Staff paper

Agenda reference: 11

IFRS® Interpretations Committee meeting

Date	**November 2026**
Project	**Reduction of an Interest in an Associate using a Price Return Swap (IAS 28)**
Topic	**Initial consideration**
Contacts	Jenifer Minke-Girard (jminke-girard@ifrs.org)

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Introduction

1. The IFRS Interpretations Committee (Committee) received a submission about how an entity (the transferor) accounts for the reduction of an interest in an associate, applying IAS 28 *Investments in Associates and Joint Ventures*, when the transferor retains significant influence and the transaction includes a price return swap.

2. The objective of this paper is:

   (a) to provide the Committee with a summary of this matter;

   (b) to present our research and analysis; and

   (c) to ask the Committee whether it agrees with our conclusion that a standard-setting project is not needed to address the question and with our recommendation to publish a tentative agenda decision.

Structure

3. This paper includes:

   (a) background and summary of the matter (paragraphs 5–9);

   (b) findings from the information request (paragraphs 10–18);

   (c) staff analysis (paragraphs 19–22); and

   (d) staff conclusion and recommendation (paragraphs 23–25).

4. There are two appendices to this paper:

   (a) Appendix A—suggested wording of the tentative agenda decision; and

   (b) Appendix B—submission.

Background and summary of the matter

Fact pattern—Base and alternate

5. The submission describes a base fact pattern in which:

   (a) the transferor transfers a portion of its interest in an associate (transferred interest) to a third-party (the transferee) for a specified initial transaction price, while retaining significant influence over that associate.

   (b) the transaction includes a price return swap (PRS). Under the terms of the PRS:

      (i) the transferor receives (or pays) the difference between (a) the fair value of the transferred interest at the PRS's maturity date and (b) the initial transaction price of the transferred interest. This amount is settled in cash upon maturity of the PRS.

(ii) the transferee receives a fixed return over the period of the PRS (for example, three years).

(c) the transferee holds all legal rights associated with the acquired interest, including the right to dispose of the shares at any point and to any counterparty.

(d) there are no other agreements—such as call options or rights of first refusal—that would require or allow the transferor to repurchase the transferred interest on maturity of the PRS.

6. The submission also describes an alternate fact pattern. All facts and circumstances in the alternate fact pattern are the same as in the base fact pattern, except that the transferor also holds a right of first refusal that allows the transferor the option to repurchase the transferred interest if the transferee chooses to sell that interest upon maturity of the PRS.

Request

7. Paragraphs 12 and 13 of IAS 28 state:

> 12 When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 13 applies.
>
> 13 In some circumstances, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual

exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.

8. The submitter asks whether, applying paragraphs 12–13 of IAS 28, the PRS is a 'derivative containing potential voting rights'. The submission says this assessment affects whether the transferor derecognises the transferred interest.

9. The submission—reproduced in Appendix B to this paper—provides further background about the fact patterns, the question, the views identified by the submitter and the rationale for those views.

Findings from the information request

Information request

10. We sent an information request to members of the International Forum of Accounting Standard Setters, securities regulators and large accounting firms. We also made the submission available on our website.

11. The request asked:

(a) whether fact patterns such as the base fact pattern and the alternate fact pattern described in the submission (see paragraphs 5 and 6 of this paper) are common.

(b) if either the base or alternate fact patterns are common, whether respondents have observed differences in how entities with either the base or alternate fact patterns account for such arrangements and to describe such differences with references to the relevant requirements in IFRS Accounting Standards.

(c) if respondents have observed such differences:

(i) whether these differences have (or could have) a material effect on the entities' financial statements (and why or why not).

(ii) whether these differences are present and similar across jurisdictions or industries, or whether they are present only in particular jurisdictions or industries and if so, which jurisdictions or industries.

(iii) the root cause for these differences. For example, whether these differences are caused by different underlying contractual terms and conditions of the arrangement, or by different interpretations of the relevant requirements in IFRS Accounting Standards.

12. We received 14 responses—six from national accounting standard-setters, seven from large accounting firms and one from an organisation representing a group of securities regulators. The responses received represent informal opinions and do not necessarily reflect the official views of those respondents or their organisations.

Summary of findings

Prevalence

13. Most respondents said the base fact pattern and the alternate fact pattern described in the submission are not prevalent[1].

14. Two accounting firms said that while the base and alternate fact patterns are not common across jurisdictions, they are seen more often in South Korea and are used as a means of obtaining finance. One of these respondents said these transactions are seen particularly in entities that have significant funding needs and operating losses such as game developers and artificial intelligence and technology companies. However, the specific terms and conditions of the arrangements can differ.

[1] Respondents used different terms to explain that the transactions are not prevalent—for example, the transactions are not commonly observed or are encountered only infrequently or rarely.

15. One respondent said the use of equity-linked derivatives, involving different types of swaps, is well established in practice, but the specific fact patterns described in the submission are not prevalent.

Diversity in applying IFRS Accounting Standards

16. Most respondents said the fact patterns in the submission are not prevalent and consequently did not provide feedback on whether there are differences in how entities account for such arrangements.

17. The two respondents that said transactions similar to those described in the submission are seen more often in South Korea said they are aware of differing interpretations in that jurisdiction of paragraphs 12–13 of IAS 28 which correlate to the different views discussed in the submission. One of these respondents said the differences observed could have a material effect on an entity's financial statements because the transactions may involve significant amounts of financing.

Other fact patterns

18. A few respondents commented on other transactions. For example, these respondents said they have observed transactions involving:

    (a) the reduction of an interest in a subsidiary—rather than an associate—which included a price return swap (applying requirements in IFRS 10 *Consolidated Financial Statements* that they said are similar to those in paragraphs 12–13 of IAS 28); or

    (b) the use of a total return swap (TRS)[2] rather than a PRS.

[2] While the exact terms and conditions of a TRS can differ from one arrangement to the next, a TRS generally involves a swap of the total economic performance of a reference asset (such as an equity instrument) in exchange for financing.

Staff analysis

Criteria for a standard-setting project

19. Paragraph 5.19 of the IFRS Foundation *Due Process Handbook* (*Handbook*) states that the Committee assesses the need for a standard-setting project based on whether:

    (a) the matter has widespread effect—that is:

        (i) the circumstance or transaction is prevalent, or is expected to be prevalent; and

        (ii) there is diversity, or expected diversity, in the application of IFRS Accounting Standards that has, or is expected to have, a material effect on those affected;

    (b) it is necessary to add or change requirements in IFRS Accounting Standards to improve financial reporting—that is, the principles and requirements in IFRS Accounting Standards do not provide an adequate basis for an entity to determine the required accounting;

    (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework for Financial Reporting*; and

    (d) the matter is sufficiently narrow in scope that the [International Accounting Standards Board (IASB)] or the Committee can address it efficiently, but not so narrow that it is not cost-effective for the IASB or the Committee and stakeholders to undertake the due process required to amend an IFRS Accounting Standard.

Does the matter have widespread effect? (paragraph 5.19(a))

20. The purpose of any information request we send to stakeholders is to understand whether a submission meets the criterion in paragraph 5.19(a) of the *Handbook*—that is, whether the matter set out in the submission has widespread effect. We consider:

    (a) the prevalence, or expected prevalence, of the transaction or fact pattern submitted; and

    (b) whether there is diversity, or expected diversity, in the application of IFRS Accounting Standards to that transaction or fact pattern that has, or is expected to have, a material effect on those affected.

21. Findings from our information request indicate that the fact patterns in the submission are not prevalent. We note in particular:

    (a) most respondents said the base fact pattern and the alternate fact pattern described in the submission are not prevalent;

    (b) two respondents said the fact patterns are seen more often only in South Korea. However, as one of these respondents said, the transactions are seen in specific situations, and the terms and conditions of the arrangement can differ from one transaction to the next.

22. We have not obtained evidence to date that the matter has widespread effect and, consequently, in our view, the criterion in paragraph 5.19(a) of the *Handbook* is not met. In accordance with paragraph 5.22 of the *Handbook*, a standard-setting project is not needed to address the question submitted.

Staff conclusion and recommendation

23. Based on our assessment of the criterion in paragraph 5.19(a) of the *Handbook* (as discussed in paragraphs 20–22), we recommend that the Committee publish a tentative agenda decision explaining its decision that a standard-setting project is not needed.

24. Our recommendation is based on evidence we obtained to date from our information request. Should there be additional evidence that could lead to a different conclusion on whether the matter has widespread effect, stakeholders will have the opportunity to share this with the Committee by providing feedback on the tentative agenda decision.

25. Appendix A sets out the suggested wording of the tentative agenda decision.

Questions 1 and 2 for the Committee

1. Does the Committee agree with our conclusion that the criterion in paragraph 5.19(a) of the *Handbook* is not met and, consequently, there is no need for a standard-setting project?
2. Does the Committee have any comments on the suggested wording of the tentative agenda decision in Appendix A to this paper?

Appendix A—Suggested wording of the tentative agenda decision

This appendix sets out the suggested wording of the tentative agenda decision. Paragraph numbers are included to facilitate referencing but will be removed when the tentative agenda decision is published in IFRIC *Update*.

Reduction of an Interest in an Associate using a Price Return Swap (IAS 28 *Investments in Associates and Joint Ventures*)

A1. The Committee received a request about how an entity accounts for the reduction of an interest in an associate, applying IAS 28 *Investments in Associates and Joint Ventures*, when the entity retains significant influence and the transaction includes a price return swap.

Fact pattern and question

A2. The Committee considered a fact pattern in which:

(a) an entity (transferor) transfers a portion of its interest in an associate (transferred interest) to another entity (the transferee) for a specified initial transaction price, while retaining significant influence over that associate; and

(b) the transaction includes a price return swap. Under the terms of the price return swap:

(i) the transferor receives (or pays) the difference between (a) the fair value of the transferred interest at the maturity date of the price return swap and (b) the initial transaction price of the transferred interest. This amount is settled in cash upon maturity of the price return swap.

(ii) the transferee receives a fixed return over the period of the price return swap (for example, three years).

(c) the transferee holds all legal rights associated with the acquired interest, including the right to dispose of the shares at any point and to any counterparty.

(d) there are no other agreements—such as call options or rights of first refusal—that would require or allow the transferor to repurchase the transferred interest on maturity of the price return swap.

A3. The Committee also considered an alternate fact pattern in which all facts and circumstances are the same as in the base fact pattern, except that the transferor also holds a right of first refusal. This right of first refusal allows the transferor the option to repurchase the transferred interest if the transferee chooses to sell that interest upon maturity of the price return swap.

A4. The request asks whether, applying paragraphs 12–13 of IAS 28, the price return swap is a 'derivative containing potential voting rights'. The request says this assessment affects whether the transferor derecognises the transferred interest.

Findings

A5. Evidence gathered by the Committee [to date] indicates that the fact patterns described in the submission are not prevalent.

Conclusion

A6. Based on its findings, the Committee concluded that the matter described in the request does not have widespread effect. Consequently, the Committee [decided] that a standard-setting project is not needed to address the request.

Appendix B—Submission

B1. The submission is reproduced below.

Accounting for the Transferor in a Disposal of an Investment in an Associate through a Price Return Swap (PRS)

** For ease of reference, [the submitter] provide simplified illustrative examples below.*

Suggested agenda item:

[The submitter] received a submission regarding the accounting for Price Return Swap[3] (PRS) arrangements. The issue concerns how to account for derecognition of transferred equity interests and whether PRS arrangements provide the transferor with existing access to the returns associated with those interests under IAS 28 paragraphs 12–13.

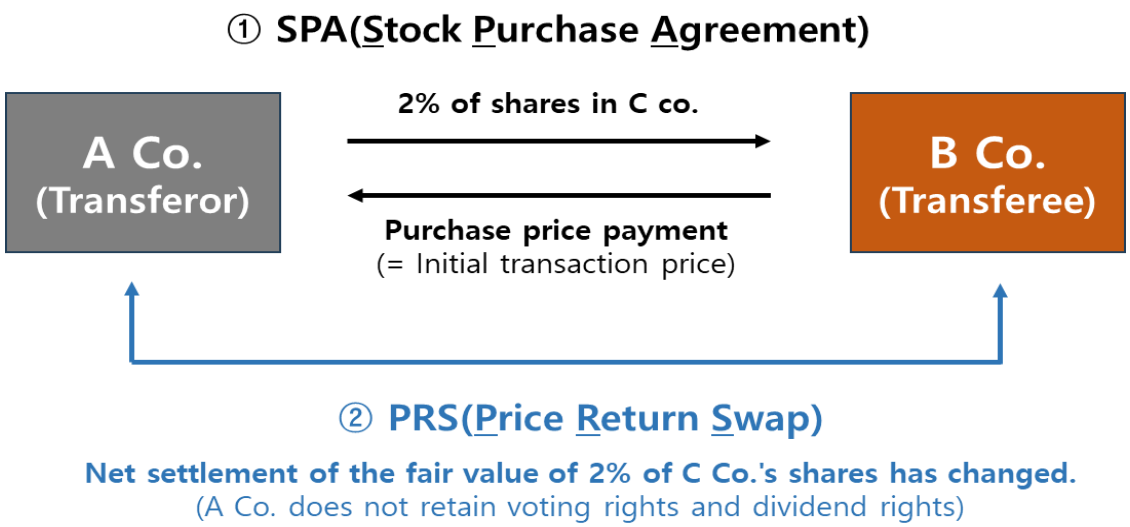
Grey areas in current IFRS Accounting Standards:

The application of IAS 28 to Price Return Swap (PRS) arrangements highlights significant grey areas, particularly regarding how paragraphs 12–13 on "potential voting rights and other derivatives containing potential voting rights" should be interpreted. Because PRS arrangements transfer economic exposure without legal ownership or voting rights, it is unclear whether they fall within the scope of such derivatives under IAS 28. Practice is split between an economic-substance approach focused on risks and rewards and a narrow reading that limits the requirements to derivatives containing potential voting rights through actual (physical) delivery. This ambiguity results in divergent outcomes, including whether the transferred interest should be derecognised, and reflects the absence of explicit IAS 28 guidance for net-settled derivatives—an area requiring further interpretive clarification that may need to be addressed by the IFRS Interpretations Committee.

[3] A price return swap is a type of equity swap in which one party pays a fixed or floating rate, while the other pays an amount based solely on changes in the price of an underlying equity, without any transfer of ownership of the underlying asset. Unlike a total return swap—which transfers both price movements and the economic benefits associated with ownership such as dividends—a price return swap isolates and exchanges only the capital appreciation or depreciation of the underlying equity.

Background information:

Illustration: Deal structure



As of X1.2.1, A Co. held a 23% interest in C Co. accounted for as an investment in an associate. On that date, A Co. entered into a Stock Purchase Agreement (hereafter referred to as the 'SPA') to transfer a 2% interest in C Co. to B Co. Concurrently, A Co. and B Co. entered into a PRS arrangement referencing the transferred shares (a 2% interest in C Co.) as the underlying asset. The contractual term is a fixed three-year period, with a maturity date of X4.2.1.

Under the PRS arrangement, A Co. and B Co. agree to net settle the gains or losses arising from changes in the fair value of the underlying asset (a 2% interest in C Co.) at maturity. Specifically, if the sale price of the underlying asset at maturity, exceeds the initial transaction price as of X1.2.1 under the SPA, B Co. pays A Co. the difference. Conversely, if the value ends up below the initial transaction price as of X1.2.1, A Co. pays B Co. the shortfall. In addition, under the PRS arrangement, A Co. also has to provide B Co. with a fixed return, which is calculated by applying an agreed-upon rate to the initial transaction price, during the three-year contract period.

B Co. holds all legal rights associated with the acquired interest (a 2% interest in C Co) in accordance with the SPA, which also serves as the underlying asset of the PRS arrangement. These legal rights include the right to dispose of the shares at holder's discretion, both during the term of the contract and upon its maturity (regardless of the counterparty), as well as voting and dividend rights.

Although the legal ownership of the 2% interest in C Co. has been transferred to B Co., A Co. remains substantially exposed to all the risks and rewards associated with changes in the fair value of the underlying asset. There are no contractual provisions, such as a call option held by A Co., a put option held by B Co., or a right of first offer (ROFO), that would enable A Co. to repurchase the underlying asset at maturity.

After the SPA and PRS arrangements were executed, A Co. retained significant influence over C Co. because it still held a 21% equity interest.

Current practice:

According to IAS 28*, if A Co. no longer retains existing ownership of access to the returns associated with the portion of the investment that has been transferred*, A Co. would derecognise the transferred interest from its books. In that case, the PRS arrangement would be treated as a stand-alone derivative in line with the requirements of IFRS 9.

Main Issue:

In order to assess whether A Co. retains access to the returns associated with the transferred 2% interest, which is the underlying asset of the PRS arrangement, potential voting rights should be considered when determining existing ownership, in accordance with paragraphs 12 and 13 of IAS 28[4].

[4] 12 When potential voting rights or other derivatives containing potential voting rights exist, an entity's interest in an associate or a joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 13 applies.

However, based on the above fact pattern, divergent views exist in practice when assessing existing ownership by considering **derivatives containing potential voting rights**.

In particular, it is unclear under IFRS whether the analysis should consider the actual(physical) delivery of the underlying asset (a 2% interest in C Co.) referenced in the PRS arrangement.

(Main Question 1)
How should paragraphs 12 and 13 of IAS 28 be applied to the transferor's accounting for the PRS arrangement (based on the fact pattern described in this paper)?

The PRS arrangement is a derivative that must be settled at maturity on X4.2.1 based on the changes in the price of the underlying asset (a 2% interest in C Co.), without the actual delivery of those shares. This type of arrangement differs from plain-vanilla options such as put or call options, which are usually settled by transferring the underlying asset upon exercise.

It is unclear whether the PRS arrangement described in this paper meets the definition of 'a derivative containing potential voting rights' stated in paragraphs 12 and 13 of IAS 28. Which of the two views (1 and 2) presented in this paper do you consider more consistent with IAS 28? Hereafter, we outline two views currently observed in practice.

***View 1**: **The determination of existing ownership does not depend on the existence of actual delivery.** A Co. would not derecognise its 2% interest in C Co., and the cash received would be recognised as a liability.*

In this case, the net profit or loss settlement under the PRS arrangement does not involve the actual delivery of the underlying assets. However, A Co. receives all gains and losses arising

13 In some circumstances, an entity has, in substance, an existing ownership as a result of a transaction that currently gives it access to the returns associated with an ownership interest. In such circumstances, the proportion allocated to the entity is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.

from changes in the fair value of C Co.'s shares. Accordingly, A Co. is exposed to, and therefore obtains, the full economic benefits and risks associated with the 2% interest in C Co.

Considering the economic substance of the arrangement, A Co. continues to have existing access to the economic benefits attributable to the 2% interest in C Co. Accordingly, A Co. is regarded as holding existing ownership, which corresponds to a derivative that incorporates potential voting rights.

Certain accounting firm manuals indicate that, when assessing existing ownership, the key criterion is who bears the risks and rewards arising from changes in the fair value. This is irrespective of whether actual delivery occurs, or the voting rights are exercised.

In summary, under the PRS arrangement in this fact pattern, A Co. would not derecognise its 2% interest in C Co., and the cash received would be recognised as a liability.

***View 2**: **For derivative instruments containing potential voting rights, the actual delivery of the underlying asset is inherently assumed.** A Co. should derecognise the C Co.'s shares transferred to B Co. and recognise the net settlement element relating to fair value changes in C Co. shares as a derivative.*

Paragraph 12 of IAS 28 refers to '**potential voting rights or other derivatives containing potential voting rights**.' This wording indicates that the paragraph is intended to address derivatives that contain potential voting rights, rather than derivative instruments that are net-settled solely based on fair value changes.

Paragraph 13 of IAS 28 further refers to 'the eventual exercise of those potential voting rights and other derivative instruments that currently give the entity access to the returns.' This wording is intended to refer back to the 'other derivative instruments containing potential voting

rights' mentioned in paragraph 12 of IAS 28. Accordingly, paragraph 13 of IAS 28 applies only to derivatives that would give rise to voting rights upon exercise.

The PRS arrangement described in this paper is settled on a net basis, with no actual delivery of the underlying shares. It is based on changes in the fair value of C Co.'s shares. Therefore, it is unlikely to be considered a 'derivative instrument containing potential voting rights' over those shares.

In summary, price return swaps (PRS) meet the definition of a derivative. However, they provide exposure solely to fair value changes in the underlying assets and do not grant voting rights or ownership at the maturity of the PRS. Therefore, these instruments do not include potential voting rights and fall outside the scope of 'derivative instruments' in paragraphs 12 and 13 of IAS 28.

Consequently, A Co. should derecognise the C Co. shares transferred to B Co., recognising the net settlement features relating to changes in the fair value of the C Co. shares as a stand-alone derivative.

Other matters for discussion:

How should paragraphs 12 and 13 of IAS 28 be applied to the transferor's accounting for the PRS arrangement when the transferor also holds a right of first refusal (ROFR)?

Stakeholders have noted that PRS arrangements exist in practice under a variety of conditions. They have also highlighted that, in cases that extend beyond the fact pattern described in this paper, there are divergent views on the appropriate accounting treatment. This indicates that further consideration by the IFRS Interpretations Committee may be required.

Beyond the contractual features set out in this paper's fact pattern, A Co. commonly holds a right of first refusal (ROFR) over the underlying asset. Under this right, if B Co. elects to sell the

shares, A Co. may, upon maturity on X4.2.1, require B Co. to sell the C Co. shares to A Co. or to a third party designated by A Co. On this point, stakeholders have raised a further question: would the conclusions reached in Main Question 1 change if the additional terms and conditions in IAS 28 were incorporated into the existing fact pattern?

Reasons for the IFRS Interpretations Committee to address the issue:

PRS arrangements have become an important mechanism for large-scale fundraising and may therefore arise in many IFRS jurisdictions. Accordingly, the accounting issues could have a widespread effect on the global financial reporting landscape. The various views presented above lead to very different accounting treatments. Currently there is diversity in practice.

a) Is the issue widespread and has, or is expected to have, a material effect on those affected?

Yes. In our jurisdiction, the use of PRS arrangements accompanied by the transfer of underlying assets has increased rapidly, particularly among major conglomerates. Such arrangements are widely used by large companies in our jurisdiction. The prevalence and magnitude of these transactions highlight the need for clarity on the appropriate accounting treatment under IFRS Accounting Standards. This type of transaction has substantial implications for entities' financial statements—particularly for transferors. Key financial indicators, including leverage ratios, may differ depending on whether the transferred interest is derecognised in the transferor's financial statements. Thus, the matter raised in this paper could have a material effect on how the economic substance of these arrangements is presented.

b) Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Yes. Comparability would be enhanced if entities could apply clear principles and a specific standard when assessing whether to derecognise the transferred shares under a PRS arrangement.

c) Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?

Yes. It is concerned with the interpretation of specific paragraphs in IAS 28.

d) Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process?

Yes, it concerns the accounting for a transferor in the disposal of an investment in an associate via a price return swap (PRS), specifically the interpretation of certain paragraphs in IAS 28.

e) Will the solution developed by the Interpretations Committee be effective for a reasonable time period?

Yes. The issue is not related to any current or planned IASB project and is expected to remain relevant under IAS 28 for the foreseeable future. Therefore, a solution developed by the Interpretations Committee would be effective for a reasonable time period and provide enduring guidance to address the existing diversity in practice.

For these reasons, we believe that this issue meets the criteria for acceptance onto the Committee's agenda.