
IASB[®] meeting

Date	May 2026
Project	Equity Method
Topic	Transactions with associates—Ways forward
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Purpose of this paper

1. The purpose of this paper is for the International Accounting Standards Board (IASB) to decide whether and, if so, how to proceed with its proposals, 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. This paper should be read in conjunction with Agenda Paper 13B *Transactions with Associates—Staff analysis of feedback* and Agenda Paper 13C *Transaction with associates—Staff analysis of feedback on proposed disclosure requirement*.
3. References to ‘investor’, ‘associate’ and ‘significant influence’ should be read as also referring to ‘joint venturer’, ‘joint venture’ and ‘joint control’ in relation to investments in joint ventures in consolidated financial statements.¹

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

Staff recommendation

4. The staff recommends the IASB:
 - (a) retain within the scope of the project the application question on inconsistency between IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements*;
 - (b) introduce an accounting policy choice that permits an investor to choose either full or restricted recognition of gains or losses on all transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full;
 - (c) confirm its proposal in the Exposure Draft to withdraw the 2014 Amendments; and
 - (d) consequentially amend IFRS 10 to require an investor that chooses to restrict gains and losses on transactions with associates to also restrict gains and losses on the loss of a control of a subsidiary that is not a business.

5. The staff also recommends that:
 - (a) if an investor chooses to recognise gains or losses in full, the investor discloses:
 - (i) the accounting policy for recognising gains or losses on transactions with associates; and
 - (ii) gains or losses from ‘downstream’ transactions with its associates (as proposed in the Exposure Draft); and
 - (b) if an investor chooses to restrict the recognition of gains or losses, the investor discloses:
 - (i) the accounting policy for recognising gains or losses on transactions with associates;
 - (ii) the amounts of gains or losses from ‘downstream’ and ‘upstream’ transactions with its associates recognised in profit and loss;

- (iii) the line items in the statement of comprehensive income where the restriction of gains or losses have been adjusted; and
- (iv) the amount of gains and losses restricted at the end of the period included in the carrying amount of the investment.

Structure of this paper

6. This paper includes:
- (a) background to the application question (paragraphs 7–9);
 - (b) should the IASB retain the application question in the scope of the project (paragraphs 10–22)?
 - (i) is the application question widespread and significant (paragraphs 12–14)?
 - (ii) is the requirement to restrict recognition of gains and losses a fundamental requirement in IAS 28 (paragraphs 15–18)?
 - (iii) what would be the implication of removing the application question from the project’s scope (paragraphs 19–20)?
 - (c) alternative ways forward (paragraph 23);
 - (d) criteria for assessing alternative ways forward (paragraphs 24–25);
 - (e) assessing the alternative ways forward against the criteria (paragraphs 26–78):
 - (i) alternatives based on the nature of the transaction (paragraphs 27–28);
 - (ii) retain the requirements in IAS 28 and withdraw the 2014 Amendments (paragraphs 29–30);
 - (iii) confirm the proposal in the Exposure Draft (paragraphs 31–42); and
 - (iv) accounting policy choice (paragraphs 43–78);
 - (f) disclosure requirements (paragraphs 79–90):
 - (i) proposed disclosure requirement (paragraphs 79–80); and
 - (ii) accounting policy choice (paragraphs 81–90);
 - (g) staff conclusion (paragraphs 91–97);
 - (h) staff recommendation (paragraphs 98–99); and
 - (i) questions for the IASB.

Background to the application question

7. The proposal in the Exposure Draft that an investor recognises gains and losses in full resulting from transactions with its associates, including transactions involving the loss of control of a subsidiary (the proposal) resolves the application question (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?

8. The proposal resolves the inconsistency between IFRS 10 and IAS 28. The inconsistency arises because:
- (a) paragraphs 25 and B97–B99 of IFRS 10 require an investor to recognise in full the gain or loss on the loss of control of a subsidiary, remeasuring any retained interest at fair value; whereas
 - (b) paragraph 28 of IAS 28 requires an investor to restrict the gains or losses recognised to the extent of the unrelated investors' interests in an associate, by eliminating the investor's share of the gain or loss arising from the transaction.
9. In addition, the proposal resolves six other application questions (see Appendix A—Other application questions of Agenda Paper 13B). Four of the six other questions are part of the initial list of application questions; the other two application questions were added because they were resolved by the proposal. The four questions that were part of the initial list are:
- (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?

Should the IASB retain the application question in the scope of the project?

10. As a first step in considering how the IASB could proceed with the proposal, the staff has considered whether the IASB should retain the application question in the scope of the project.
11. To assess whether the IASB should retain the application question, we have sought to answer the following questions:
 - (a) is the application question widespread and significant?
 - (b) is the requirement to restrict recognition of gains or losses a fundamental requirement in IAS 28?
 - (c) what would be the implications of removing the application question from the scope of the project?

Is the application question widespread and significant?

12. The application question was initially submitted to the IFRS Interpretations Committee (the Committee) in 2011. The Committee was asked to clarify whether a business met the definition of the term ‘non-monetary asset’ used in SIC-13 *Jointly Controlled Entities- Non-monetary Contributions by Venturers* and IAS 28. The submission noted a conflict between the requirement to restrict gains and losses arising from contributions of non-monetary assets to a joint venture/jointly controlled entity in SIC-13 and the requirement to recognise in full the profit or loss when a

parent loses control of a subsidiary. It was noted that the issue was widespread and had practical relevance, and that there was reportedly divergence in practice.²

13. The outreach conducted at the start of the Equity Method research project with national standard-setters, accounting firms and regulators confirmed that the inconsistency between IAS 28 and IFRS 10 (and some of the additional application questions created by the restriction of gains or losses) should be resolved and therefore was included in the application questions within the scope of the project.
14. During the additional outreach, some stakeholders said that sales of businesses to an associate are relatively infrequent and argued that they do not warrant introducing changes to the requirements. Others stakeholders said that, while infrequent, these transactions are likely to have a material effect, and the application of the requirements is challenging.

Is the requirement to restrict recognition of gains and losses a fundamental requirement in IAS 28?

15. As discussed in paragraphs 26–33 of Agenda Paper 13B, one of the concerns of stakeholders who disagreed with the proposal is that the proposal changes a requirement which they consider fundamental to the equity method.
16. One of the principles identified by the IASB as underlying the equity method is that an investor recognises changes in an associate's net assets (Principle E, see Appendix A of Agenda Paper 13 *Cover paper*). Stakeholders who hold the view that restricting gains and losses is a fundamental principle of the equity method, 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.

² See the [Agenda Paper 13 Definition of the term 'non-monetary asset' in SIC-13 and IAS 28](#) of the January 2012 Committee meeting.

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17. The staff notes that Principle E explains that the investor recognises its share of the associate's profit or loss. However, the associate's profit or loss does not include the gains or losses by the investor from its own downstream transactions. Consequently, the staff does not think that the proposal conflicts with Principle E (see paragraphs 38–40 of Agenda Paper 13B).
18. The staff acknowledges that the proposal changes one of IAS 28's requirements and could be disruptive in jurisdictions where the application question has not arisen, or where local guidance has been provided. However, any other alternative that resolves the application question would be a change in practice for some preparers, including for example, withdrawing the proposal and the 2014 Amendments³.

What would be the implication of removing the application question from the project's scope?

19. In June 2015, the IASB agreed to undertake a limited-scope research project that sought to address application problems arising from the equity method requirements.⁴ The limited-scope project would seek to address the matters being considered at the time by the Interpretations Committee in developing narrow-scope amendments to IAS 28. Because of that decision, the IASB agreed to defer indefinitely the effective date of the 2014 Amendments. In May 2016, the IASB decided to defer work on that limited-scope research project until the Post-implementation Reviews (PIR) of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* were undertaken.
20. If the application question is removed from the scope of the project, then the inconsistency between IAS 28 and IFRS 10 would remain. The IASB would be required to consider how to proceed with the 2014 Amendments, with two choices.

³ The 2014 amendments refer to the IASB's amendments related to [Sale or Contribution of Assets between an Investor and its Associate or Joint Venture \(Amendments to IFRS 10 and IAS 28\)](#). The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The effective date of these amendments has been deferred indefinitely.

⁴ See [Agenda Paper 13 Project plan and methodology](#) of the June 2015 IASB meeting.

One would be to withdraw the 2014 Amendments, disrupting the practice of entities that applied the Amendments early. The other would be to proceed with the 2014 Amendments and decide an effective date. However, before doing this, the IASB would need to consider some application questions about the 2014 Amendments. These application questions were raised after the 2014 Amendments were issued and influenced the IASB's decision to defer indefinitely its effective date.

Staff recommendation

21. In conclusion, we do not think, given the feedback on the application question, that there is enough evidence to remove the question from the project's scope. Solving the question may give rise to a change in the current requirements. On the other hand, removing the question from the scope of the project would also require the IASB to decide to whether finalise or withdraw the 2014 Amendments.
22. Considering paragraphs 10–20, the staff recommends that the IASB retains the application question on inconsistency between IAS 28 and IFRS 10 in the scope of the project.

Alternative ways forward

23. Assuming that the IASB agrees with the staff recommendation to retain the application question in the scope of the project, in the staff's view there are several alternative ways forward:
 - (a) amend the proposal in the Exposure Draft to require gains or losses from transactions with associates to be recognised either in full or restricted, depending on the nature of the transaction;
 - (b) retain the requirements in IAS 28 and withdraw the 2014 Amendments, requiring recognition of gains or losses from all transactions with associates to be restricted;

- (c) confirm the proposal in the Exposure Draft; requiring full recognition of gains or losses from all transactions with associates; or
- (d) permit an accounting policy choice between following the proposal in the Exposure Draft and restricting gains and losses as required by IAS 28.

Criteria for assessing alternative ways forward

24. The staff has identified the following criteria to assess the alternatives in paragraph 23:
- (a) whether and how the alternative resolves the other application questions (see Appendix A of Agenda Paper 13B). The alternative should also be consistent with the approach the IASB used to develop the proposals in the Exposure Draft. That is, the alternative is consistent with the principles identified to be underlying the equity method (see Appendix A of Agenda Paper 13 which reproduces paragraphs BC15–BC16 of the Basis for Conclusions on the Exposure Draft).
 - (b) how the alternative responds to feedback.
 - (c) whether the alternative would require additional research or outreach.
 - (d) whether the alternative conflicts with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards. For this purpose, this disregards the requirement in paragraph 28 of IAS 28 because any alternative other than paragraph 23(b) changes that requirement.
 - (e) whether the alternative enhances or maintains comparability.
 - (f) whether the alternative achieves an appropriate balance between costs and benefits (for both users of financial statements and preparers).
25. In assessing the alternatives against the criteria, the staff did not prioritise a particular criterion over other criteria.

Assessing the alternative ways forward against the criteria

26. The alternatives in paragraph 23(a)–(b) were not assessed against the criteria in-depth because they do not respond to the criteria in paragraph 24. Paragraphs 27–30 explain the rationale for not assessing these two alternatives against the criteria.

Alternatives based on the nature of the transaction (paragraph 23(a))

27. If the IASB wishes to consider alternatives that are based on the nature of the transaction it could, for example:
- (a) restrict the recognition of gains and losses on transactions in the scope of IFRS 15 *Revenue from Contracts with Customers* and require gains and losses on all other transactions to be recognised in full.
 - (b) restrict the recognition of gains and losses on transfers of assets but require gains and losses on transfers of businesses to be recognised in full.
28. Table 1 explains why an alternative based on the nature of the transaction does not meet the criteria in paragraph 24.

Table 1—Alternatives based on the nature of transaction:

Criteria	Remarks
Resolves the other application questions	Neither of the approaches in paragraph 27 solves the other application questions particularly for transactions where recognition of gains and losses would be restricted.
Responds to feedback	The alternatives are a ‘middle ground’. However, the views of respondents to the Exposure Draft are polarised; most respondents agreed with the proposal whereas respondents from China and Japan disagreed with the proposal. A ‘middle ground’ does not respond to the feedback from either of the groups of respondents.
Require additional research or outreach	Finalising any alternative based on the nature of the transaction would require further outreach because, although the IASB considered the alternatives in developing the proposal in the Exposure Draft, the IASB did not consult on these alternatives. Therefore, the IASB would need to satisfy itself through additional outreach before it could conclude further consultation would not be necessary.

Criteria	Remarks
Consistency with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards	The alternatives require additional work to consider potential consequences. For example, distinguishing transfers of assets from transfers of businesses would rely on IFRS 3 <i>Business Combinations</i> (definition of 'business' and related application guidance). However, the IASB would still need to resolve the application question that arose on the 2014 Amendments. Similarly, a distinction based on IFRS 15 would rely on the requirements in that Standard, however, the IASB would need to add requirements for transactions not in the scope of IFRS 15.
Whether the alternative enhances or maintains comparability	Comparability of financial statements would be maintained provided investors applied the distinguishing criterion consistently. The alternatives in paragraph 27 would result in a particular set of transactions where recognition of gains and losses are restricted (for example those in the scope of IFRS 15); while for other transactions the gains and losses are recognised in full.
Whether the alternative achieves an appropriate balance between costs and benefits	The alternatives would most likely introduce additional costs for preparers by adding complexity. That is, the alternatives would require preparers to apply the distinguishing criterion. For example, the investor would need to apply the guidance in IFRS 3 on the definition of a business. In addition, users of financial statements would only be able to evaluate financial statements if they understood how transactions have been recognised.

Retain the requirements in IAS 28 and withdraw the 2014 Amendments (paragraph 23(b))

29. Under this alternative, the IASB would require an investor to restrict gains and losses on all transactions with associates and the 2014 Amendments would be withdrawn.
30. Table 2 explains why retaining the requirements in IAS 28 and withdrawing the 2014 Amendments does not meet the criteria in paragraph 24.

Table 2—Retain the requirements in IAS 28 and withdraw the 2014 Amendments:

Criteria	Remarks
Resolves the other application questions	The alternative does not solve the other application questions in the scope of the project.
Responds to feedback	Stakeholders that have early applied the 2014 Amendments may not support this alternative and may feel penalised for early application of those amendments.
Require additional research or outreach	The alternative was one of the two approaches the IASB considered in solving the application question (the other being the proposal). However, to proceed with this alternative additional research or outreach would be necessary to solve the other application questions in the scope of this project. Furthermore, the IASB would need to resolve the application question on the 2014 Amendments; this again may need additional research or outreach before the IASB could conclude further consultation would not be necessary. ⁵
Consistency with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards	If finalised, the alternative does not solve either the other application questions in the scope of the project, nor the application questions that arose on the 2014 Amendments after they were issued.
Whether the alternative enhances or maintains comparability	Although this alternative would require all gains and losses to be restricted, if the application questions in the previous point are not solved then investors have to apply judgement to address them which might result in different applications of IAS 28; this would undermine comparability.
Whether the alternative achieves an appropriate balance between costs and benefits	Although the alternative would not introduce costs compared to the current requirements, it would not reduce costs as the proposal would.

⁵ See paragraphs BC67–BC84 of the Basis for Conclusions on the Exposure Draft and [Agenda Paper 13B Perceived conflict between IFRS 10 and IAS 28](#) of the March 2023 IASB meeting.

Confirm the proposal in the Exposure Draft (paragraph 23(c))

31. The IASB proposed that an investor recognises gains and losses in full resulting from transactions with its associates. The staff assessed the alternative to retain the proposal in the Exposure Draft against the criteria in paragraph 24.

Resolves the other application questions

32. The proposal resolves the longstanding inconsistency between IAS 28 and IFRS 10 and also resolves other application questions (see paragraph 10 of Agenda Paper 13B).

Responds to feedback

33. Agenda Paper 13B of this meeting analyses the feedback on the proposal. Paragraph 9 of that paper states 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.
34. Some stakeholders have expressed concerns on the related proposed disclosure requirement. Agenda Paper 13C of this meeting analyses the feedback on the proposed disclosure requirement.

Require additional research or outreach

35. No further outreach or significant work on the proposal would be required, given this is the proposal in the Exposure Draft.

Is the alternative in conflict with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards?

36. The proposal is consistent with the reporting entity concept in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. However, some stakeholders that disagreed with the proposal argued that paragraph BC0.17 of the

Basis for Conclusions on the *Conceptual Framework* specifically states that the IASB deliberately excluded the equity method during its development of the *Conceptual Framework* (the staff analysis of this feedback is in paragraphs 43–50 of Agenda Paper 13B).

Whether the alternative enhances or maintains comparability

37. The proposal enhances comparability. The proposal would provide users with more comparable information by reducing the diversity in practice. There is diversity in practice because IAS 28 either does not specify requirements or specifies requirements inconsistent with those in IFRS 10. The proposed requirement is expected to eliminate that diversity and, therefore, result in more comparable information. The proposed disclosure requirement will provide users of financial statements with information about gains and losses on downstream transaction with associates.

Whether the alternative achieves an appropriate balance between costs and benefits

38. The proposal is simple and less burdensome/costly than the current requirements in IAS 28. There would be costs on initial application of the proposal, including complying with the related proposed disclosure requirement (that is, for investors to disclose gains and losses on downstream transactions). The staff thinks these costs would likely be less than those currently incurred by investors and users of financial statements:
- (a) for investors, the proposal would no longer require tracking of when an asset transferred to or from an associate is subsequently sold to unrelated parties or consumed over time.
 - (b) for users of financial statements, the proposals improve transparency because the proposed disclosure would provide information about gains and losses. Feedback is that practice varies on the amount of information disclosed about restricted gains and losses on transactions with associates (see paragraph 13 of Agenda Paper C).

- (c) the staff is aware that some stakeholders who disagreed with the proposal also disagree with the IASB's cost–benefit assessment in paragraphs BC225–BC226 of the Basis for Conclusions on the Exposure Draft which are consistent with the staff observations above. The staff analysis of this feedback is in paragraphs 100–105 of Agenda Paper 13B).
- (d) Availability of, and access to information is also a factor in assessing the costs and benefits of the proposals. This is discussed in paragraphs 39–42 of this paper.

Availability of and access to information

- 39. Feedback on the IASB's proposal is that access to information needed to comply with the requirements varies. Some respondents, who supported the proposal, said that it is difficult to access necessary information to comply with requirements in IAS 28, therefore the proposal will reduce the costs for preparers. However, other respondents said that they can access the information required to comply with the requirements. These respondents questioned the reduction in cost, and since they disagree with the proposal for other reasons (see [Agenda Paper 13C Transactions with Associates—Feedback from further work](#) of the IASB's February 2026 meeting), they suggested retaining the requirements in IAS 28.
- 40. At its March 2026 meeting, ASAF members said there are practical challenges investors had in accessing information from their associates. ASAF members shared a number of challenges their investors faced. For example, when associates are listed, timely access to information could be difficult because of market regulations. Other ASAF members said access to information depends greatly on the relationship between the investor and their investees. Nevertheless, ASAF members shared that although there are challenges, investors find ways to comply with the requirements in IAS 28.
- 41. The matter of availability of and access to information is also discussed in paragraphs 95–99 of Agenda Paper 13B.

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42. The proposal to recognise gains and losses on transactions with associates in full and the proposed disclosure would alleviate the practical challenges investors may face on obtaining information from their associates to comply with the requirements in IAS 28.

Accounting policy choice (paragraph 23(d))

43. The IASB could consider permitting an investor to choose its accounting policy for recognising gains and losses from transactions with its associates. This section of the paper sets out:
- (a) developing an accounting policy choice (paragraphs 44–49);
 - (b) alternatives for an accounting policy choice (paragraphs 50–54);
 - (c) assessing Alternative 1 against the criteria in paragraph 24 (paragraphs 55–63);
 - (d) assessing Alternative 2 against the criteria in paragraph 24 (paragraphs 64–76); and
 - (e) staff conclusion—accounting policy choice (paragraphs 77–78).

Developing an accounting policy choice

44. As a reminder, other IFRS Accounting Standards permit an entity to elect an accounting policy. For example (**emphasis added**):
- (a) IFRS 3 *Business Combinations* states that **for each business combination**, the acquirer shall measure non-controlling interests in the acquiree at either fair value or the present ownership’s instruments’ proportionate share in the recognised amounts of the acquiree’s identifiable net assets.
 - (b) IAS 2 *Inventories* permits an entity to choose to assign the cost of inventories either by using the first-in, first-out or the weighted average cost formula. The entity shall use the same cost formula **for all inventories having a similar nature and use** to the entity.

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- (c) IAS 16 *Property, Plant and Equipment* permits an entity to choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an **entire class** of property, plant and equipment.
 - (d) IAS 27 *Separate Financial Statements* permits a parent to choose to account for investments in subsidiaries, joint ventures and associates either at cost, in accordance with IFRS 9 *Financial Instruments* (fair value) or using the equity method as described in IAS 28. The entity shall apply the same accounting policy **for each category of investment**.
 - (e) IAS 38 *Intangible Assets* permits an entity to choose either the cost model or the revaluation model as its accounting policy. If an entity chooses the revaluation model, all the other assets in its **class** shall also be measured using the revaluation model, **unless there is no active market** for those assets.
 - (f) IAS 40 *Investment Property* permits an entity to choose as its accounting policy either the fair value model or the cost model and to apply that policy to **all** of its investment property.
45. To operationalise an accounting policy choice, the IASB would need to decide at what level the accounting policy choice is made. The accounting policy choice could be:
- (a) by category of investment—the investor chooses a policy and applies it to all transactions within that category of investment. That is, it can choose a different accounting policy for associates or joint ventures (or for subsidiaries in its separate financial statements).
 - (b) by investee—the investor chooses a policy and applies it to all transactions with that investee. That is, it can choose a policy for each of its investments separately, for example, Associate X, Associate Y etc.
 - (c) by classes of transaction—the investor chooses a policy and applies it to all transactions within the same category. For example, the investor can choose different accounting policies for transactions in the scope of IFRS 15 and outside the scope of IFRS 15.

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- (d) entity-wide—the investor chooses a policy and applies it to all transactions with all investees accounted for using the equity method.
46. An accounting policy choice by category of investment would permit entities to differentiate between transactions with associates and joint ventures. There is some feedback that the relationship with these two categories is different. A joint venturer might have greater power to influence transactions with its joint ventures than an investor has to influence transactions with its associates. However, as explained in paragraph 25 of Agenda Paper 13B the staff has assumed that retaining a single version of the equity method is the IASB’s preferred solution. Therefore, should the IASB consider permitting an investor to choose its accounting policy for recognising gains and losses from transactions with its associates, the staff do not recommend developing an accounting policy choice by category of investment.
47. An accounting policy choice by investee could help investors that struggle to apply the current requirements in IAS 28 because of access to information. An investor that wishes to continue to restrict gains or losses, but has difficulty in accessing information from some investees, could use the accounting policy choice to differentiate between investees. However, permitting an accounting policy choice for each investee reduces comparability, not only across entities but also within the same entity. Should the IASB consider permitting an investor to choose its accounting policy for recognising gains and losses from transactions with its associates, the staff do not recommend developing an accounting policy choice by investee.
48. Similarly, an accounting policy choice by class of transactions would reduce comparability too much. Although, this could help entities that have early adopted the 2014 Amendments and already apply a different treatment to different transactions.
49. An entity wide accounting policy does not need to introduce differentiating criteria, so it would be simpler for an investor to apply, and simpler for a user of its financial statements to understand. It would also minimise the comparability concern highlighted in paragraphs 46–48, because the policy choice applies to all transactions within the same entity.

Alternatives for an entity-wide accounting policy choice

50. The staff thinks that there two alternatives for an accounting policy choice.
- (a) The first alternative (Alternative 1) of the accounting policy choice would permit an investor to choose either full recognition of gains and losses on all transactions with associates or restricted recognition of gains or losses on all transactions with associates. The investor would elect its accounting policy choice for the reporting entity; that is the accounting policy choice would apply to all transactions with all investees that are accounted for using the equity method.
 - (b) The second alternative (Alternative 2) of the accounting policy choice would permit an investor to choose either full or restricted recognition of all gains or losses on transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full. This variation uses the same distinction made in the 2014 Amendments. An investor would use the guidance in IFRS 3 for identifying a business to apply the distinction.
51. Either of the alternatives for an accounting choice described in paragraph 50 would reduce comparability of financial statements. To address the negative effect on comparability, the IASB could require additional disclosures (see paragraphs 79–90 of this paper).
52. If the IASB decided to permit an accounting policy choice, an investor in selecting an accounting policy would apply the requirements in IAS 8 *Basis of Preparation of Financial Statements* including whether a change in its accounting policy is appropriate (see paragraph 14 of IAS 8).
53. A separate issue is whether there should be a different treatment when the equity method is applied to subsidiaries in separate financial statements—the staff will present a paper on this topic at a future meeting.
54. Paragraphs 55–76 assess the two alternatives against the criteria in paragraph 24.

Assessing Alternative 1 against the criteria in paragraph 24

Resolves the other application questions

55. Alternative 1 solves the application question because the investor is permitted to make an accounting policy choice to either recognise gains and losses in full or to restrict gains and loss on all transactions with associates. It also solves the other application questions, related to this question in the scope of the project, for investors that choose full recognition. For investors that choose to restrict gains or losses, the other application questions remain unresolved, because those questions all relate to the restriction of gains and losses.

Responds to feedback

56. Alternative 1 responds to both groups of stakeholders:
- (a) those who supported the proposal (especially those who agreed with the simplification it could bring with applying the equity method) would be able to choose full recognition of gains and losses on transactions with associates as proposed in the Exposure Draft; and
 - (b) those who disagreed with the proposal would be able to continue restricting gains or losses, the current requirements in IAS 28.
57. Alternative 1 would require investors that have applied the 2014 Amendments early to change their accounting policy because Alternative 1 would require investors to apply the same accounting policy to all transactions (either restricted gains and losses on all transactions with associates or recognise gains and losses on all transactions in full).

Require additional research or outreach

58. The Exposure Draft did not explore the possibility of permitting an accounting policy choice. We do not think additional research or outreach is necessary because extensive discussions with stakeholders (including with users of financial statement) have taken place to understand the concerns of stakeholders who disagree with the proposal (see paragraphs 13–17 of Agenda Paper 13B). From these discussions, the staff thinks it has gathered enough information such that if the IASB proceeds with an

accounting policy choice no additional research or outreach would be necessary (or should there be additional research or outreach, it is expected that no new information would be gathered).

Is the alternative in conflict with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards?

59. IFRS 10 requires full recognition of gains or losses on loss of control of a subsidiary (and remeasurement of any retained interest to fair value). Paragraph BCZ181 of the Basis for Conclusions on IFRS 10 explains that on loss of control, the parent-subsidiary relationship ceases to exist, and that the new investor-investee relationship differs significantly from the former. Obtaining and losing control can be perceived as a significant economic event. The parent derecognises in full the former subsidiary's assets and liabilities and recognises a new asset relating to the retained interest. This perspective explains the requirement to recognise in full the disposal and remeasurement gain.
60. Investors that choose to restrict gains or losses under Alternative 1 would not recognise in full gains or losses when losing control of a subsidiary. This would conflict with the requirements in IFRS 10. Investors that choose to recognise gains or losses in full under Alternative 1 would avoid this conflict.

Whether the alternative enhances or maintains comparability

61. Alternative 1 reduces comparability of financial statements because the carrying amount of investments in associates and joint ventures and related effect on profit or loss would be different depending on the policy chosen by the investor. Therefore, disclosures would be required to address the negative effect on comparability (see paragraphs 79–90 of this paper).

Whether the alternative achieves an appropriate balance between costs and benefits

62. For investors that choose to recognise gains or losses in full, costs and benefits are balanced for the same reasons set out in paragraph 38 of this paper.

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63. If the IASB were to permit an accounting policy choice, disclosure requirements applicable to investors that choose to restrict gains or losses will be needed beyond those proposed in the Exposure Draft. Those disclosure requirements would need to help users of financial statements to understand the effects of the choice and assist in comparing financial statements (see paragraphs 79–90 of this paper). Investors that would be required to disclose those added requirements would incur costs to provide the additional information. However:
- (a) the disclosures are likely to be information that is already required to apply IAS 28, for example the amount of the restricted gain or loss carried forward; and
 - (b) based on outreach with stakeholders, we understand that for some investors, access to information is not an issue and they have in place procedures to collect the information (see paragraph 95 of Agenda Paper 13B). For these investors, the cost to disclose the information would be minimal.

Assessing Alternative 2 against the criteria in paragraph 24

Resolves the other application questions

64. Alternative 2 would permit an investor to choose either full or restricted recognition of all gains or losses on transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full. The assessment of whether Alternative 2 resolves other application questions is similar to Alternative 1.

Responds to feedback

65. The assessment is broadly similar to Alternative 1. However, Alternative 2 would not require investors that have early adopted the 2014 Amendments to change their accounting policy. Alternative 2 permits an investor to continue restricting gains or losses on transactions with associates, except for gains or losses from transfers of businesses that would be recognised in full.

Require additional research or outreach

66. The assessment on Alternative 1, as to whether additional research or outreach is necessary, for an accounting policy choice would also apply to Alternative 2.
67. In addition, after issuing the 2014 Amendments the IASB was made aware of a scenario, in which a parent transfers control of a subsidiary (that does not include a business) to an associate, and retains an interest in the former subsidiary that qualifies as a new associate. The IASB considered an amendment to solve this issue before deciding to defer indefinitely the 2014 Amendments (see paragraph 19 of this paper).
68. Under Alternative 2, this issue would remain unsolved if an investor chooses to restrict gains and losses. However, under Alternative 2, the issue would not be a consequence of the requirement but a consequence of the investor's decision on which accounting policy to apply. We think that this puts less pressure on the IASB to solve the issue.

Is the alternative in conflict with other proposals in the Exposure Draft or requirements in other IFRS Accounting Standards?

69. Compared to Alternative 1, Alternative 2 requires full recognition of gains or losses from transfers of businesses. This requirement is aligned with IFRS 10 and therefore avoids a conflict between the two IFRS Accounting Standards.
70. The requirements in paragraphs 25 and B99 of IFRS 10 refer to 'loss of control of a subsidiary'. A subsidiary does not necessarily meet the definition of a business. We considered whether Alternative 2 should differentiate between transfers of assets and subsidiaries (instead of transfers of businesses). It could be argued that such differentiation would make the alternative more consistent with the requirements in IFRS 10.

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71. However, we think that differentiating transactions with associates based on whether they involve transfers of businesses is preferable because:
- (a) a distinction based on the economic nature of the underlying item is conceptually more robust than one based on its legal nature;
 - (b) it uses the same distinction found in the 2014 Amendments. Entities that have early adopted the 2014 Amendments will not be required to reassess their choice; and
 - (c) it does not create an opportunity to achieve a desired accounting outcome for a given transaction by structuring it as asset deal or a share deal.

Whether the alternative enhances or maintains comparability

72. Alternative 2 reduces comparability for transactions with associates except for transfer of businesses. Transactions with associates that are not transfers of businesses may be frequent but may have a less material effect compared to transactions that involve transfers of businesses. For investors that have relatively stable volumes of transactions with associates (that are not transfer of businesses) and margins that do not fluctuate, the effect year-on-year of restricted or full recognition of gains and losses might not be material (see paragraph 79 of Agenda Paper 13B).
73. As with Alternative 1, disclosures could help to address the negative effect on comparability (see paragraphs 79–90).

Whether the alternative achieves an appropriate balance between costs and benefits'

74. For investors that choose to recognise gains or losses in full, costs and benefits are balanced for the same reasons set out in paragraph 38 of this paper.
75. Alternative 2 would require investors to apply the guidance in IFRS 3 to identify a business when:
- (a) the investor transfers a subsidiary to an associate; and
 - (b) the investor chooses to restrict gains or losses on transfers of assets.

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76. Nevertheless, regardless of the additional work (and incremental costs as a consequence), for investors that choose to restrict gains or losses on transactions with associates, a reasonable cost–benefit balance is still achieved. This is because an investor choosing to restrict gains and losses would have satisfied itself that the additional work (and incremental costs) are justified.

Staff conclusion—accounting policy choice

77. If the IASB decides to permit an accounting policy choice to recognise gains and losses from transactions with associates, the staff thinks the IASB should consider Alternative 2. Proceeding with Alternative 1 would retain the conflict between IFRS 10 and IAS 28. To avoid this situation the staff thinks that Alternative 2—permitting an investor to choose either full or restricted recognition of all gains or losses on transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full—is the most suitable alternative as an accounting policy choice.
78. In addition, the IASB would:
- (a) need to consequentially amend IFRS 10 (for example, paragraphs 25 and B99 of IFRS 10) to resolve the conflict in the situation that an investor transfers a subsidiary that is not a business to its associate, and chooses an accounting policy to restrict the gains or losses on transactions with associates; and
 - (b) confirm its proposal in the Exposure Draft to withdraw the 2014 Amendments.

Disclosure requirements

Proposed disclosure requirement in the Exposure Draft

79. The proposed requirement in the Exposure Draft for investors to disclose gains or losses from ‘downstream’ transactions with its associates complements the proposal to recognise gains or losses in full. Therefore, depending on how the IASB proceeds

with its proposal, the effect on disclosure requirements (including whether to modify its proposed disclosure requirement) should be considered.

80. The staff analysis of the feedback on the proposed disclosure requirement is in Agenda Paper 13C. Based on the analysis in that paper, if the IASB proceeds to finalise its proposal to recognise gains and losses in full, the staff recommends that the IASB confirm its proposed disclosure requirement. As discussed in paragraph BC144 of the Basis for Conclusions on the Exposure Draft (and confirmed from feedback on the proposals and outreach) the proposal responds to feedback from users of financial statements that they would find such information useful because it would:
- (a) help users to assess earnings quality—users said that insufficient disaggregation of earnings in the investor’s financial statements often restricts their ability to assess earnings quality.
 - (b) allow users to adjust the recognised gain or loss, if desired, in their analysis.
 - (c) allow users to assess the reasonableness and sustainability of these transactions and their pricing for benchmarking against market terms.

Disclosure requirements—Accounting policy choice

81. If the IASB decides to permit an accounting policy choice (of either of the alternatives described in paragraph 50 of this paper) for recognising gains and losses from transactions with its associates, additional disclosures would be necessary to address the negative effect on comparability (see paragraphs 61 and 73 of this paper).
82. To determine what that additional information would be needed, the staff assessed what information investors would provide to users of financial statements if the IASB confirmed its proposal to recognise gains and losses in full compared to introducing an accounting policy choice. Under the proposal:
- (a) investors would report a different carrying amount for investments in associates, compared to an investor that chooses to restrict gains and losses.

The difference would relate to the restricted portion of the gain at the end of the accounting period.

- (b) assuming the IASB agrees with the staff recommendation to confirm its proposed disclosure, investors would be required to disclose gains or losses resulting from ‘downstream’ transactions with its associates. No disclosure requirements were proposed in the Exposure Draft if an investor chooses to restrict gains and losses.

83. Paragraph 82 is illustrated in Table 3 compared with the requirements in IAS 28. For illustration purposes, assume an investor has a 40%-owned associate. ‘Downstream’ transaction is a sale of inventory for CU100, cost of sale is CU60 and the profit (gain) is CU40. Assume that the opening balance of the investment is CU80 and the net profit of the investee is CU50 (ignore the effects of previously restricted gain or loss and deferred tax effects).

Table 3—Comparing the effects of recognising gains and loss in full vs restricted

	Full recognition (proposal in the exposure draft)	Restricted (see paragraph 50)
Opening balance	CU80	CU80
Share of profit of the associate (CU50 × 40%)	CU20	CU20
Restriction of gains from ‘downstream’ sale (CU40 × 40%)	–	(CU16)
Closing balance	CU100	CU84
Disclosures about transactions in the investor’s financial statements	Sale of CU100 (required by IAS 24.18) Profit (gain) of CU40 from the ‘downstream’ sale (proposed disclosure requirement)	Sale of CU100 (required by IAS 24.18)

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84. For investors that recognise in full gains and losses from all transactions with associates, the IASB could require the disclosure of:
- (a) the accounting policy for recognising gains or losses on transactions with associates; and
 - (b) gains or losses from ‘downstream’ transactions with its associates (as proposed in the Exposure Draft) (confirm the proposal in the Exposure Draft).
85. Considering paragraphs 82–84, to enable users of financial statements to compare investors’ financial statements that are prepared using different accounting policies, we think the IASB could require an investor that chooses to restrict the recognition of gains or losses to disclose:
- (a) the accounting policy for recognising gains or losses on transactions with associates.
 - (b) the amounts of the gains or losses from ‘downstream’ and ‘upstream’ transactions with its associates recognised in profit and loss.
 - (c) the line items in the statement of comprehensive income where the restriction of gains or losses have been adjusted.
 - (d) the amount of the restricted gains or losses at the end of the period. For example, the IASB could require the disclosure of the amount of gains and losses restricted included in the carrying amount of the investment.
86. In relation to the proposed disclosure in paragraph 85(b) we think this disclosure should include both ‘downstream’ and ‘upstream’ transactions. Stakeholders who disagreed with the proposal to recognise gains or losses in full said information about gains or losses from transactions with associates is available and accessing the information is not difficult. Therefore, the IASB’s reason (as explained in paragraph BC145 of the Basis for Conclusions on the Exposure Draft) does not hold because the investor has access to the information. We think this disclosure could be located in IFRS 12.

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87. In relation to the proposed disclosure in paragraph 85(c), investors would disclose which line items in the statement of comprehensive income the restriction of gains or losses have been adjusted. For example, whether adjustments are made on revenue, cost of sales or share of the profit or loss of associates and joint ventures accounted for using the equity method.
88. In relation to the proposed disclosure in paragraph 85(d), the amount of gains and losses restricted included in the carrying amount of the investment could be separately disclosed in the reconciliation between the opening and closing carrying amount of the investment (as part of the proposal in paragraph 23B of IFRS 12 in the Exposure Draft).
89. If IASB proceeds with an accounting policy choice that allows an investor to choose either full or restricted recognition of gains or losses on all transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full then we think the disclosure requirements in paragraph 85 would meet the information needs of users of financial statements.
90. By requiring the information in paragraph 85(b)–(d), the IASB would help users of financial statements to evaluate the effects of restricting gains and losses in the financial position and financial performance of the entity. As noted in paragraph A15(a) of Agenda Paper 13C, spreading the gains over time has the consequence that users of financial statements can miss the information.

Staff conclusion

91. Assuming the IASB agrees with the staff recommendation to retain the application question in the scope of the project, the staff considers that there are two alternatives:
- (a) proceed with the proposal in the Exposure Draft; or
 - (b) introduce an accounting policy choice permitting an investor to choose either to recognise gains and losses in full, or to restrict gains and losses.
92. As noted in paragraph BC72 of the Basis for Conclusions of the Exposure Draft, users' approaches to evaluating associates and their effects on an investor vary depending on how they assess the significance of the associate's contribution to an investor's earnings:
- (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.
93. Many users supported the proposal and said it would provide them with the most useful information, particularly when the associate's financial statements are not available and users rely on information about the associate's earnings as reported in the investor's financial statements. Nevertheless, in jurisdictions where stakeholders disagree with the proposal, users in those jurisdictions said that the information currently being reported on investor's financial statements met their information needs (see paragraph 69 of Agenda Paper 13B).

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94. Of the alternatives that are available for the IASB to move forward on the application question, the staff acknowledges:
- (a) an accounting policy choice would undermine comparability—contrasted with the proposal that is consistent with the reporting entity concept in the *Conceptual Framework*.
 - (b) the proposal provides relevant information to users. However, some users of financial statements consider the current requirements in IAS 28 meet their information needs.
 - (c) the proposal would simplify application of the equity method for investors. However, some investors argue the assessment of cost and benefits as they do not face challenges in obtaining information to comply with IAS 28 (see paragraph 95 of Agenda Paper 13B).
 - (d) the proposal resolves the other application questions in the scope of the project. However, some investors argue the proposal is not consistent with the project objective (see paragraph 26 of Agenda Paper 13B).
95. The staff think the proposal in the Exposure Draft builds on the *Conceptual Framework* and the requirements in IFRS Accounting Standards, including consistency with the principles the IASB identified as underlying the equity method of accounting (see paragraphs 16–17 and 36 of this paper).
96. However, the staff is aware that for stakeholders in some jurisdictions the current requirements in IAS 28 meets the information needs of users of their financial statements. Furthermore, investors are either not concerned (because in those jurisdiction, the issue related to the application question is not pervasive) or where able to address the application question (including the other application questions the IASB identified) locally and that proceeding with the proposal would be very disruptive in their financial reporting and business practices. As such, these stakeholders held strong opposing views against the proposal.

97. To balance the concerns of stakeholders who disagree with the proposal and considering paragraphs 92–96, an accounting policy choice would cater to stakeholders that supported the proposal while also responding to concerns of those stakeholders who disagree with the proposal.

Staff recommendation

Recognition of gains and losses

98. Assuming the IASB agrees with the staff recommendation to retain the application question in the scope of the project, and considering the staff analysis in paragraphs 23–90 and the staff conclusion in paragraphs 91–97, the staff recommends that the IASB should proceed with introducing an accounting policy choice that permits an investor to choose either full or restricted recognition of gains or losses on all transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full. The staff also recommends the IASB consequentially amend the requirements in IFRS 10 to require an investor that chooses to restrict gains and losses on transactions with associates to also restrict gains and losses on the loss of a control of a subsidiary that is not a business.

Disclosure requirements

99. Assuming the IASB proceeds with an accounting policy choice as described in paragraph 98 of this paper, the staff recommends that:
- (a) if an investor chooses to recognise gains or losses in full, the investor discloses:
 - (i) the accounting policy for recognising gains or losses on transactions with associates; and
 - (ii) gains or losses from ‘downstream’ transactions with its associates (as proposed in the Exposure Draft); and

- (b) if an investor chooses to restrict the recognition of gains or losses, the investor discloses:
- (i) the accounting policy for recognising gains or losses on transactions with associates;
 - (ii) the amounts of gains or losses from ‘downstream’ and ‘upstream’ transactions with its associates recognised in profit and loss;
 - (iii) the line items in the statement of comprehensive income where the restriction of gains or losses have been adjusted; and
 - (iv) the amount of gains and losses restricted at the end of the period included in the carrying amount of the investment.

Questions for the IASB

Questions for the IASB

1. Does the IASB agree with the staff recommendation to retain within the scope of the project the application question on the inconsistency between IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements*?
2. Does the IASB agree with the staff recommendation:
 - (a) to introduce an accounting policy choice that permits an investor to choose either full or restricted recognition of gains or losses on all transactions with associates, except for gains or losses on transfer of businesses that would be recognised in full;
 - (b) to confirm its proposal in the Exposure Draft to withdraw the 2014 Amendments; and
 - (c) to consequentially amend IFRS 10 to require an investor that chooses to restrict gains and losses on transactions with associates to also restrict gains and losses on the loss of a control of a subsidiary that is not a business?
3. Does the IASB agree with disclosure requirements proposed in paragraph 99?