaries as equity investments and accounting for the economic entity that the parent controls. In addition, paragraph 10 of the Basis for Conclusions on IAS 27 adds that for separate financial statements, the focus is on the financial performance of the assets as investments. We think that this is the IASB adopting the view that a subsidiary is akin to a financial asset in its parent's separate financial statements, the nature of the parent-subsidary relationship would cease to be different from other investor-investee relationships.
25. Paragraph 3.17 of the *Conceptual Framework for Financial Reporting* (Conceptual Framework) refers to unconsolidated financial statements as those financial statements designed to provide information about the parent's assets, liabilities, equity, income and expenses and not about those of its subsidiaries. However, the Conceptual Framework does not specify whether the parent-subsidary control relationship affects how the parent reports information about its own assets (investments).
26. We also note that IAS 27 permits a parent to choose to account for its investments at cost or fair value in accordance with IFRS 9 *Financial Instruments*, in addition to using the equity method. A parent that chooses either of these methods would not restrict gains or losses from transactions with subsidiaries.

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27. However, we acknowledge the point expressed in the Alternative View, that the project does not address the purpose and nature of the equity method in separate financial statements. For this reason, we did not conclude on whether a subsidiary is part of the reporting entity in the parent's separate financial statements.
28. The proposal in paragraph 9(a) of this paper would have resulted in a parent recognising gains and losses on transactions with subsidiaries at the date of the transaction, while these gains and losses are eliminated in full in consolidated financial statements. While we do not agree with the view that the two sets of financial statements should give rise to the same outcomes, we agree that the proposal in the Exposure Draft could significantly affect entities operating in jurisdictions where:
- (a) a parent is required to apply the equity method to investments in subsidiaries; and
  - (b) the separate financial statements are the basis to determine the taxable income and dividends; or
  - (c) local legislation might set a minimum dividend obligation where there are distributable profits.
29. To address this situation, we considered three different approaches. These three approaches would apply to gains or losses from transactions between the entity and investments in associates, joint ventures or subsidiaries to which the entity applies the equity method in its separate financial statements.<sup>6</sup>
30. To recap, the IASB's tentative decision in May 2026 was 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 and joint ventures, except for gains or losses on transfer of businesses, which would be recognised in full.

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<sup>6</sup> As a reminder, an entity applying cost or fair value to any of its investments would recognise gains or losses from its transactions with those investees in full.

*Description of the approaches*

31. Building on the IASB’s tentative decision the three approaches for separate financial statements are summarised in the following table:

	Associates and joint ventures	Subsidiaries
Approach A	Accounting policy choice for all investments.	
Approach B	Apply the same choice as in consolidated financial statements.	Restrict gains or losses if the entity chooses to restrict gains or losses for joint ventures and associates in consolidated financial statements.
		Accounting policy choice if the entity chooses full recognition for joint ventures and associates in consolidated financial statements.
Approach C	Apply the same choice as in consolidated financial statements.	Restrict gains or losses from transactions with subsidiaries

32. Under Approach A, an entity would be permitted a ‘separate’ accounting policy choice in its separate financial statements for recognition of gains or losses from all transactions, except for transactions that are transfers of businesses with associates and joint ventures. The entity would apply the same choice to all investments accounted for under the equity method in the separate financial statements. The entity would be permitted to make two different choices; one for consolidated financial statements and another choice for separate financial statements.

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33. Under Approach B, the entity would be required to apply, in its separate financial statements, the same accounting policy for investments in associates and joint ventures accounted for under the equity method that it has applied in its consolidated financial statements. If an investor has chosen to restrict gains and losses on transactions with associates and joint ventures in its consolidated financial statements, it would also be required to restrict gains and losses on transactions with subsidiaries in its separate financial statements. However, an investor that has chosen to recognise gains and losses in full in its consolidated financial statements would have an accounting policy choice for gains or losses on transactions between a parent and its subsidiaries in its separate financial statements. An entity that has no associates or joint ventures but prepares separate financial statements would be permitted the accounting policy choice for its subsidiaries under the equity method.
34. Under Approach C, the entity would be required to apply, in its separate financial statements, the same accounting policy for investments in associates and joint ventures accounted for under the equity method that it has applied in its consolidated financial statements. An entity would be required to restrict gains or losses from transactions with subsidiaries, consistent with the consolidation procedures, in its separate financial statements.

#### *Assessment of the approaches*

35. Approach A would permit, and Approaches B and C would require, an entity to apply the same accounting policy to associates and joint ventures in both consolidated and separate financial statements, thus avoiding the need to apply two separate accounting policies for the same investment.

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36. Approaches A and B would permit, and Approach C would require, an entity to restrict intragroup gains or losses on transactions with subsidiaries when applying the equity method to subsidiaries in separate financial statements. All three approaches would therefore make it possible to achieve the outcome supported by the respondents in paragraph 16 of this paper. Entities would not be required to apply a different accounting treatment to intragroup gains or losses in separate and consolidated financial statements.
  37. Approach A would extend the application of the accounting policy choice tentatively decided by the IASB to the separate financial statements, including investments in subsidiaries, but would not create an additional accounting policy choice.
  38. Approach A would require an entity to apply the equity method in the same way to all investments accounted for under the equity method in its separate financial statements, thus ensuring consistency within these financial statements.
  39. However, the entity would be permitted to use an accounting policy in the consolidated financial statements that would not necessarily be the same policy as in separate financial statements, thus creating a divergence between the two sets of financial statements. The divergence would create complexity. For example, if the entity chose full recognition of gains or losses in the consolidated financial statements but restricted the gains and losses in separate financial statements, it would need to restate gains or losses with associates.
  40. Approach B would extend the application of the accounting policy choice to the separate financial statements and add a separate accounting policy for investments in subsidiaries for entities that choose full recognition of gains and losses on transactions with associates in their consolidated financial statements. This might add a layer of complexity and introduce inconsistency within the separate financial statements. An entity might apply two different policies in the same separate financial statements: full recognition of gains or losses for associates, and restriction of gains or losses for subsidiaries.

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41. However, we note that comparability across entities is already limited in separate financial statements, because IAS 27 permits using different measurement bases (cost, fair value or equity method).
  42. We understand that some respondents would favour Approach B. They would prefer, when applying the equity method, to recognise in full gains or losses from associates while maintaining the elimination of intragroup gains or losses for subsidiaries. These entities would not agree with Approach A, that would not permit using different policies for different categories of investments in the separate financial statements. However, we note that an entity may also avoid the need to apply different policies to gains or losses by changing the measurement bases of their investments.
  43. Approach C would extend the application of the accounting policy choice to separate financial statements, with the exclusion of investments in subsidiaries. Approach C would require an entity that chooses to recognise gains or losses in full for associates to apply the equity method differently to subsidiaries in separate financial statements, therefore introducing two different versions of the equity method.
  44. The rationale for Approach C would be that the parent-subsidiary relationship is different from other investor-investee relationships also in the context of separate financial statements where the parent does not consolidate the individual assets and liabilities of the subsidiary. However, this view does not have a conceptual basis that is articulated in IFRS Accounting Standards, and we think it might have unintended consequences for other requirements and transactions.

### **Recommendation**

45. Based on the analysis in the paragraphs 22–44 of this paper, we recommend Approach B.

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## Step acquisition and loss of control of a subsidiary

### *Rationale for the proposal*

46. The IASB's rationale for the proposals on step acquisitions and loss of control of a subsidiary are set out in paragraphs BC128–BC133 of the Basis for Conclusions on the Exposure Draft and reproduced in the Appendix of this paper.

### *Feedback on the proposal*

47. Respondents who disagreed with the proposal in paragraph 9(a) generally also objected to the proposals in paragraph 9(b) and (c) using similar arguments. For example, Organismo Italiano di Contabilità commented that:

As explained in paragraph BC132 of the ED, the IASB decided that the parent shall not remeasure the previously held interest (or the retained interest) in a step acquisition (or loss of control) of a subsidiary because the accounting method does not change, ie the parent continues to apply the equity method before and after the transaction. On the other hand, as explained in the BC of IFRS 3 and IFRS 10, obtaining control and the loss of control are significant economic events in consolidated financial statements which, therefore, require the remeasurement at fair value of the previously held interest or the retained interest. We believe that if an event is a significant economic event in consolidated financial statements, it should also be significant in separate financial statements. Consequently, we suggest the IASB reconsider this proposal and thus require a parent to remeasure the previously held interest or retained interest. Should the IASB confirm its proposals on step acquisition and loss of control of a subsidiary, we recommend the IASB to clarify how to account for these transactions also when the investments are measured at cost.

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48. As noted in paragraph 16 of this paper, a few respondents said that they share the view that the consolidated shareholders' equity should be equivalent to the separate financial statements' shareholders' equity. One respondent commented that answering the question of whether the equity method is a one-line consolidation approach or a measurement method could lead to a better understanding, or to a removal of these differences.

### ***IASB tentative decisions in redeliberations***

49. The IASB tentative decision in considering the feedback on the proposals in the Exposure Draft do not affect the proposals in paragraphs 9(b) and (c) in this paper.

### ***Staff analysis***

50. The proposals in paragraph 9(b) and (c) on step acquisitions and loss of control of a subsidiary in separate financial statements differ from the requirements applied in consolidation, because:
- (a) when an acquirer obtains control of an associate, the acquirer is required to remeasure the previously held interest;
  - (b) when a parent loses control of a subsidiary and retains an interest in the former subsidiary, the parent is required to remeasure the retained interest.
51. As discussed in paragraph 23 of this paper, we think that it is beyond the scope of this project to assess whether the parent-subsidary control relationship applies in the separate financial statements in the same way as it applies in consolidated financial statements.
52. We note however that some of the requirements in IFRS Accounting Standards might already create differences, as explained in paragraph 10G of the Basis for Conclusions on IAS 27:

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- (a) *impairment testing requirements*—in consolidated financial statements, goodwill is tested for impairment as a separate asset; whereas in separate financial statements, goodwill is tested as part of the investment in the subsidiary.
- (b) *subsidiary that has a net liability position*—consolidated financial statements include all losses of the subsidiary; whereas in separate financial statements, the parent stops recognising its share of losses when the carrying amount of the investment is nil unless there is a legal or constructive obligation to make good the losses.
- (c) *capitalisation of borrowing costs*—in consolidated financial statements, when a parent borrows funds and its subsidiary uses them for the purpose of obtaining a qualifying asset, the borrowing costs incurred by the parent are considered to be directly attributable to its subsidiary’s qualifying asset; whereas in separate financial statements, the parent cannot capitalise those borrowing costs on the investment in the subsidiary.
53. Similarly, some proposals in the Exposure Draft, that the IASB has already deliberated might also create differences between the two sets of financial statements, although no respondents commented on this fact. For example, the IASB tentatively decided that:
- (a) if an investor purchases an additional ownership interest in an associate, the investor is required to include in the carrying amount of the investment its additional share of the fair value of the associate's or joint venture's identifiable assets and liabilities (unless the investor is permitted to apply the relief). In consolidated financial statements, a parent that purchases an additional ownership interest in a subsidiary adjusts the carrying amounts of the controlling and non-controlling interests and recognises in equity any difference between the fair value of the consideration and the amount by which it adjusts the controlling and non-controlling interests;

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- (b) if the associate issues new shares to third parties and the investor's interest is diluted, the investor recognises the gains or losses from the dilution in profit or loss. In consolidated financial statements, a parent whose ownership is reduced adjusts the carrying amounts of the controlling and non-controlling interests and recognises the change in equity.
54. We considered whether the IASB should consider providing an accounting policy choice for step acquisition and loss of control of a subsidiary, following the recommendation in paragraph 45 of this paper. However, there are differences with the question on elimination of intragroup gains or losses:
- (a) the proposal in paragraph 9(a) is likely to result in an earlier recognition of gains compared to the consolidated financial statements. As noted above in paragraph 15 of this paper, this might trigger the payment of income tax and dividends. The proposals in paragraph 9(b) and (c) would instead defer the recognition of remeasurement gains in the separate financial statements. The concerns about capital maintenance therefore do not apply;
- (b) the IASB's decision to permit an accounting policy choice for gains or losses from transactions with associates and joint ventures provides a basis to grant a similar accounting policy choice in the separate financial statements. None of the IASB redeliberations provide a basis to permit an accounting policy choice for a step acquisition or loss of control;

- (c) part of the rationale for the IASB's proposals is to ensure consistency with the requirement in paragraph 24 of IAS 28, as explained in paragraph 132(b) of the Basis for Conclusions (that the entity does not remeasure its investment when an investment in an associate becomes an investment in a joint venture, or an investment in a joint venture becomes an investment in an associate) and its related rationale. Paragraph 30 of the Basis for Conclusions on IAS 28 explains that in this case, although the investor-investee relationship changes, both investments continue to be measured using the equity method. We acknowledge that the respondents that disagree with the proposal might argue that the group boundaries change – even when looking at the separate financial statements.

### ***Recommendation***

55. Based on the analysis in paragraphs 50–54 of this paper, we do not think there is a reason to change the proposals as suggested by some respondents. Requiring the remeasurement of the previously held interest (in a step acquisition) and the retained interest (in a loss of control) could only be based on the premise that the parent-subsidiary relationship applies in separate financial statements in the same way as in consolidated financial statements, or that the outcome of using the equity method should always result in the same amounts as in consolidated financial statements. We do not think that there is a basis for such conclusion in the existing requirements.
56. We recommend the IASB confirm its proposals in paragraph 9(b) and (c) of this paper, that is to require:
- (a) an entity not to remeasure its previously held interest in an investment accounted for under the equity method if the entity acquires control of that investment and continues applying the equity method;
  - (b) an entity not to remeasure a retained interest in a former subsidiary, if the entity loses control of the subsidiary and continues applying the equity method to the retained interest.

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## Other matters – investments accounted for at cost

### **Feedback**

57. Some respondents recommended the IASB to introduce a definition of cost when the parent measures those investments at cost. These respondents noted that:
- (a) defining ‘cost’ in IAS 27 would help address gaps in requirements, for example, how to account for previously held interests, contingent consideration, and acquisition-related costs when accounting for an investment at cost in an entity’s separate financial statements.
  - (b) it is unclear how the IASB’s proposed definition of ‘cost of an associate’ in the Exposure Draft interacts with the IFRS Interpretations Committee’s January 2019 Agenda Decision *Investments in a subsidiary accounted for at cost: Step acquisition*.
58. One respondent also recommended to introduce requirements to account for a step acquisition and loss of control of a subsidiary accounted for at cost.

### **Staff analysis**

59. IAS 27 does not define cost of an investment in a subsidiary if the subsidiary is measured at cost in separate financial statements. In September 2018 the IFRS Interpretations Committee (Committee) examined the question.<sup>7</sup>
60. The Committee concluded that IAS 27 does not have a definition of cost and that when a parent holds an interest in an investee that qualifies as a financial instrument in accordance with IFRS 9 and subsequently obtains control of that investee, a reasonable reading of IFRS Accounting Standards could result in the parent applying either of the following approaches:

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<sup>7</sup> [IFRS - IFRIC Update September 2018](#)

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- (a) the consideration paid for the interest (original consideration), plus any consideration paid for the additional interest (accumulated cost approach); or
  - (b) the fair value of the interest at the date of obtaining control of the subsidiary, plus any consideration paid for the additional interest (fair value as deemed cost approach).
61. This Agenda Decision would also apply to investments in associates and joint ventures accounted under the equity method. However, in the Equity Method project the IASB tentatively decided that an investor, on acquiring significant influence, includes in the cost of an associate the fair value of any previously held interest.
62. The IASB considered whether to add requirements for subsidiaries carried at cost at its February 2024 meeting.<sup>8</sup> However, the IASB decided not to add the application question to the scope of the project.
63. We acknowledge that that answering application questions about the measurement of cost in the context of an investment in a subsidiary to which *the equity method* is applied might raise questions about whether the same or a different approach should be applied in the context of an investment to which *the cost method* is applied in an entity's separate financial statements. However, the staff note that the project is focused on answering application questions about the equity method of accounting when applying IAS 28. Therefore, answering application questions relating to investments accounted for at cost in separate financial statements is outside the scope of the project.

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<sup>8</sup> See paragraphs 25-35 of [Agenda Paper 13A](#) for the IASB February 2024 meeting.

64. In the staff view, similar considerations would arise if the IASB were to consider other application questions relating to measuring the cost of an investment in an associate, joint venture or subsidiary accounted for at cost in separate financial statements. For example, we have limited information on the effect of applying any potential answers to such application questions. Accordingly, answering such application questions would take significant time and resources.

### ***Recommendation***

65. Therefore, we recommend the IASB do not add to the scope of the project application questions on measurement of cost, step acquisition and loss of control of an investment in a subsidiary accounted for at cost in separate financial statements.

#### Questions for the IASB

1. Does the IASB agree with the staff recommendation in paragraph 45 of this paper?
2. Does the IASB agree with the staff recommendation in paragraph 56 of this paper?
3. Does the IASB agree with the staff recommendation in paragraph 65 of this paper?

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## Appendix A—Extract from the Basis for Conclusions

### *Investments in subsidiaries in separate financial statements*

- BC 112 IAS 27 *Separate Financial Statements* requires an entity that prepares separate financial statements to account for investments in subsidiaries, joint ventures and associates:
- (a) at cost;
  - (b) in accordance with IFRS 9; or
  - (c) using the equity method as described in IAS 28.
- BC113 The IASB decided that its proposed solutions to the application questions set out in Table 1 would also apply to a parent that chose to use the equity method to account for investments in subsidiaries in its separate financial statements.
- BC114 The IASB observed that the alternative would mean two versions of the equity method—one for investments in subsidiaries, if a parent chose to use the equity method to account for its investments in subsidiaries in its separate financial statements, and another for investments in associates and joint ventures. Some stakeholders argued that having two versions of the equity method would be reasonable, if necessary, to help parents to align the amounts reported in their separate financial statements with those in their consolidated financial statements. Stakeholders in favour of two versions of the equity method noted that a parent controls its subsidiaries but does not control its associates or joint ventures.
- BC 115 The IASB reached the decision described in paragraph BC113 after considering:
- (a) the types of financial statements and the concept of control in IAS 27 (paragraph 0);
  - (b) the history of the equity method as a measurement option in IAS 27 (paragraphs BC118–BC120); and
  - (c) the application of the equity method, in practice, to investments in subsidiaries in separate financial statements and the implications for that practice of applying the IASB’s proposed solutions to the application questions (paragraphs BC121–BC126).
- BC 116 The IASB also decided to clarify how to apply the equity method to a step acquisition of a subsidiary and the loss of control of a subsidiary, while continuing to apply the equity method in separate financial statements (paragraphs BC128–BC133).

### *Types of financial statements and the concept of control in IAS 27*

- BC 117 Paragraph BC7 of the Basis for Conclusions on IAS 27 explains that the IASB drew a distinction between accounting for investments in subsidiaries as equity instruments and accounting for the economic entity that a parent controls. Therefore:

- (a) in separate financial statements, an investment in a subsidiary is accounted for as an asset under the parent's control (similar to an investment in an associate or joint venture), using one of the measurement options in IAS 27; whereas
- (b) in consolidated financial statements, a subsidiary is accounted for as an entity under the parent's control, so that the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

***History of the equity method as a measurement option in IAS 27***

- BC 118 In 2003, the IASB removed the equity method as a measurement option for investments in subsidiaries, joint ventures and associates in separate financial statements because it concluded that in separate financial statements, the focus is on the performance of the assets as investments.
- BC 119 In 2014, the IASB decided to restore the equity method as a measurement option for investments in subsidiaries, joint ventures and associates in separate financial statements because the law in some jurisdictions requires listed companies to present separate financial statements using the equity method for investments in subsidiaries, joint ventures and associates.
- BC 120 Paragraph 10G of the Basis for Conclusions on IAS 27 explains that there could be situations in which applying the equity method to investments in subsidiaries in separate financial statements would give a different result compared to consolidated financial statements.

***Applying the equity method in practice to investments in subsidiaries in separate financial statements and the implications of the proposals***

- BC 121 Feedback from outreach with stakeholders suggests that use of the equity method to account for investments in subsidiaries in separate financial statements is prevalent in only a few jurisdictions. In other jurisdictions in which separate financial statements are prepared, the cost option in IAS 27 is typically used.
- BC 122 Stakeholder feedback also suggested there is diversity in practice when the equity method is applied to investments in subsidiaries in separate financial statements. For example, when a parent entity applies the equity method to an investment in a subsidiary:
- (a) some parent entities aim to align the amounts reported in separate financial statements with those reported in consolidated financial statements, by analogising to IFRS 3 and IFRS 10; whereas
  - (b) other parent entities do not aim to achieve that alignment.
- BC 123 Hence, the effects, in practice, of applying the IASB's proposed solutions to the application questions to investments in subsidiaries in separate financial statements will vary depending on a parent entity's existing accounting policies.

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- BC 124 In some cases, new or increased differences between separate and consolidated financial statements could arise. For example, applying the proposed requirements, the parent would recognise, in full, gains or losses on transactions with subsidiaries in its separate financial statements. However, in its consolidated financial statements, it would eliminate, in full, such gains or losses.
- BC 125 Stakeholders in the jurisdictions described in paragraph BC122(a) raised concerns about applying the proposals to investments in subsidiaries in separate financial statements, particularly the matter discussed in paragraph BC124. The IASB acknowledged those concerns, but noted that the matter is neither new, nor limited to the proposed requirements—other requirements in IAS 28 can also result in differences between separate and consolidated financial statements.
- BC 126 Moreover, stakeholder feedback suggests that the objective of preparing separate financial statements, and the purpose for which they are used, varies by jurisdiction. Also, broader questions arise about the relationship between the purpose of general-purpose financial statements prepared applying IFRS Accounting Standards and jurisdictional requirements on dividend distributions and income tax calculations.<sup>9</sup> The IASB observed that considering whether and how to respond to the jurisdictional differences in the objective and use of separate financial statements would involve a comprehensive review of IAS 27. However, a comprehensive review of IAS 27, or considering broader issues about the objective and use of separate financial statements, is outside the scope of the Equity Method project, which is focused on answering application questions about the requirements in IAS 28 on how to apply the equity method (see paragraphs BC1–BC9).

#### ***The IASB's decision***

- BC 127 After considering the matters in paragraphs BC117–BC126, the IASB decided that its proposed solutions to the application questions set out in Table 1 would also apply to a parent that chose to use the equity method to account for its investments in subsidiaries in its separate financial statements.

#### ***Step acquisition (or loss of control) of a subsidiary***

- BC 128 The IASB first considered the combined effects of its decisions:
- (a) to propose requiring the investor to include, in the cost of an investment in an associate on obtaining significant influence over the associate, the fair value of any previously held ownership interest (see paragraphs BC17BC18Error! Reference source not found.); and
  - (b) to apply its proposed solutions to the application questions set out in Table 1 to investments in subsidiaries to which the equity method is applied in separate financial statements (see paragraphs BC112–BC127).
- BC 129 The IASB considered a situation in which:
- (a) the parent held an ownership interest in an entity prior to obtaining control of that entity;

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<sup>9</sup> For example, see the [IFRS Foundation's Feature: Returns, reinvestment opportunities and dividend distribution](#).

- (b) that previously held ownership interest was accounted for as an investment in an associate (or joint venture); and
  - (c) the parent has chosen to apply the equity method to both its investments in associates (or joint ventures) and its investments in subsidiaries in its separate financial statements.
- BC 130 The IASB also considered the reverse situation, in which a parent loses control of a subsidiary and continues to account for any retained investment in the former subsidiary using the equity method.
- BC 131 The IASB decided to propose requiring a parent that obtains control of an associate or a joint venture and continues to account for the investment in the subsidiary using the equity method in its separate financial statements not to remeasure its previously held interest. The IASB also decided to propose the same approach for the reverse situation.
- BC 132 The IASB considered that in the situations described in paragraphs BC129–BC130:
  - (a) although obtaining control of a subsidiary changes the relationship between the parent and its former associate or joint venture, the parent does not change its accounting method. The absence of a change to its accounting method suggests the parent should not remeasure its previously held interest. The same rationale applies in the reverse situation.
  - (b) paragraph 24 of IAS 28 requires that if an associate becomes a joint venture (or vice versa), the entity continues to apply the equity method and does not remeasure the retained interest. Therefore, applying the same approach in the situations described in paragraphs BC129–BC130 would be consistent with IAS 28.
- BC 133 The IASB acknowledged that its proposal could affect current practice for some entities that remeasure the previously held (or retained) interest at fair value in the situations described in paragraphs BC129–BC130. The IASB considered whether to permit entities an accounting policy choice of whether to remeasure the previously held (or retained) interest at fair value. The IASB decided not to do so, because permitting an accounting policy choice would result in continued diversity in practice.