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## IASB<sup>®</sup> meeting

Date	<b>March 2026</b>
Project	<b>Equity Method</b>
Topic	<b>Other changes in ownership interest</b>
Contacts	<b>Filippo Poli</b> (fpoli@ifrs.org)

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## Introduction and purpose of this paper

1. At its September 2025 meeting, the International Accounting Standards Board (IASB) started redeliberating the proposals in the Exposure Draft [\*Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures \(revised 202x\)\*](#) (the Exposure Draft).
2. The purpose of this paper is for the IASB:
  - (a) to consider the feedback on its proposal in the Exposure Draft relating to other changes in ownership interests while the investor retains significant influence;
  - (b) to consider how to respond to feedback on the proposal; and
  - (c) to decide whether to proceed with the proposal.
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. The staff's recommendation is that the IASB:
  - (a) retains the proposal that if an investor's ownership interest changes and the investor retains significant influence, an investor shall:
    - (i) apply paragraphs 30–31 of the Exposure Draft to an increase in its ownership interest, as if the investor had purchased an additional ownership interest;
    - (ii) apply paragraphs 32–33 of the Exposure Draft to a decrease in its ownership interest, as if the investor had disposed of an ownership interest.
  - (b) clarifies how to apply the proposals by providing illustrative examples of some fact patterns (paragraph 63);
  - (c) introduces a requirement that, during the vesting period of an equity-settled share-based payment transaction, an investor recognises its share of the expense and a corresponding adjustment to the carrying amount of the investment (paragraph 71).
5. We do not recommend that the IASB:
  - (a) provides an exemption for transactions that the investor is not a party to, including those that do not occur in an immediate associate (paragraph 26).
  - (b) introduces requirements on hybrid instruments (paragraph 74).
  - (c) introduces requirements on when an investor could combine transactions (paragraph 80).

## Structure of this paper

6. This paper is structured as follows:
  - (a) background (paragraphs **Error! Reference source not found.**7–18 of this paper);

- (b) staff analysis (paragraphs **Error! Reference source not found.**19–63 of this paper);
- (c) other issues (paragraphs 64–80 of this paper);
- (d) staff recommendation and questions for the IASB (paragraph 81**Error! Reference source not found.** of this paper); and
- (e) Appendices to the paper:
  - (i) Appendix A—History of the 2012 Exposure Draft *Equity Method: Share of Other Net Asset Changes*; and
  - (ii) Appendix B—Extract from the Basis of Conclusions of the Exposure Draft.

## Background

### ***Proposal in the Exposure Draft***

7. In developing the proposal in the Exposure Draft, the IASB sought to answer the application question:

*Does an investor recognise its share of other changes in the associate's net assets that change the investor's ownership interest while retaining significant influence, and, if so, how is the change presented?*
8. The IASB proposed, in the Exposure Draft, if an investor's ownership interest changes and the investor retains significant influence, an investor shall:
  - (a) apply paragraphs 30–31 of the Exposure Draft to an increase in its ownership interest, as if the investor had purchased an additional ownership interest;
  - (b) apply paragraphs 32–33 of the Exposure Draft to a decrease in its ownership interest, as if the investor had disposed of an ownership interest.

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9. The proposal in the Exposure Draft refer to *changes in the investor's ownership interest*. They would include the following transactions:
- (a) an associate issues new shares, the investor subscribes those shares and changes its own ownership interest;
  - (b) an associate buys back its shares, the investor sells its shares and changes its own ownership interest; and
  - (c) an associate issues new shares to (or redeems the shares of) another shareholder, causing the investor's ownership interest to decrease (or increase). We refer to these transactions as dilutions and anti-dilutions.
10. The proposal in the Exposure Draft results in an investor presenting gains or losses from dilutions (for example those arising from transactions in paragraph 9(c) of this paper) in profit or loss.
11. Paragraph BC45 of the Basis for Conclusions explains that the proposal in the Exposure Draft does not address all aspects of accounting for equity-settled share-based payment transactions, such as when the investor should recognise that dilution (or potential dilution)—over the vesting period or on the exercise date. A similar question might arise when share warrants are issued to another party that give the holder the right to subscribe shares in the future.
12. The IASB had previously sought to resolve the application question in paragraph 6 of this paper. Appendix A to this paper summarises the history of the November 2012 Exposure Draft *Equity Method: Share of Other Net Asset Changes* (proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*).

### ***Rationale for the proposal in the Exposure Draft***

13. Paragraphs BC42–BC44 of the Basis for Conclusions on the Exposure Draft explain the rationale for the proposal. Appendix B of this paper reproduces these paragraphs.

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**Feedback on the proposal in the Exposure Draft**

14. Feedback on the proposal in the Exposure Draft was mixed. For more detail, see paragraphs 47–54 of [Agenda Paper 13B](#) *Feedback from comment letters—Measurement of cost and Changes in ownership interests* of the May 2025 IASB meeting.
15. At the October 2025 ASAF meeting, members were asked to provide their views on the proposal, specifically on the presentation of gains or losses from dilutions in profit or loss. All ASAF members except the Accounting Regulatory Department of China, confirmed their support to present gains or losses from dilutions in profit or loss.
16. To help discuss the feedback on the proposal with the IASB, the staff has considered the feedback from:
  - (a) respondents that disagreed with the proposal (paragraphs 19–33 of this paper); and
  - (b) respondents that recommended the IASB clarify the application of the proposal and include other transactions that the proposal does not address (paragraphs 34–63 of this paper).
17. In addition to the two groups of respondents in paragraph 16 of this paper, Agenda Paper 13B of the May 2025 IASB notes some respondents that agreed that other changes should be treated as if they were purchases or disposals of an interest in an associate, but as described, have concerns with the proposal for purchases of additional ownership interests (paragraph 30 of the Exposure Draft).

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18. This agenda paper does not discuss the proposal in paragraph 30 of the Exposure Draft, that an investor include in the carrying amount of the additional ownership interest its additional share of the fair value of the associate's net assets.<sup>2</sup> The IASB discussed the feedback on the proposal in paragraph 30 of the Exposure Draft, at its November 2025 meeting and is exploring (see Agenda Paper 13A *Purchases of an additional interest—relief* of this meeting) how to provide relief on that proposal. Should the IASB decide to provide relief, that relief would also be available to other transactions that increases ownership interest.

## Staff analysis

### ***Respondents that disagreed with the proposal***

#### *Feedback from respondents that disagreed with the proposal*

19. Some respondents raised conceptual and/or practical objections to the proposal and questioned the rationale explained by the IASB. That is, these respondents do not agree with the view that these transactions are economically similar to purchases and disposals of ownership interests. One respondent disagreed with presenting gains or losses from dilutions in profit or loss. These respondents recommended the IASB:
- (a) provide an exemption from the proposal for some type of dilutions or for anti-dilutions; or
  - (b) require (or permit) gains or losses from dilution to be presented outside profit or loss.
20. Respondents that disagreed with the proposal said:

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<sup>2</sup> For further detail, see [Agenda Paper 13B](#) *Purchases of an additional ownership interest* for the November 2025 IASB meeting.

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- (a) when the investor is not a party to the transaction that results in a change in its ownership interest, the investor might have little or no information about that transaction. These respondents said this is especially true if the transaction does not occur in an immediate associate but (for example) in a subsidiary that is controlled by an associate. In their view, it would be cumbersome for an investor to monitor these transactions.
  - (b) transactions that result in a change in an investor's ownership interest, in which the investor is not a party to the transaction are economically different from a purchase or a disposal of an ownership interest. In these respondents' view, as the investor is not party to the transaction and does not exchange consideration, the effects of these events are not part of the investor's performance. Inclusion of dilution gains or losses in profit or loss may cause users to misjudge the return on the investment.

*Transactions to which the investor is not a party to*

- 21. In the staff's view, it would be difficult to find a rationale to exempt an investor to account for transactions it is not a party to, because it would create a conflict with how the equity method is defined in paragraph 3 of IAS 28. Although these transactions do not occur in the immediate associate but at the level of the associate's subsidiary they change the consolidated net assets of the associate. Given IAS 28 defines the equity method as a method whereby the investor recognises its share of the changes in investee's net asset any exemption would conflict with the definition of the equity method.
- 22. Moreover, an investor must monitor changes in their ownership interest of the associate because:
  - (a) paragraph 3 of IAS 28 defines the equity method as a method of accounting whereby the investment is adjusted thereafter for the post-acquisition changes in the investor's share of the investee's net assets;

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- (b) the percentage of ownership interest is the basis for the recognition of the investor's share of the associate's profit or loss, other comprehensive income and net assets; and<sup>3</sup>
- (c) paragraph 5 of IAS 28 states an investor may assess if it has significant influence using the rebuttable presumption in holding directly or indirectly more than 20% of the voting power of the investee.
23. It should also be noted that there are jurisdictions where the legislation requires that all shareholders are informed about an associate's decision to issue (or buy-back) shares. This legislation is designed to protect minority shareholders' rights, such as rights of first refusal or redemption rights. Similarly, shareholders' agreements or by-laws are drafted to provide the minority shareholders with protection rights.
24. We acknowledge that the case might be different when there are changes in the ownership interest that do not occur in an immediate associate. The investor might have less information and no ability to choose whether to participate in the transaction or redeem its shares. However, recognising the change in the share of the net assets is a requirement to apply the equity method as set out in IAS 28.
25. Whilst we acknowledge the point about the access to information, we also note that in considering the feedback on the IASB's proposal related to transactions with associate (including the feedback from the additional work) the IASB has received mixed views on the ability of an investor to obtain information to comply with the requirements of IAS 28. Some respondents said they can obtain the necessary information to comply with IAS 28, whereas others have said problems are limited to associates that are quoted investments because of legal restrictions to access and use those information (see [Agenda Paper 13C Transactions with Associates—Feedback from further work of the February 2026 IASB meeting](#)).

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<sup>3</sup> Paragraph 27 of IAS 28 (carried forward unchanged) states that a group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries...When an associate has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account to apply the equity method are those recognised in the associate's financial statements (including the associate's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures) after any adjustment necessary to give effect to uniform accounting policies.

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26. Therefore, considering the analysis in paragraphs 21–25, we do not recommend that the IASB provides an exemption for transactions that the investor is not a party to, including those that do not occur in an immediate associate.

*The effects of these events are not part of the investor's performance*

27. We also disagree with the argument in paragraph 20(b) of the paper. Paragraphs 4.68–4.69 of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* define income and expenses as increases or decreases in assets, other than those relating to contributions from, or distributions to, holders of equity claims.
28. Those respondents that hold the view in paragraph 20(b) of this paper think that because the investor is not party to the transaction, the effect of these events are not part of the investor's performance. These respondents might argue that the transaction is a contribution from, or distribution to, holders of equity claims. However, a dilution that occurs between an associate and its other shareholders is not a transaction that involves holders of equity claims of the investor. Other shareholders of an associate are not equity holders of the group (investor).
29. Furthermore, paragraph 7.15 of the *Conceptual Framework* requires income and expenses to be classified and presented either in the statement of profit or loss or in other comprehensive income. Presentation in other comprehensive income is decided by the IASB in exceptional circumstances when doing so would result in the statement of profit or loss providing more relevant information or providing more faithful representation of the entity's financial performance for the period.
30. In developing the proposal in the Exposure Draft paragraph BC44 of the Basis of Conclusions explains the IASB considered whether to require an investor to present dilution gain or loss in profit or loss or in other comprehensive income. The IASB did not identify any reason to require an investor to present the dilution gain or loss in other comprehensive income instead of in profit or loss.

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31. We acknowledge that some investors would not assess dilution gains or losses as part of the main business activity. However, applying IFRS 18 *Presentation and Disclosure in Financial Statements*, an investor applying the equity method would present these gains or losses in the investing category of the statement of profit or loss.
32. In the Exposure Draft, the IASB also proposed to amend IFRS 12 *Disclosure of Interests in Other Entities* to require disclosure of these gains or losses and a reconciliation of the carrying amount of the investments from their opening to their closing balance. This information would allow users of financial statements to assess the impact of the dilution gain or loss on the investor's performance and the change in the carrying amount of the investment. We think that this should mitigate the concern of the Accounting Regulatory Department of China who did not support presenting dilution gains and losses in profit and loss.
33. Therefore, considering the analysis in paragraphs 27–32, we recommend the IASB retain the proposal in the Exposure Draft that if an investor's ownership changes and the investor retains significant influence, an investor shall:
- (a) apply paragraphs 30–31 of the Exposure Draft to an increase in its ownership interest, as if the investor had purchased an additional ownership interest;
  - (b) apply paragraphs 32–33 of the Exposure Draft to a decrease in its ownership interest, as if the investor had disposed of an ownership interest.

### ***Respondents that asked for scope clarification and extension***

#### ***Feedback from comment letters***

34. Some respondents to the Exposure Draft asked that the IASB clarify the scope of the proposal to include other transactions that the proposal does not address. They said that it is unclear whether or how the proposal applies:

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- (a) when an associate's subsidiary issues new shares to a third party (indirect dilutions). In this case, the investor's percentage of ownership does not change, but the investor's share of the associate's consolidated net assets changes. These respondents asked if paragraph 34 of the Exposure Draft would apply to this fact pattern, as paragraph 34 only refers to *other changes in ownership interest*;
- (b) when an associate issues hybrid financial instruments, that, for example, affect dividend distribution but not voting rights;
- (c) when there are multiple ownership changes, including acquisitions and disposals, that occur simultaneously or are linked transactions. For example, an associate might buy back its own shares and then deliver them to the beneficiaries of a share-based payment transaction. In this circumstance, the investor's percentage of ownership increases first and then decreases. These respondents asked whether the investor applies the proposal separately to each change or to their net effect;
- (d) when an investor is party to a transaction in the associate's equity but not proportionally to its previously held interest (partial dilutions). For example, an investor holding a 25% interest in an associate may subscribe for a lower portion of the associate's newly issued shares. In this example, whilst the investor ownership interest in the associate increases, the investor's overall percentage of ownership interest in the associate decreases. The question is whether the investor recognises both an increase and a decrease in its ownership interest or the investor recognises only the net decrease.
35. Respondents to the Exposure Draft mentioned one or more fact pattern, with the indirect dilutions being the most frequently mentioned. Respondents had mixed views on how the IASB should respond. Some of these respondents suggested:
- (a) providing additional guidance or examples to illustrate the application of the proposal to these fact patterns. However, others noted that the requirements should be kept principle-based without creating too detailed guidance.

- (b) excluding these transactions unless the IASB can develop a clear and comprehensive principle to address all fact patterns.
36. Some respondents disagreed with the IASB's decision not to address the accounting during the vesting period for an equity-settled share-based transaction of an associate. These respondents noted that this is the most pervasive fact pattern and the IASB should not ignore it.

#### *Outreach with accounting firms*

37. After completing the analysis of the comment letters, the staff reached out to some of the large accounting firms. The aim of this outreach was to discuss how widespread are the transactions mentioned in paragraph 34 of this paper are, and possible ways forward.
38. The feedback during these outreach meetings confirmed that the fact patterns mentioned by respondents in comment letters occur frequently, with share-based payment transactions being the most pervasive. Furthermore, the firms said that they have developed guidance on some of these fact patterns but those guidance is not authoritative and therefore cannot be enforced. We understand that the firms' guidance is:
- (a) to recognise the effects of an indirect dilution in the same way as a dilution, and
  - (b) to recognise the share of the associate's share-based expense during the vesting period with the credit side being recognised in the carrying amount of the investment (or in some cases the investor's equity).
39. During the outreach, most of the firms agreed that partial dilutions (see paragraph 34(d) of this paper) should be treated as a net decrease in the ownership interest. However, aggregating simultaneous or linked transactions requires the application of judgment.

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**Possible ways forward**

40. To address the concerns of respondents that asked for scope clarification or an extension of the proposal, in the next paragraphs, we consider three alternative approaches the IASB could consider to that proposed in the Exposure Draft. We explain their implications and their advantages and disadvantages, considering the arguments raised by respondents.
41. The three alternative approaches are:
- (a) reduce the scope of the proposal in the Exposure Draft to the presentation of dilution gains or losses (paragraphs 42–47 of this paper);
  - (b) change the proposal from “changes in the ownership interest” to “changes in the associate’s net assets” (paragraphs 48–60 of this paper); or
  - (c) retain the proposal and clarify its application to some of the fact patterns (paragraphs 61–63 of this paper).

**Alternative A—Reduce the scope of the proposal in the Exposure Draft to the presentation of dilution gains or losses**

42. Dilutions of an ownership interest in an immediate associate occur frequently and their presentation has been a long-standing issue. The IASB could decide that it is sufficient to provide clarity on the presentation of these dilution gains or losses without providing requirements on other fact patterns. This would require the IASB to narrow the application question in paragraph 7 of this paper to:

*How does an investor present dilution gains and losses?*

43. The IASB could achieve this by replacing paragraph 34 of the Exposure Draft with a requirement that *only* states that an investor shall present dilution gains or losses in profit or loss, similar to the requirement in US GAAP.<sup>4</sup>

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<sup>4</sup> Section 323-10-40 *Investee Capital Transactions* of the Codification states: An equity method investor shall account for a share issuance by an investee as if the investor had sold a proportionate share of its investment. Any gain or loss to the investor resulting from an investee's share issuance shall be recognized in earnings.

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44. If the IASB were to proceed with this alternative, it might be better to not use the term dilution. While it is commonly used to refer to a fact pattern where an investor's percentage of ownership is decreased by the associate issuing shares to a third party, we note that IAS 33 *Earnings per Share* defines dilution as:

A reduction in earnings per share or an increase in loss per share resulting from the assumption that convertible instruments are converted, that options and warrants are exercised or that ordinary shares are issued upon the satisfaction of specified conditions.

*Advantages and disadvantages of Alternative A*

45. Alternative A is a practical way to solve the question on the presentation of the dilution gains or losses. Some of the respondents who disagreed with the proposal for changes in ownership interest (see paragraph 19 of this paper) did not explicitly object to the presentation of dilution gains or losses in profit or loss. Alternative A would also provide clarity on a long-standing issue with a solution that is aligned to the prevailing practice in many jurisdictions.
46. However, Alternative A would, in substance, introduce a narrow-scope accounting rule. It would be difficult to explain why the rationale in the Exposure Draft applies only to direct dilutions and not to other changes in the investor's ownership interest. This alternative might create a doubt that the IASB intends investors to use the same rationale to develop their accounting policy for other similar fact patterns. It would also leave unanswered the question in paragraph 34(a) of this paper.
47. In the staff's view, the feedback on the Exposure Draft did not provide sufficient evidence that respondents disagreed with the basis for the proposal and therefore to reduce the scope of the proposal. Consequently, we do not recommend the Alternative A.

***Alternative B—Change the proposal from “changes in the ownership interest” to “changes in the associate’s net assets”***

48. Some of the comments raised on fact patterns in paragraph 34 of this paper are related to the interaction between “changes in ownership interest” and “changes in the associate’s net assets”.
49. The definition of the equity method (see paragraph 22 of this paper) applies to changes in net assets whereas the proposal in the Exposure Draft would apply only to changes in an investor’s ownership interests—arguably this creates a disconnect. This disconnect arises because the definition of the equity method would apply to indirect dilutions because the net assets of the associate change. In contrast, the proposal in the Exposure Draft refers only to changes in ownership interests and therefore would arguably not apply to indirect dilutions.
50. The following table illustrates how different transactions affect an investor’s percentage of ownership interest and the associate’s net assets:

**Table 1: Changes in ownership interest**

	Percentage of ownership interest changes	Percentage of ownership does not change
<b>Associate’s net assets change</b>	Non-proportional subscription or redemption (including dilutions or anti dilutions) “indirect” dilutions	<ul style="list-style-type: none"> <li>• Result for the period</li> <li>• Distribution of dividends</li> <li>• Proportional subscription or redemption</li> <li>• Share warrant issue with cash payment<sup>5</sup></li> </ul>
<b>Associate’s net assets do not change</b>	Purchase or disposal of an ownership interest	Associate’s share-based payment during vesting period <sup>6</sup>

<sup>5</sup> The investor’s percentage of ownership changes when the holder exercises the warrant

<sup>6</sup> The investor’s percentage of ownership changes when the granted instruments vest and are exercised

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51. To solve the disconnect, the IASB could replace “changes in ownership interest” with “changes in the associate’s net assets”. This was the approach in the November 2012 Exposure Draft described in Appendix A of this paper. However, “changes in the associate’s net assets” also include the investor’s share of the associate’s profits or loss and dividends, which IAS 28 has separate requirements for. Some segmentation of the requirements might be needed to clarify that the requirements for “changes in the associate net assets” do not apply the investor’s share of the associate’s profits or loss and dividends.

*Advantages and disadvantages of Alternative B*

52. The advantage of Alternative B (replacing “changes in ownership interest” with “changes in the associate’s net assets”) is that it provides a solution to the presentation of dilutions, including those that occur in subsidiaries controlled by an associate.
53. There are however disadvantages with Alternative B. The first is that the rationale for the proposal in paragraph BC42 of the Exposure Draft is that the effects of these changes are economically the same as the effects of purchases and disposals of an ownership interest. The similarity is evident between purchases/sales and direct dilutions/anti-dilutions as they all change the number of the associate’s outstanding shares and therefore the percentage of the investor’s ownership interest; it is less evident for indirect dilutions, that only change net assets.

54. In our view, replacing “changes in ownership interest” with “changes in the associate’s net assets” would require further research to ensure that we have captured all potential consequences. We think that the IASB would need to consider differentiating between transactions to which the investor is a party to (purchases, disposals, subscriptions and redemptions of the investor’s shares) and transactions to which the investor is not a party to (dilutions and anti-dilutions, including indirect dilutions). For transactions the investor is not a party to, we would recommend requiring recognition of the effects of transactions, regardless of their effect on the investor’s ownership interest, in profit or loss. This is because the rationale for the transaction would be to capture the change in the investor’s share of net assets—an increase in the investment would be treated as an income, and a decrease as an expense.
55. The following table illustrates the effect compared to the proposal in the Exposure Draft:

**Table 2: Changes in ownership interest**

	Increase	Decrease
Exposure Draft	An increase in the ownership interest is treated as a deemed purchase.	A decrease in the ownership interest is treated as a deemed disposal.
Alternative B (transaction the investor is a party to)	An increase in the associate’s net assets is treated as a purchase.	A decrease in the associate’s net assets is treated as a disposal.
Alternative B (transaction the investor is not a party to)	Both an increase or a decrease in the associate’s net assets are recognised in profit or loss.	

56. Finally, it should be noted that in some cases, the investor may be a party only to a part of the transaction. For example, an investor may subscribe to a new share issue for less than its current ownership percentage. In this scenario, Alternative B might require the investor to split the transaction between the cash portion and the non-cash dilutive portion.

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57. Another disadvantage of Alternative B is that it would not solve the question about an associate's share-based payment transaction in paragraph 36 of this paper. The issuance of an equity-settled share-based payment does not affect the associate's net assets during the vesting period or an investor's ownership interest.
58. In the staff's view, replacing "changes in ownership interest" with "changes in the associate's net assets" has limited advantages (clarifying the inclusion of "indirect" dilutions) and would require further research. Consequently, we do not recommend Alternative B.
59. In developing Alternative B, the staff did consider an Alternative B1. Alternative B1 would attempt to resolve this disconnect by clarifying that "changes in ownership interest" are not limited to changes in ownership interests and include changes in the economic ownership (economic ownership would include changes in net assets). However, the introduction of economic ownership is likely to create additional application questions and would require the IASB to either define the term or provide guidance on how to apply the term.
60. Furthermore, equity instruments may carry different rights (voting rights, preference in dividend distribution or liquidation) and the introduction of the term economic ownership might raise questions about how to apply the equity method when there are different classes of equity instruments. The IASB previously decided that it would not consider these questions in the scope of this project. Consequently, the staff also dismissed Alternative B1.

***Alternative C—Confirm the proposal and clarify its application to some of the fact patterns***

61. Alternative C would ask the IASB to confirm the proposal in the Exposure Draft and clarify its application by adding guidance to illustrate how the proposal applies to some of the fact patterns raised in paragraph 34 of this paper.

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62. Alternative C would allow the IASB to answer some of the questions raised in paragraph 34 of this paper without requiring a change in the proposal. However, guidance and/or illustrative examples would only cover some but not all fact patterns.
63. We recommend Alternative C to the IASB, that is to clarify its application to some of the fact patterns in paragraph 34. Should the IASB decide to proceed with Alternative C, we would recommend guidance on “indirect” dilutions using an illustrative example, and possibly on “partial” dilutions. The example could cross-reference the guidance on implementing IAS 1 *Presentation of Financial Statements* (now incorporated in IFRS 18) that clarifies that the share of the profit of associates is after tax and non-controlling interests in the associates.

## Other issues

64. The remaining section of the paper addresses three topics from the feedback on the Exposure Draft:
- (a) associate’s share-based payments (paragraphs **Error! Reference source not found.**65–71 of this paper);
  - (b) hybrid instruments and classes of shares (paragraphs **Error! Reference source not found.**72–74 of this paper); and
  - (c) combining transactions (paragraphs **Error! Reference source not found.**75–80 of this paper).

### ***Associate’s share-based payments***

65. As noted in paragraph 36 of this paper, some respondents asked the IASB to reconsider addressing the application question how an investor accounts for an associate’s share-based payment transaction during the vesting period. Applying the requirements in IFRS 2 *Share-based Payment*, during the vesting period the associate recognises an expense and a corresponding adjustment to its equity.

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66. Paragraph 10 of IAS 28 requires an investor to recognise its share of the associate's profit or loss but it is unclear where the corresponding entry for the share-based expense recognised in the associate's profit and loss should be recognised. From our outreach with the large accounting firms, we understand that in practice many investors adjust the carrying amount of the investment (although some may recognise the credit in equity).
67. We think there are some concerns about recognising the credit in the carrying amount of the investment:
- (a) it is not clear what the decrease in the carrying amount of the investment is meant to depict, since there is no change in the investor's share of the associate's net assets. The granted instruments are potentially dilutive, but the dilution may also not happen if the instruments are forfeited or not exercised.
  - (b) if the instruments do not vest for failure to meet a market condition, IFRS 2 does not permit reversing the cumulative expense. In this circumstance, we think the investor should adjust its share of the associate's profit or loss in that period to reflect the fact that there has been no dilution.
  - (c) the share of the expense measures the services provided by the associate's employees, not the effect of the future dilution. The share of the expense is determined in accordance with the requirements in IFRS 2, while the effect of the future dilution would be measured based on the change in the investor's share of the associate's net assets. The two amounts (the investor's dilution loss and the investor's cumulative share of the share-based payment expense recognised by the associate) are unlikely to be the same. We understand that some would 'true-up', or 'true-down' the cumulative expense when the instruments are exercised.
68. However, there might be similar concerns with other possible solutions, such as recognising the corresponding entry in equity or eliminating the share-based expense from the investor's share of the associate's profit or loss.

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69. The cause of these issues is that the equity method requires an investor to recognise its share of the associate's profit or loss and changes in net assets. The associate's accounting for an equity-settled share-based payment affects only the first item.
70. Solving the conflict might require a change in the definition of the equity method, this would go beyond the scope of the project. However, the feedback indicates that accounting requirements for share-based payments is a pervasive issue and considering that the practice seems consistent, the IASB could introduce a requirement for how an investor accounts for an associate's share-based payment during the vesting period. We recognise that the IASB would need to specify that the requirement would only apply to share-based payments and cannot be analogised to other fact patterns such as the associate issuing share warrants. We also recognise that this would be a rule-based requirement.
71. Given the feedback we recommend the IASB respond to the request and add a requirement that, during the vesting period of an equity-settled share-based payment transaction, an investor recognises its share of the expense and a corresponding adjustment to the carrying amount of the investment.

### ***Hybrid instruments and classes of shares***

72. As noted in paragraph 34(b) of this paper, a few respondents raised an issue about a fact pattern in which an associate issues hybrid instruments such as preference shares. In this case, the investor's share of the associate's net assets may change but not its percentage of voting rights. We understand that the question is on which basis, in applying the proposal, the investor would determine if its ownership interest has changed or how to determine the change in its share of the associate's net assets.

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73. When an associate has issued different classes of shares, there are other questions that could arise on how to apply the equity method. For example, paragraph 10 of IAS 28 requires an investor to recognise its share of profit or loss of the investee after the date of acquisition; paragraph 32 requires an investor to determine its share of the net fair value of the associate's identifiable assets and liabilities. If the associate has different classes of shares or instruments with different rights in relation to dividends and assets in liquidation, the investor needs to apply its judgment to these requirements.
74. We do not recommend the IASB add guidance on the question in paragraph 34(b) of this paper as this could not be answered in isolation—the IASB would have to assess and provide comprehensive requirements for different classes of shares. Moreover, we have not heard pervasive concerns about the topic.

### ***Combining transactions***

75. As noted in paragraph 34(c) of this paper, some respondents noted that investors may engage in separate transactions with the purpose to achieve a specific outcome. For example:
- (a) an associate buys back its shares and subsequently grants some or all these shares to its employees to settle a share-based payment transaction. The investor's ownership interest first increases and subsequently decreases.
  - (b) an associate issues shares to its employees to settle a share-based payment transaction and the investor purchases shares. The investor's ownership interest first decreases and subsequently increases.
76. The respondents noted that when looking at the combined effect of the transactions, the investor's ownership interest may change little or even stay the same. These respondents were concerned that the proposal would require separately recognising a purchase and a disposal. They consider that this would not depict the economic substance of the combined transactions.

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77. Other IFRS Accounting Standards require an entity to consider the combined effects of separate transactions or events, for example:
- (a) paragraph 17 of IFRS 15 *Revenue from Contracts with Customers* requires an entity to combine two or more contracts entered into at or near the same time with the same customer (or related parties of the customer) and account for the contracts as a single contract if one or more of the following criteria are met:
    - (i) the contracts are negotiated as a package with a single commercial objective;
    - (ii) the amount of consideration to be paid in one contract depends on the price or performance of the other contract; or
    - (iii) the goods or services promised in the contract are a single performance obligation.
  - (b) paragraph 4.2.2. of IFRS 9 *Financial Instruments* permits an entity, at initial recognition, to irrevocably designate a financial liability as measured at fair value through profit or loss when doing so results in more relevant information because either:
    - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains or losses on them on different bases; or
    - (ii) a group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis.
78. We acknowledge the point raised by the respondents. However, in the examples discussed it is difficult to identify a combining criterion (beyond the single objective) because:
- (a) there might not be a contractual link between the different transactions (that is, the different transactions might not have been negotiated as a single package).
  - (b) the timing of the transactions is not necessarily close.

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- (c) different entities may be part to the transactions. For example, in the fact pattern described in paragraph 61(b) of this paper, the first transaction occurs between the associate and its employees; the second transaction occurs between the investor and other shareholders.
79. We think that developing guidance for when an investor could combine transactions would require additional outreach to identify and assess the different fact patterns in practice. We would not recommend the IASB pursue that. We think that combining separate transactions is a matter of judgement and would depend on the specific facts and circumstances.
80. We do not recommend that the IASB add requirements or guidance on when an investor could combine transactions.

### **Staff recommendation and question for the IASB**

81. The staff's recommendation is that the IASB:
- (a) retains the proposal that if an investor's ownership interest changes and the investor retains significant influence, an investor shall:
    - (i) apply paragraphs 30–31 of the Exposure Draft to an increase in its ownership interest, as if the investor had purchased an additional ownership interest;
    - (ii) apply paragraphs 32–33 of the Exposure Draft to a decrease in its ownership interest, as if the investor had disposed of an ownership interest.
  - (b) clarifies how to apply the proposals by providing illustrative examples of some fact patterns.

- (c) introduces a requirement that, during the vesting period of an equity-settled share-based payment transaction, an investor recognises its share of the expense and a corresponding adjustment to the carrying amount of the investment.

82. We do not recommend that the IASB:

- (a) provides an exemption for transactions that the investor is not a party to, including those that do not occur in an immediate associate.
- (b) introduces requirements on hybrid instruments.
- (c) introduces requirements on when an investor could combine transactions.

#### Questions for the IASB

- (a) Does the IASB agree with the staff recommendation in paragraph 81 of this paper?
- (b) Does the IASB agree not to consider further the topics in paragraph 82 of this paper?

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## Appendix A—History of the 2012 Exposure Draft

- A1. In November 2012, the IASB published for comment the [Exposure Draft \*Equity Method: Share of Other Net Asset Changes\*](#) (proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*). The proposed amendment aimed to respond to diversity in practice that had arisen because of a lack of guidance on how to apply the equity method to certain transactions entered into by an equity-accounted investee. This lack of guidance had arisen as an unintended consequence from a consequential amendment made to IAS 28 when IAS 1 *Presentation of Financial Statements* was revised in 2007.
- A2. As a result of the consequential amendment to IAS 28 referred to in paragraph A1, paragraph 10 of IAS 28 is unclear on the accounting for changes in the investor's share of the investee's net assets other than the investor's share of the investee's comprehensive income or distributions received ('other changes in the investor's share of the investee's net assets').
- A3. Consequently, the IASB proposed to require an investor to:
- (a) recognise, in the investor's equity, the other changes in the investor's share of the investee's net assets; and
  - (b) reclassify to profit or loss the cumulative amount of those other changes previously recognised in equity, when the investor discontinues the use of the equity method.
- A4. Feedback on the proposals in the 2012 Exposure Draft was mixed. Most respondents agreed that an investor should recognise its share of the other changes in the associate's net assets. The majority of respondents disagreed with the proposal to present those changes in the investor's equity (approximately 75% of respondents). The main arguments were:

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- (a) the proposed accounting was with the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 1 *Presentation of Financial Statements*. An investee is not part of the consolidated group as defined in Appendix A of IFRS 10 and thus the investee's other net asset changes are excluded from 'owner's transactions' that are presented within equity under IAS 1;
- (b) the proposed amendment was inconsistent with paragraph 4.25 of the *Conceptual Framework*. According to the respondents, a credit meets the definition of income because it does not arise from contributions from equity participants. Similarly, a debit meets the definition of expenses because it does not arise from distributions to equity participants;
- (c) the equity method of accounting should not be regarded as a one-line consolidation because not all consolidation procedures are applied for the purpose of the equity method;
- (d) the accounting should be consistent between indirect increases or decreases in the investor's share of the investment (deemed transactions) and the purchase or disposal of the investment (direct transactions), because they are economically similar.
- A5. At its July 2013 meeting, the IFRS Interpretation Committee (the Committee) discussed the feedback on the 2012 Exposure Draft and noted that:
- (a) under the equity method, the investor accounts for the share of the other net asset changes in carrying amount of its investment if such changes arise.
- (b) a change in the carrying amount of the investment caused by the other net asset changes is an increase or decrease in the investor's assets and is not related to contributions from, or distributions to, equity participants.
- Consequently, the Interpretations Committee noted that, from an investor's perspective, other net asset changes of an investee meet the definition of income and expenses as set out in the *Conceptual Framework*. In addition, the Committee noted that the other net asset changes represent performance of the investor's investments.

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- (c) the other net asset changes of the investee are economically similar to direct acquisitions or disposals of investments and thus they should be accounted for similarly.
- A6. At its May 2014 meeting, the IASB considered finalising the amendments, but there were insufficient members in favour of approving the amendments. The IASB decided not to proceed with the proposed amendments.

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## Appendix B—Extract from the Basis of Conclusions of the Exposure Draft

### B1. Paragraph BC42 states

In reaching this decision, the IASB considered that, regardless of whether an investor exchanges consideration with an associate in such transactions, the investor should reflect the effect of those transactions on its investment in the associate. As illustrated by paragraph **Error! Reference source not found.**, the investor does not need to be a party to the transaction for the investor's ownership interest (and, therefore, its share of the associate's net assets) to be affected by the associate's share issue or redemption. Paragraph 1.12 of the *Conceptual Framework* explains that general purpose financial statements provide information about the effects of transactions and other events that change a reporting entity's economic resources and claims. The dilution of the investor's ownership interest is an event that changes the investor's economic resources, because the investor has a smaller share of a larger pool of the investee's net assets. Such a change could affect, for example, the investor's cash inflows from distributions received from the associate.

### B2. Paragraph BC43 states

The IASB also noted that its proposed approach would be consistent with the definition of the equity method in paragraph 3 of IAS 28, which states that the investment is adjusted for the post-acquisition change in the investor's share of the investee's net assets. Therefore, aligning the requirements in paragraph 10 of IAS 28 with the definition of the equity method would resolve a perceived internal inconsistency within IAS 28.

### B3. Paragraph BC44 states

The IASB also considered whether to require an investor to present a dilution gain or loss in profit or loss or in other comprehensive income. The gain or loss arises from a change in the investor's assets (the investment in the associate) and is, therefore, an item of income or expense. In principle, all income and expenses are included in the statement of profit or loss. The IASB did not identify any reason to require an investor to present the dilution gain or loss in other comprehensive income instead of in profit or loss. Also, requiring an investor to present the gain or loss in other comprehensive income would raise a further question about whether and when to require the investor to reclassify the gain or loss to profit or loss. Furthermore, requiring an investor to present that gain or loss in profit or loss would be consistent with the IASB's proposed approach for other gains or losses arising from the disposal of an interest in an associate.