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## IASB® meeting

Date **May 2026**  
Project **Equity Method**  
Topic **Transactions with associates—Staff analysis of feedback**  
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

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## Purpose of this paper

1. The purpose of this paper is to analyse feedback on the International Accounting Standards Board (IASB)'s proposal in the [Exposure Draft \*Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures \(revised 202x\)\*](#) (the Exposure Draft) related to transactions with associates.
2. The IASB is not asked to make any decisions on this paper. Agenda Paper 13D *Transactions with associates—Ways forward* asks the IASB to decide whether and, if so, how to proceed with its proposals in the Exposure Draft related to transactions with associates. The analysis in this paper forms part of the staff consideration of the alternatives discussed in Agenda Paper 13D.
3. Analysis of the feedback on proposed disclosure requirement is in Agenda Paper 13C *Transactions with associates—Staff analysis of feedback on proposed disclosure requirement*.

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4. 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>

## Structure of this paper

5. This paper includes:
- (a) background (paragraphs 6–17);
  - (b) staff analysis of feedback on the proposal (paragraphs 18–106);
  - (c) question for the IASB; and
  - (d) appendices to this paper:
    - (i) Appendix A—Other application questions; and
    - (ii) Appendix B—The use of the equity method.

## Background

6. The IASB proposed in the Exposure Draft that an investor recognises gains and losses in full resulting from all ‘upstream’ and ‘downstream’ transactions with its associates, including transactions involving the loss of control of a subsidiary (the proposal). Primarily, the proposal resolves the application question:

*How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?*

7. In addition, by removing the restriction of gains or losses from transactions with associates, the proposal resolves six other application questions (see Appendix A of this paper—Other application questions).

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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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8. At its October 2025 meeting, the IASB started to consider the feedback on the proposal.<sup>2</sup>
  9. Most respondents who commented agreed with the proposal. However, there are geographical differences in the response:
    - (a) almost all respondents in the Global, Europe, the Americas, and Africa regions agreed with the proposal; and
    - (b) many respondents in the Asia-Oceania region agreed with the proposal, whereas some respondents (mostly from Japan and China) disagreed.
  10. Respondents who agreed with the proposal said requiring investors to recognise gains and losses in full:
    - (a) provides users with more useful information than that provided by restricting gains and losses;
    - (b) resolves the longstanding inconsistency between IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements*;<sup>3</sup>
    - (c) is consistent with both the *Conceptual Framework for Financial Reporting (Conceptual Framework)* and other IFRS Accounting Standards, because an associate is not within the definition of a group;
    - (d) is simple and less burdensome/costly than the treatment currently required by IAS 28; and
    - (e) resolves other application questions related to the requirement to restrict gains and losses applying IAS 28 (as described in Appendix A of this paper).

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<sup>2</sup> See [Agenda Paper 13B Transactions with Associates](#) of the October 2025 IASB meeting.

<sup>3</sup> If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 *Investments in Associates and Joint Ventures* to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 *Consolidated Financial Statements* to recognise in full the gain or loss on losing control of a subsidiary.

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11. A few respondents who agreed with the proposal cautioned about possible earnings management/structuring opportunities.<sup>4</sup>
  12. Respondents (mostly from Japan and China) who disagreed with the proposal said:
    - (a) the proposed change to the requirements in paragraph 28 of IAS 28 is inconsistent with the project objective, which is to answer application questions without undertaking a fundamental review of the equity method;
    - (b) the requirements in paragraph 28 of IAS 28 are consistent with the view that the equity method is a one-line consolidation method; and
    - (c) the proposal might lead to earnings management/structuring opportunities.
  13. At its meeting in October 2025, the IASB decided to undertake further work to understand the concerns of those who disagreed with the proposals (that is, focusing on Chinese and Japanese stakeholders). The IASB members and staff have also discuss these concerns with other stakeholders.
  14. At its February 2026 meeting, the IASB discussed the feedback from further work undertaken. All groups of Japanese and Chinese meeting participants strongly disagreed with the proposal. In addition to what they said in their comment letters, their primary concerns include:<sup>5</sup>
    - (a) recognition in full of gains or losses from transactions with associates will lead to significant distortions in profits and losses and result in a presentation that is less aligned with the business model of investors.
    - (b) recognition in full of gains and losses from transactions with associates is inconsistent with the fundamental principle that an investor recognises its share of the investee's profit or loss based on its ownership interest. These gains and losses should also be recognised only to the extent of the investor's interest.

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<sup>4</sup> See [Agenda Paper 13C Transactions with associates—consideration of possible earnings management and enhancing disclosures \(or guidance\)](#) of the October 2025 IASB meeting.

<sup>5</sup> See [Agenda Paper 13C Transactions with associates—feedback from further work](#) of the February 2026 IASB meeting.

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- (c) the IASB should not introduce such a fundamental change without undertaking a fundamental review of the equity method. The inconsistency between IAS 28 and IFRS 10 does not justify the need for such fundamental change because sales of businesses to an associate are relatively infrequent.
15. IASB members and staff discussed the feedback from the further work undertaken in paragraph 14 of this paper with some European preparers. The comments of Japanese and Chinese participants did not change these preparers' overall support for the proposal and they continue to agree with the IASB's cost–benefit assessment of the proposal.
16. IASB members and staff also discussed the feedback from the further work undertaken with regulators. Some regulators expressed concerns about earnings management opportunities.
17. At the March 2026 meeting of the Accounting Standards Advisory Forum (ASAF), the IASB sought input from members on some aspects of the feedback from the additional outreach. The IASB sought inputs on:<sup>6</sup>
- (a) the implications of the proposals for users of financial statements; and
  - (b) investors' ability to obtain information from associates and joint ventures for the application of IAS 28 in preparing consolidated financial statements.

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<sup>6</sup> See [Agenda Paper 2 Cover note](#) of the March 2026 ASAF meeting. As at the time the May 2026 IASB papers are posted, the ASAF meeting summary is not yet available.

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## Staff analysis of feedback on the proposal

### **Structure**

18. The staff has grouped feedback into common themes as follows:
- (a) use of the equity method (paragraphs 19–25);
  - (b) consistency with the project objective (paragraphs 26–33);
  - (c) economic substance and business model (paragraphs 34–60);
  - (d) implication to users of financial statements (paragraphs 61–73);
  - (e) communication of performance to shareholders and users of financial statements (paragraphs 74–82)
  - (f) earnings management (paragraphs 83–89);
  - (g) effects on reporting periods (paragraphs 90–94);
  - (h) availability of and access to information (paragraphs 95–99); and
  - (i) cost–benefit assessment (paragraphs 100–106).

### **Use of the equity method**

19. The equity method of accounting as set out in IAS 28 is required for associates held by an investor with significant influence and for a joint venturer's interest in joint ventures where there is joint control. A parent is also permitted to use the equity method in its separate financial statements for investments in subsidiaries.<sup>7</sup>

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<sup>7</sup> IAS 27 *Separate Financial Statements* permits a parent entity to apply the equity method to investments in subsidiaries in the parent's separate financial statements. The issue about the application of the proposal to separate financial statements will be discussed by the IASB in a future meeting.

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20. Investments in associates and joint ventures are widely used investment structures globally. In discussions with stakeholders from China and Japan, they said that the use of such investments is widespread in their jurisdiction; in China, the Accounting Regulatory Department of the Ministry of Finance said that there are over 3,000 listed companies using the equity method in their jurisdiction.
21. Appendix B—The use of the equity method presents research on the global use of the equity method, focussing on listed companies that prepared their financial statements in accordance with IFRS Accounting Standards. Based on that research, the staff observed:
- (a) a vast majority of G20 economies have listed companies where the equity method is used for investments in associates and joint ventures. For example, more than half of the listed companies in Japan (68%), South Africa (56%), Argentina (52%), China (52%), and about half of the listed companies in France (50%), South Korea (50%), Germany (49%) and Mexico (48%).
  - (b) the extent to which investments in associates and joint ventures as:
    - (i) a proportion of total assets varies. For example, 6% in South Africa, and 4% in Japan, South Korea, Russia and Germany, while it is 1% in China, the United Kingdom, France and Italy.
    - (ii) a proportion of share of the investee's profit or loss to total revenue varies. For example, 3% in South Africa, 2% in Argentina and about 0.8% in Japan and the United Kingdom.
22. The research in paragraph 21 of this paper suggests that, irrespective of how the IASB moves forward with this proposal, the outcome of the project would have varying effects across jurisdictions. Accordingly, receptiveness to the outcome of the redeliberation is likely to differ among jurisdictions.
23. Investors use investment structures to serve a particular business purpose, taking into consideration regulatory requirements. Attempting to respond to the feedback on the proposal by considering the different purposes for which an investor structures its

business activities using associates or joint ventures could require tailoring the equity method. This would likely result in multiple versions of the equity method.

24. Permitting multiple versions of the equity method would be unlikely to meet the needs of users of financial statements or preparers of financial statements, as this would add complexity. Therefore, multiple versions of the equity method would be inconsistent with the objective of the project to reduce diversity in practice. Furthermore, such an approach would expand the project beyond its scope and extend the time needed to complete the project.

#### *Staff conclusion*

25. In analysing the feedback and considering the ways forward for the project (see Agenda Paper 13D) the staff assumed that retaining a single version of the equity method for associates and joint ventures is the IASB's preferred solution. Nevertheless, this consideration does not imply the same requirements for the recognition of gains and losses on all transactions with associates and joint ventures.

#### ***Consistency with the project objective***

#### *Feedback*

26. Stakeholders who disagreed with the proposal said:
- (a) the proposal is inconsistent with the project objective to answer application questions without undertaking a fundamental review of the equity method. Therefore, the IASB should not introduce such a fundamental change without undertaking a fundamental review of the equity method.
  - (b) the inconsistency between IAS 28 and IFRS 10 does not justify such a fundamental change because sales of businesses to an associate are relatively infrequent.

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27. Respondents who agreed with the proposal said the proposal resolves the longstanding inconsistency between IAS 28 and IFRS 10 and other application questions related to the requirement to restrict gains and losses under IAS 28 reducing diversity in practice.
28. At its March 2025 meeting, ASAF members were asked for their views on the project's objectives and approach. Key messages from ASAF members were as follows:<sup>8</sup>
- (a) most ASAF members supported finalising the project as scoped; that is, to reduce diversity in practice by answering application questions. These ASAF members also said the project would improve the understandability and comparability of financial statements.
  - (b) some ASAF members said a fundamental review of the equity method could be considered in the fourth agenda consultation.

### *Staff analysis*

29. In deciding on the project approach, at its October 2020 meeting the IASB decided not to undertake a fundamental review of the equity method. The IASB decided instead to focus on:<sup>9</sup>
- (a) identifying application problems and deciding which of these problems to address.
  - (b) addressing these application problems by identifying and explaining the principles that underlie IAS 28. Identifying and explaining these principles may also help the IASB develop new requirements, new application guidance or other amendments to the Standard.

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<sup>8</sup> See [March 2025 ASAF summary](#).

<sup>9</sup> See [Agenda Paper 13 Project objective and approach](#) of the October 2020 IASB meeting.

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30. Paragraph 28 of Agenda Paper 13 of October 2020 meeting noted:
- ... this approach goes further than the work of the Interpretations Committee, because it intends to build on principles in the Standard and develop new requirements or application guidance.
31. Paragraph BC16 of the Basis for Conclusions on the Exposure Draft explains how the IASB applied the project approach when an application question was not directly addressed by the principles identified as underlying IAS 28. In such cases, the IASB analogised to the principles in IAS 28 where possible and, if necessary, applied the requirements in IAS 8 *Basis of Preparation of Financial Statements* for developing an accounting policy. Paragraphs BC63–BC84 of the Basis for Conclusions on the Exposure Draft describe how this approach was applied in developing the proposal (see Appendix A of Agenda Paper 13 *Cover note*—Principles identified as underlying IAS 28).

*Staff conclusion*

32. Paragraphs 29–31 of this paper explain the project approach; we do not think the project approach prohibits the IASB from changing the current requirements in IAS 28. Although the IASB decided not to undertake a fundamental review of the equity method it did not limit itself to resolving the application questions in the scope of the project solely by applying the principles in IAS 28. Consequently, the project approach could introduce changes into the requirements in IAS 28 without undertaking a fundamental review of the equity method.
33. The proposal solves the application question on the inconsistency between IFRS 10 and IAS 28. Unless the IASB decides not to resolve that application question, addressing the inconsistency will change the current practice of at least some investors. That is, if the IASB resolves the question there is likely to be a change for some investors. The staff understands that any change in current practice is a disruption that could be a concern to jurisdictions, but it is also a consequence of achieving consistency that is a normal outcome of the standard-setting process.

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***Economic substance and business model******Feedback—The equity method and one-line consolidation***

34. Stakeholders who disagreed with the proposal argued that the requirements in IAS 28 to restrict gains and losses from transactions with associates are consistent with viewing the equity method as a one-line consolidation method. In their view, the equity method as a one-line consolidation provides investors with comparable information across different investment structures. For example, one meeting participant from Japan noted that investments in associates, joint ventures and subsidiaries are managed without distinction; that is, there are similar business transactions, and all investments operate under the same governance procedures.

***Staff analysis***

35. Although paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to consolidation procedures in IFRS 10, this in itself does not imply that all of the procedures in IFRS 10 should be applied. For example, applying the equity method:
- (a) an investor does not eliminate gains and losses from transactions in full—only to the extent of its own interest in the associate. In consolidated financial statements, profit or losses from intragroup transactions are eliminated in full even when a subsidiary is less than wholly-owned (for example, a parent with a 75%-owned subsidiary, intra group sales are eliminated in full whereas for an investor with a 40%-owned associate, the recognition of gain or loss is restricted to 60%).
  - (b) an investor ceases recognition of its shares of losses when the carrying amount of its investment is nil. In consolidated financial statements, an entity shall attribute the profit or loss and each component of other comprehensive income to the owners of the parent and to the non-controlling interests. The entity shall also attribute total comprehensive income to the owners of the parent and to

the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

- (c) goodwill is included in the carrying amount of the investment (it is not recognised as a separate asset) and is not tested for impairment separately. In consolidated financial statements, a parent recognises goodwill as an asset and is tested for impairment annually.

36. Furthermore, in developing the *Conceptual Framework*, the IASB did not, among other topics, address the equity method of accounting. The IASB concluded this would best be dealt with if it were to carry out projects to consider revising Standards on these topics (see paragraph BC0.17 of the Basis for Conclusions on the *Conceptual Framework*).

*Feedback—A fundamental principle of IAS 28 is that an investor recognises its share of the investee’s profit or loss based on its ownership interest*

37. Stakeholders who disagreed with the proposal said that restricting gains and losses to the extent of an investor’s unrelated interest is consistent with what they consider a fundamental principle of IAS 28—that an investor recognises its share of the investee’s profit or loss based on its ownership interest.

#### *Staff analysis*

38. The staff acknowledges the view that IAS 28 includes a fundamental principle that ‘an investor recognises its share of the investee’s profit or loss based on its ownership interest’. In developing the Exposure Draft, the IASB identified Principle E (see Appendix A of Agenda Paper 13):

An investor recognises changes in an associate’s or joint venture’s net assets. An investor recognises the share of changes in net assets that it can currently access.

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39. Stakeholders who hold the view in paragraph 37 of this paper appear to link the requirement to restrict gains and losses with the requirement to recognise the investor's share of the associate's profit and loss. In the staff's view, this linkage is conflating two aspects of the equity method.
40. Principle E states an investor recognises changes in an associate's net assets. Although this includes the investor's share of the associate's profit or loss, it does not extend to restricting gains and losses to the extent of the investor's unrelated interest. Transactions with associates do not change, in themselves, the associates' net assets. The adjustment to restrict gains and losses on transactions with associates is made as part of applying the equity method, rather than from a requirement for the investor to reflect changes in the associate's net assets.

*Feedback—Restricting gains and losses reflects the economic substance of transactions*

41. Stakeholders who disagreed with the proposal said that restricting gains and losses reflects the economic substance of transactions with associates which have the same role as subsidiaries in their business models.
42. Respondents who agreed with the proposal said that the proposal is consistent with the *Conceptual Framework* and other IFRS Accounting Standards because an associate is not within the definition of a group (some stakeholders who disagreed with the proposal noted that the *Conceptual Framework* excluded the equity method during its development). Therefore, there is no conceptual reason to restrict gains and losses.

*Staff analysis*

43. Some stakeholders said that the different feedback from jurisdictions is due to different ways in which associates are used in the business models of investors. Equity-accounted investments may serve a different purpose for an investor. For example, the investments may be held for capital appreciation purposes akin to an investor holding a financial instrument within the scope of IFRS 9 *Financial*

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*Instruments*; other investments might be integral to the investors' business model; for example, a joint venture created to extract oil and gas.

44. As noted in paragraph 41, stakeholders that said restricting gains and losses reflects the economic substance of transactions with associates which have the same role as subsidiaries in their business models. Implicit in this view is that associates are within the boundary of the reporting entity.
45. In developing the Exposure Draft, the IASB identified two principles underlying IAS 28 related to the boundary of the reporting entity:
- (a) Principle B: Application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in the investor's statement of financial position; and
  - (b) Principle C: An investor's share of an associate's or joint venture's net assets is part of the reporting entity.
46. The *Conceptual Framework* explains that control over another entity determines the boundary of the reporting entity when preparing consolidated financial statements. In a group (defined in IFRS 10 as a parent and its subsidiaries), the parent controls its subsidiaries and, therefore, their assets and liabilities. Consequently, consolidated financial statements present the parent and its subsidiaries as a single economic entity and gains or losses on transactions with its subsidiaries are eliminated.
47. It is true that in developing the *Conceptual Framework*, the IASB did not consider whether and how the economic entity perspective or the reporting entity concept could affect the use of the equity method (see paragraph BC5(a) of the Basis for Conclusions on the Exposure Draft). However, as stated in paragraph BC3.26 of the Basis for Conclusions on the *Conceptual Framework*:

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... The [2010 Exposure Draft](#) [that led to the development of the *Conceptual Framework*] stated that joint control and significant influence do not give rise to control. The Board still agrees with that conclusion but sees no need to embed the notions of joint control and significant influence in the *Conceptual Framework*.

48. Consistently, the IASB observed in paragraph BC80 of the Basis for Conclusions on the Exposure Draft that it is unclear why IAS 28 requires the investor's share of gains or losses on transactions with associates to be eliminated. Eliminating intercompany assets and liabilities, equity, income, expenses and cash flows is conceptually well grounded in presenting consolidated financial statements. However, as associates are not within the boundary of the reporting entity, restricting gains and losses on transactions with associates cannot rely on the same reasoning.
49. Accordingly, IFRS Accounting Standards are clear that a subsidiary is within the boundary of the reporting entity whereas associates are not, albeit the investment in associate is included in the consolidated financial statements.
50. Furthermore, we do not consider the statements in paragraphs 47–48 to conflict with either the proposal or Principles B and C. An investor's share of an associate's net assets is part of the reporting entity, reported in the financial statements as part of the carrying amount of the investment; changes in the measurement of the investment include changes in the investor's share of the associate's net assets. They do not imply that associates themselves are within the boundary of the reporting entity.

***Feedback—Concept of 'realised' gains and losses in IFRS Accounting Standards***

51. Stakeholders who disagreed with the proposal said that gains and losses on transactions with associates are realised in full only when goods are transferred to an unrelated party.

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*Staff analysis*

52. The concept of ‘realised’ and ‘unrealised’ gains and losses is common in many jurisdictions, particularly for tax purposes and dividend distributions. For example, a jurisdictional regulation may say a gain is ‘realised’ when an item of property, plant and equipment is sold or transferred to another party (usually an unrelated party), or when a transaction is settled and the entity receives cash.
53. Stakeholders who raised this concern assert that an investor would realise, in full, the gains from transactions with associates only when the related goods are transferred to an unrelated party.
54. ‘Realised’ and ‘unrealised’ gains are used in IFRS Accounting Standards but in a different context. That is, unrealised gains and losses in IFRS Accounting Standards seem to be referring to the remeasurement of assets and liabilities and not whether a transaction has been realised in the same meaning as what some stakeholders suggest. For example:
- (a) IFRS 13 *Fair Value Measurement* (paragraph 92(f))—for Level 3 measurement, entities are required to disclose the amount of the total gains or losses included in profit or loss attributable to the change in unrealised gains or losses relating to assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss where those unrealised gains or losses are recognised.
  - (b) IAS 7 *Statement of Cash Flows* (paragraph 28)—guidance on foreign currency cash flows. Unrealised gains and losses arising from changes in foreign currency exchange rates are not cash flows.
  - (c) IAS 19 *Employee Benefits*—as part of the definition of the return on plan assets; that is, interest, dividends and other income derived from the plan assets, together with realised and unrealised gains or losses on the plan assets.

- (d) IAS 28 (paragraph 30)—guidance on non-monetary asset contribution to an associate or a joint venture. If such a contribution lacks commercial substance, the gain or loss is regarded as unrealised and is not recognised. Such unrealised gains and losses shall be eliminated against the investment and shall not be presented as deferred gains or losses in the entity's statement of financial position.
55. Those that hold the view that gains and losses on transactions with associates are realised in full only when goods are transferred to an unrelated party appear to think that associates are within the boundary of the reporting entity. However, this would imply that the restriction of gains or losses in consolidated financial statements should not be limited to the investor's unrelated ownership interest but rather to the full gain or loss because the asset, in itself, is retained within the reporting entity.
56. Furthermore, we note that the reason the effects of transactions between a parent and its subsidiary are eliminated in full is because consolidated financial statements present the group as a single economic entity therefore intra-group transactions are eliminated. The reason for eliminating gains and loss is therefore not related to whether the gain or loss is realised.
57. Consequently, the staff thinks that even if the associate were considered to be within the boundary of the reporting entity this again would imply the restriction of gains or losses should not be limited to the investor's ownership interest.

### *Staff conclusion*

58. Paragraphs 34–57 of this paper discuss the feedback that the proposal is not consistent with the economic substance of transactions with associates and therefore does not reflect the investor's business model. The staff acknowledges that, in practice, some investors manage associates, joint ventures and subsidiaries as part of an integrated business model and may perceive transactions with associates as economically similar to transactions within a group. However, IFRS Accounting Standards draw a clear distinction between control, joint control and significant influence. Only control

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establishes the boundary of the reporting entity and justifies presenting the parent and its subsidiaries as a single economic entity.

59. In developing IFRS 18 *Presentation and Disclosure in Financial Statements*, the IASB considered whether to require an entity to distinguish between integral and non-integral associates and joint ventures and the related subtotal in the statement of profit or loss. The IASB decided not to do so. As discussed in paragraph BC117 of the Basis for Conclusions on IFRS 18, many users of financial statements said the separate identification of integral and non-integral associates and joint ventures (described in paragraph BC116(a)) and the proposed subtotal (described in paragraph BC116(c)) would not provide useful information. Some stakeholders also raised concerns about how to identify ‘integral’ and ‘non-integral’ associates and joint ventures, which would have been difficult to resolve. These stakeholders said separately identifying associates and joint ventures that are ‘integral’ and ‘non-integral’ would be subjective, leading to complexity and diversity, or even to opportunistic application of such a requirement.
60. The proposal is conceptually consistent with the requirements of IAS 28, the principles identified as underlying the Standard (see Appendix A of Agenda Paper 13), and the *Conceptual Framework*. Although the equity method shares procedural similarities with consolidation, these similarities do not override the fundamental distinction that associates are not within the boundary of the reporting entity. Accordingly, the proposal appropriately reflects the economic effects of transactions with associates without extending consolidation concepts beyond their intended scope.

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***Implication to users of financial statements******Feedback—Transactions with associates are different from transactions with unrelated parties***

61. Stakeholders who disagreed with the proposal said that users of financial statements:
- (a) generally view transactions with associates as different from transactions with unrelated parties; and
  - (b) analyse consolidated performance based on the assumption that gains and losses are restricted until assets are sold to third parties.

***Staff analysis***

62. The staff agrees that transactions with associates are different from those with unrelated parties because associates are related parties of the investors, as defined in IAS 24 *Related Party Disclosures*. In developing IFRS 18, many users of financial statements said all income and expenses from such investments should be excluded from the operating category—regardless of whether the activities of associates or joint ventures are integral to an entity’s main business activities. The IASB decided to require an entity to exclude from the operating category all income and expenses from associates and joint ventures accounted for using the equity method to better align with the way users of financial statements use information to analyse investments in associates and joint ventures (see paragraphs BC114–BC115 of the Basis for Conclusions on IFRS 18).
63. IAS 24 requires disclosures about related party transactions, including the nature of relationship and the amount of transactions. However, IAS 24 does not require disclosures about gains and losses arising from such transactions. Outreach with users of financial statements, and some ASAF members, indicated there is little, if any, information disclosed about restricted gains and losses disclosed in financial statements.

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64. Paragraph BC72 of the Basis for Conclusions on the Exposure Draft explained the IASB's feedback on how users evaluate financial statements:
- (a) if users assess the associate's contribution as significant, users generally evaluate the associate separately. Valuation will be based on the associate's financial statements, if available, which do not restrict gains or losses for transactions between an investor and its associate.
  - (b) if users assess the associate's contribution as insignificant, users will often rely on information about the associate's earnings as reported in the investor's financial statements. These earnings will, when applicable, restrict gains or losses for transactions between an investor and its associate.
65. In addition, at its March 2026 meeting ASAF members were asked whether entities disclose information in financial statements about restricted gains and losses in their jurisdiction considering the feedback in paragraph 61 of this paper. The staff wanted to understand what information is currently available to users of financial statements about restricted gains and losses.
66. Many ASAF members said that there is little to no information disclosed in financial statements about restricted gains and losses on transactions with associates. Some ASAF members said that this could be because those amounts are not material in the financial statements. One ASAF member, who agreed with the proposal, said that the share of the profit or loss of associates and joint ventures is a 'black box'; users are looking for information outside of the financial statements to help them analyse entities that have such investments (see paragraphs 12–13 of Agenda Paper 13C).

### *Staff conclusion*

67. Considering paragraphs 62–66 of this paper, the staff thinks while users may evaluate performance based on an assumption that gains and losses are restricted until assets are sold to unrelated parties, there is little (if any) information disclosed about these gains or losses. Therefore, it is difficult to understand how users of financial statements can evaluate the effects of transactions with associates when little, if any,

information is disclosed about these transactions. They might, for example, use the disclosures in IAS 24 and apply an average profit margin to evaluate the effects on profitability of an associate, however, without more in-depth information about actual gains and losses, at best, these would be broad estimates.

### *Feedback—Estimating future cash flows*

68. Stakeholders who disagreed with the proposal said that:
- (a) the argument that full recognition of gains and losses brings accounting profits closer to cash flows and therefore aids in estimating an entity's future cash flows is unconvincing because neither full nor restricted recognition affects actual cash flows; and
  - (b) a credit side user said it would distort their analysis about asset valuation.
69. For some of the stakeholders in paragraph 68 of this paper, users of financial statements in their jurisdiction find the information being reported applying the current requirements in IAS 28 to be sufficient to meet their information needs.
70. Respondents who agreed with the proposal said that the proposal provides users with more useful information. For example, it would ensure consistency on how gains and losses are recognised for all transactions and enable better estimation of future cash flows when analysing the associates' performance.

### *Staff analysis*

71. The staff agrees that the recognition of gains and losses (whether full or restricted) does not affect actual cash flows. However, recognising gains and losses in full results in a profit or loss that more closely reflects actual cash flows. Users of financial statements said that recognising gains and losses in full, with disclosure of gains and losses, improves transparency and will help in estimating future cash flows.

72. To illustrate paragraph 71 of this paper, assume an investor had a downstream sale of inventories with its 20%-owned associate. The revenue amounted to CU100,000 (with cost of sales of CU60,000 and a gross profit of CU40,000). Table 1 presents the effects of this transaction focusing only on cash flows and earnings.

Table 1—Illustration of the effects on cash flows and earnings

	<b>Proposal</b>	<b>IAS 28 requirements<sup>10</sup></b>
Cash inflows	CU100,000	CU100,000
Revenue	CU100,000	CU80,000
Cost of sales	CU60,000	CU48,000
Gross profit	CU40,000	CU32,000

*Staff conclusion*

73. The staff observes that full recognition of gains and losses, compared to restricted recognition, helps users to make better estimation of future cash flows when analysing the associates' performance. Nevertheless, the staff acknowledges that for some jurisdictions, users of financial statements find the current information being reported applying the requirements in IAS 28 to be sufficient to meet their information needs.

***Communication of performance to shareholders and users of financial statements***

*Feedback*

74. Stakeholders who disagreed with the proposal said that:
- (a) in Japan, for some reporting entities up to half of their consolidated profit or loss is attributable to associates and joint ventures. Therefore, operating profit (before share of the profit or loss from associates) is insufficient to explain their financial performance. Voluntary disclosures, including segment reports,

<sup>10</sup> IAS 28 does not specify where an investor adjusts the restrictions of gains or losses from transactions with associates. For purposes of this illustration, it is assumed that those adjustments are made against the related specific line items in the statement of comprehensive income.

often disclose profit or loss attributable to shareholders to help users of financial statements understand the entity's performance. In these stakeholders' view, the proposal would change the amount presented in the financial statements as profit or loss from investments in associates and joint ventures, substantially affecting current performance metrics monitored by users of financial statements and management.

- (b) users of financial statements focus on profit or loss attributable to shareholders and rarely ask questions about other subtotals such as operating profits.
  - (c) users of financial statements analyse consolidated profit or loss on the assumption that the accounting treatment for subsidiaries and investments accounted for using the equity method are comparable.
75. Many ASAF members said that depending on the purpose of their analysis, users of financial statements in their jurisdictions focus on profit or loss attributable to shareholders of the parent entity and group operating profit or loss in the consolidated financial statements. A few ASAF members said that users in their jurisdictions focus on profit or loss attributable to shareholders of the parent entity.
76. A few ASAF members also said that in their jurisdictions, in restricting the gains or losses from transactions with associates, investors usually adjust the share of the profit or loss of associates and joint ventures instead of the related line items in the statement of comprehensive income.

### ***Staff analysis***

77. The IASB's *Conceptual Framework* uses the reporting entity concept whereby financial statements provide information about the reporting entity as a whole; information is not viewed from the perspective of a particular group of the entity's existing or potential investors, lenders or other creditors. Some IFRS Accounting Standards focus on profit attributable to shareholders of the parent entity, for example IAS 33 *Earnings per Share* requires calculating the earnings per share attributable to ordinary equity holders of the parent entity.

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78. IFRS 18 requires an entity to present operating profit or loss. Except in specified cases, IFRS 18 requires income and expenses from investments in associates and joint ventures to be included in the investing category, the proposal may change the amount of income recognised in the investing category (if the restricted gain or loss is adjusted against share of the profit or loss from associates) or operating profit (if the restricted gain or loss is adjusted against the operating profit line items).
79. The staff thinks that for entities that have stable volumes of transactions and sales margins with associates, the effect of recognising gains and losses on transactions with associates in full on either income recognised in the investing category or operating profit in any one period might not be material. That is, the amount of gain restricted in the current period might not differ materially from the portion of the restricted gain from prior periods being reversed. However, we think that ‘one-off’ transactions such as reorganisations (including the sale of a business) where assets are sold to the associate could have a material effect in the period that the transaction takes place.
80. In addition, investors in communicating performance to users of financial statements may present performance measures (and where necessary, comply with the requirements of IFRS 18 for management-defined performance measures) or provide additional disclosures to help users of financial statements assess their performance.
81. Paragraphs 46–50 of this paper explain why the associates are not part of a group and the implications for comparable reporting with subsidiaries.

### *Staff conclusion*

82. The staff acknowledges that there are different ways for investors to communicate their performance with users of financial statements. However, should the IASB proceed with the proposal, an investor could educate users of its financial statements to understand the implications of the proposal on financial performance or the investor could provide additional disclosures that reflect their business model.

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***Earnings management******Feedback***

83. Some stakeholders (both those who agreed and disagreed with the proposal) expressed the following concerns about earnings management:
- (a) the proposal might lead to earnings management/structuring opportunities.
  - (b) recognition of gains and losses in full creates opportunities to manipulate timing differences. Management might intentionally accelerate or delay transactions to achieve favourable outcomes.
  - (c) because determining whether an investor controls an investee may involve judgement, the proposal could create an incentive to demonstrate an investment is not controlled, especially when the ownership interest is close to 50%.
  - (d) a disclosure requirement would not mitigate an earnings management risk.
84. Some stakeholders who disagreed with the proposal said that the requirements in IAS 28 to restrict gains from transactions with associates could prevent the investor's intention to engage in earnings management.
85. CMAC members expressed different views. A few CMAC members shared the same concern that the proposal would increase the risk of earnings management. Whereas, a few CMAC members commented that the risk of earnings management is the same regardless whether the gains and losses are recognised in full or restricted.

***Staff analysis***

86. The staff agrees that accounting standards should not create earnings management opportunities. Nevertheless, the staff also observes that structuring of a transaction to achieve a particular accounting cannot be eliminated entirely.

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87. IAS 28 does not set out recognition and measurement requirements for transactions with associates; instead other IFRS Accounting Standards, depending on the transaction, set out the recognition and measurement requirements. To the extent that stakeholders are concerned about overstating income (and thereby the related assets), the staff observed that other IFRS Accounting Standards mitigate this risk. For example:
- (a) IFRS 15 *Revenue from Contracts with Customers* addressed the matter of whether and when revenue should be recognised; and
  - (b) IFRS 9 addressed the matter of whether and when an entity should recognise an impairment on its receivables.
88. The staff does not consider that the proposal creates new structuring opportunities. However, we acknowledge that the proposal augments the potential for gain or loss on transactions to be recognised in a different accounting period. That is, an entity applying the current requirements could change their estimates about timing of reversals, in order to achieve a particular outcome.

### *Staff conclusion*

89. While the risk of earnings management cannot be eliminated, the staff does not consider that the proposal increases the risk of new structuring opportunities. However, we agree the full recognition of gains and losses from associates does augment the risk of accounting profits being ‘managed’ between reporting periods. The staff also considers that the application of other IFRS Accounting Standards, provide requirements to mitigate earnings-management risk.

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***Effects on reporting periods******Feedback***

90. Stakeholders who disagreed with the proposal said that they consider full recognition of gains and losses to violate basic accounting principles of the reporting period and prudence.

***Staff analysis***

91. The proposal changes the pattern of profit recognition but does not violate the principle of prudence. The *Conceptual Framework* explains that prudence is the exercise of caution when making judgements under conditions of uncertainty. The exercise of prudence means that assets and income are not overstated and liabilities and expenses are not understated. Equally, the exercise of prudence does not allow for the understatement of assets or income or the overstatement of liabilities or expenses.
92. As discussed in paragraph BC80 of the Basis for Conclusions on the Exposure Draft, the IASB observed that it is unclear why IAS 28 requires investors to restrict the recognition of gains and losses on transactions with associates. The staff conclusion in paragraphs 58–60 of this paper notes that although the equity method shares procedural similarities with consolidation, these similarities do not override the fundamental distinction that associates are not within the boundary of the reporting entity. The proposal appropriately reflects the economic effects of transactions with associates without extending consolidation concepts beyond their intended scope.
93. Similarly, the staff believes that the concept of prudence, in itself, would not lead to restricting gains and losses because other Standards determine when to recognise and how to measure items of income and expenses, and IAS 28 requires those gains and losses to be restricted. That is, the proposal does not change when to recognise and how to measure transactions with associates but removes the requirement to restrict these gains and losses. The proposal would require gains or losses to be recognised in the period when they are earned or incurred.

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*Staff conclusion*

94. We agree that the pattern of profit recognition will change, however, as explained in paragraph 79 of this paper, the feedback is that the effect could be material for other transactions like a sale of a business. However, there is no evidence that the requirement to restrict gains and losses is related to the principle of prudence. As such, the staff considers the proposal would not violate the principle of prudence.

***Availability of and access to information****Feedback*

95. Stakeholders who disagree with the proposal said that:
- (a) current practice is well established with information systems being in place. Entities only make investments in associates after negotiation with investees whereby agreements are put in place to ensure information can be accessed.
  - (b) if transactions are material, the investor should have the ability to obtain information even from associates, not only from joint ventures. They acknowledged, however, that there could be an issue with the use of privileged information of listed associates, which investors might not be able to access.
96. GPF members also said that investors' access to information about their investees varies depending on their relationship with the associate.
97. ASAF members said there are practical challenges to obtaining information from associates to comply with the requirements in IAS 28. Nevertheless, despite these challenges investors can still comply with IAS 28.

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*Staff analysis*

98. The feedback on access to information is mixed—some entities can access the necessary information in a timely manner whereas some find it difficult, especially when the investee is listed. Some entities, in order to comply with the requirements in IAS 28, use estimates.

*Staff conclusion*

99. In identifying alternatives and developing recommendation on a way forward (see Agenda Paper 13D), the staff will consider feedback including the consequence of requiring additional disclosures and the availability of information.

***Cost–benefit assessment****Feedback*

100. Stakeholders who disagreed with the proposal said that:
- (a) the proposal might reduce the costs for preparers but could simultaneously increase costs for users of financial statements to adjust reported profits. This would lead to increased total costs and reduced market efficiency.
  - (b) there would be no cost savings if preparers are required to disclose the gains or losses, which could also undermine competitiveness through the disclosure of sensitive information (see paragraphs 32–39 of Agenda Paper 13C).
  - (c) if the proposal is finalised, investors would continue to obtain information because it is important to management for internal purposes.
101. Respondents who agreed with the proposal said that it is simple and less burdensome/costly to apply than the requirement to restrict gains and losses. In addition, these respondents said the proposal provides users with more useful information (see paragraphs 70–71 of this paper).

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*Staff analysis*

102. Any changes from the requirements in IAS 28 would most likely create costs for preparers and users of financial statements. The staff agrees that there is cost associated in applying the proposal.
- (a) For preparers that apply the proposal and decide not to track gains and losses on transactions with associates there could be changes in the current process and systems. However, we do not anticipate these changes would result to significant costs. Furthermore, these preparers also said that no longer tracking gains and losses would result in cost savings.
  - (b) For preparers that apply the proposals but decided to continue to track gains and losses there would be no changes to current process and systems. However, these preparers may incur costs in developing disclosures that communicate their performance in a way that reflects their business model.
  - (c) For users of financial statements, effects vary depending on how they evaluate investments in associates. Users that evaluate performance of associates by reference to the associate's financial statements would not incur any additional costs. However, for users that use the information available in the investor's financial statements about the associate would need to adjust their valuation models (assuming restricted gains and losses are part of the current models).
103. Currently, costs are incurred by preparers in tracking when an asset sold to an associate is subsequently disposed of to unrelated parties or consumed over time. Feedback from preparers is that this can be an administrative burden that incurs costs, the proposal would eliminate these costs.

104. The staff acknowledges the concern that the proposed requirement to disclose gains or losses from downstream transactions would negate the cost savings from the proposal (see paragraph 53 of Agenda Paper 13C). However, the proposed disclosure only requires the gain or loss to be disclosed in the accounting period in which it occurs. Therefore, tracking when the related assets are transferred to unrelated parties or consumed is no longer needed.
105. The staff does not think the proposal to disclose gains or losses from downstream transactions negates these cost savings due to the disclosure requirements in IAS 24. IAS 24 requires disclosure of transactions with associates and joint ventures; if the proposal is finalised, to comply with it the investor would only need to identify the related costs of goods sold (that is, to determine and disclose the related gains or losses) (see paragraphs 54–56 of Agenda Paper 13C).

#### *Staff conclusion*

106. In identifying alternatives and developing its recommendation on a way forward (see Agenda Paper 13D), the staff will consider feedback and primarily consider which approach would give users the most relevant information that faithfully represents the transaction. The staff will also consider the costs and benefits of the alternatives discussed in Agenda Paper 13D.

### Question for the IASB

#### Question for the IASB

1. Does the IASB have any comments on this paper?

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## Appendix A—Other application questions

- A1. The proposal in the Exposure Draft resolves six other application questions.
- (a) Does an investor recognise the portion of its share of the gain in a downstream transaction that exceeds the carrying amount of its investment in the associate?
  - (b) Does an investor eliminate its share of a gain or loss in an upstream transaction from the carrying amount of the investment in the associate or the acquired asset?
  - (c) Is the provision of services and transactions that are not transfers of assets an upstream or downstream transaction?
  - (d) Should the requirement for the adjustment of gains or losses in intra-group transactions between subsidiaries apply by analogy to transactions between investees that are accounted for applying the equity method?
  - (e) Does an investor eliminate its share of a gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss?
  - (f) When an investor sells an item of property, plant or equipment to an associate and leases it back:
    - (i) IFRS 16 *Leases* requires an entity to recognise only the amount of gain or loss that relates to the rights transferred; whereas
    - (ii) IAS 28 requires an investor to adjust its share of the gain or loss.Does applying both requirements 'double-count' the elimination of the investor's share of the gain or loss?
- A2. The application questions in paragraph A1(a)–(d) of this paper were included in the project's scope from the outset. Whereas the questions in paragraph A1(e)–(f) of this paper were added because they were resolved by the proposal to a question from the initial list.

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## Appendix B—The use of the equity method

- B1. In order to understand the use of the equity method globally, an IASB member assisted the staff using Capital IQ, a market intelligence platform which provides comprehensive financial information, real-time market data, and analytics for both public and private companies.
- B2. The report generated from Capital IQ covered financial statements published by public companies as at 31 December 2024 that were prepared in accordance with IFRS Accounting Standards.
- B3. Table B1 provides a summary of this report for the G20 sovereign economies.<sup>11</sup>

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<sup>11</sup> Excluding the African Union and the European Union.

Table B1—The use of the equity method on G20 sovereign economies (monetary amounts in thousands of US dollars)

Jurisdiction	Total assets	Equity method investments	Percentage of equity method investments over total assets	Total revenue	Income from equity method investments	Percentage of income from equity method investments over total revenue	Number of market participants	Number of market participants with equity method investments	Percentage of market participants with equity method investments
	<i>A</i>	<i>B</i>	<i>C = B/A</i>	<i>D</i>	<i>E</i>	<i>F = E/D</i>	<i>G</i>	<i>H</i>	<i>I = H/G</i>
Argentina	168,383,307	5,877,845	3.49%	65,684,039	1,467,498	2.23%	63	33	52.38%
Australia	1,837,001,185	37,438,548	2.04%	636,772,459	1,033,492	0.16%	1,563	169	10.81%
Brazil	1,759,423,077	38,810,935	2.21%	620,136,559	4,271,120	0.69%	272	111	40.81%
Canada	2,134,087,203	33,735,413	1.58%	720,084,138	1,678,061	0.23%	2,702	176	6.51%
China	31,006,830,280	337,874,461	1.09%	2,458,971,516	12,570,005	0.51%	937	486	51.87%
France	11,102,510,781	137,886,345	1.24%	2,082,752,628	5,628,225	0.27%	349	174	49.86%
Germany	3,425,536,684	120,715,071	3.52%	2,069,767,198	(13,312,243)	(0.64%)	350	173	49.43%
India	2,995,626,480	67,196,540	2.24%	1,636,594,251	4,094,529	0.25%	3,998	650	16.26%
Indonesia	5,486,186	593,417	10.82%	3,464,222	151,376	4.37%	7	1	14.29%
Italy	2,698,300,840	34,679,056	1.29%	481,332,379	2,277,168	0.47%	192	87	45.31%
Japan	7,431,408,718	291,902,079	3.93%	2,788,485,872	21,864,117	0.78%	290	197	67.93%
Mexico	516,561,174	9,984,476	1.93%	397,098,905	84,634	0.02%	96	46	47.92%
Russia	900,081,545	32,815,479	3.65%	532,056,353	4,587,699	0.86%	136	51	37.50%
South Africa	1,111,535,729	64,015,207	5.76%	251,676,045	7,583,514	3.01%	180	100	55.56%

<b>Jurisdiction</b>	<b>Total assets</b>	<b>Equity method investments</b>	<b>Percentage of equity method investments over total assets</b>	<b>Total revenue</b>	<b>Income from equity method investments</b>	<b>Percentage of income from equity method investments over total revenue</b>	<b>Number of market participants</b>	<b>Number of market participants with equity method investments</b>	<b>Percentage of market participants with equity method investments</b>
	<i>A</i>	<i>B</i>	<i>C = B/A</i>	<i>D</i>	<i>E</i>	<i>F = E/D</i>	<i>G</i>	<i>H</i>	<i>I = H/G</i>
Saudi Arabia	2,016,321,188	55,970,019	2.78%	718,063,324	74,972	0.01%	342	101	29.53%
South Korea	5,425,635,530	235,039,598	4.33%	2,298,296,690	10,476,108	0.46%	2,167	1,076	49.65%
Turkey	1,027,374,844	19,031,710	1.85%	356,860,159	1,505,725	0.42%	529	110	20.79%
United Kingdom	11,219,808,070	115,925,975	1.03%	1,919,532,495	13,798,820	0.72%	930	171	18.39%
United States of America	148,898,439	2,656,229	1.78%	45,096,978	244,714	0.54%	150	15	10.00%