Potential effect of IFRS 3 *Business Combinations* (as revised in 2008) and IAS 27 *Consolidated and Separate Financial Statements* (as amended in 2008) on equity method accounting (IAS 28 *Investments in Associates)*—July 2009

The IFRIC staff noted that the FASB's Emerging Issues Task Force (EITF) had added to its agenda EITF Issue No. 08-6 *Equity Method Investment Accounting Considerations*. EITF 08-6 addresses several issues resulting from the joint project by the IASB and FASB on accounting for business combinations and accounting and reporting for non-controlling interest that culminated in the issue of IFRS 3 (as revised in 2008) and IAS 27 (as amended in 2008) and SFAS 141(R) and SFAS 160.

At its meeting in May 2009, the IFRIC deliberated two of the issues considered in EITF 08-6:

- How the initial carrying amount of an equity method investment should be determined
- How an equity method investee's issue of shares should be accounted for.

The IFRIC noted that IFRSs consistently require assets not measured at fair value through profit or loss to be measured at initial recognition at cost. Generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issuance of the asset such as professional fees for legal services, transfer taxes and other transaction costs. Therefore, the cost of an investment in an associate at initial recognition determined in accordance with paragraph 11 of IAS 28 comprises its purchase price and any directly attributable expenditures necessary to obtain it.

The IFRIC noted that paragraph 19A of IAS 28 [now replaced by paragraph 25 of IAS 28] provides guidance on the accounting for amounts recognised in other comprehensive income when the investor's ownership interest is reduced, but the entity retains significant influence. The IFRIC noted that there is no specific guidance on the recognition of a gain or loss resulting from a reduction in the investor's ownership interest resulting from the issue of shares by the associate. However, the IFRIC also noted that reclassification of amounts to profit or loss from other comprehensive income is generally required as part of determining the gain or loss on a disposal. Paragraph 19A of IAS 28 applies to all reductions in the investor's ownership interest, no matter the cause.

The IFRIC concluded that the agenda criteria were not met mainly because, given the guidance in IFRSs, it did not expect divergent interpretations in practice. Therefore, the IFRIC decided not to add these issues to its agenda.