Staff paper

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Project	**Primary Financial Statements**
Topic	**Associates and joint ventures accounted for using the equity method**
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Objective

1. This paper discusses the proposals related to associates and joint ventures accounted for using the equity method in the Exposure Draft *General Presentation and Disclosures* (Exposure Draft). It discusses:

    (a) a summary of the IASB's discussions, proposals in Exposure Draft and tentative decisions to date on the classification of income and expenses from investments in associates and joint ventures accounted for using the equity method;

    (b) the feedback received in targeted outreach on the IASB's tentative decisions;

    (c) fair value measurement and transition requirements; and

    (d) the proposals in the Exposure Draft related to cash flows from investments in associates and joint ventures.

2. We are grateful for the time and effort of all the stakeholders that have provided input on classification of income and expenses from associates and joint ventures accounted for using the equity method for the IASB's consideration.

Summary of the staff recommendations in this paper

3. We recommend the IASB:
   - (a) confirm the tentative decision to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category;
   - (b) provide transition requirements which permit an entity to apply the election in paragraph 18 of IAS 28 *Investments in Associates and Joint Ventures* to measure an investment in an associate or joint venture at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* when such an investment is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, when it first applies IFRS X; and
   - (c) withdraw the proposed new paragraph 38A of IAS 7 *Statement of Cash Flows* in the Exposure Draft. As a result, all entities would be required to classify dividends received from interests in associates and joint ventures accounted for using the equity method in a single category applying the same guidance as applicable to the entity for all other dividends received.

Structure of the paper

4. This paper is structured as follows:
   - (a) background (see paragraphs 5–39);
   - (b) targeted outreach feedback (see paragraphs 40–56)
   - (c) staff analysis and recommendation on classification (see paragraphs 57–75);
   - (d) fair value measurement and transition requirements (see paragraphs 76–94);
   - (e) cash flows from investments in associates and joint ventures (see paragraphs 95–112);

(f) Appendix A—Previous IASB discussions on associates and joint ventures accounted for using the equity method;

(g) Appendix B—Overview of associates and joint ventures held by insurance entities;

(h) Appendix C—Outreach with users that specialise in the insurance industry;

(i) Appendix D—Statement of profit or loss illustrating ‘operating profit or loss and income and expenses from investments accounted for using the equity method’; and

(j) Appendix E—Transition requirements for previous amendments to IAS 28.

Background

5. This section provides a summary of the IASB’s discussions and tentative decisions to date on the classification of income and expenses from associates and joint ventures accounted for using the equity method. Appendix A contains a list of the IASB’s discussions and tentative decisions to date in chronological order. This section is structured as follows:

   (a) starting point for the IASB’s discussions (see paragraphs 6–7);

   (b) proposal in the Exposure Draft (see paragraphs 8–13);

   (c) feedback on the proposals in the Exposure Draft (see paragraphs 14–18);

   (d) issue raised by stakeholders in the insurance industry (see paragraphs 19–24);

   (e) analysis of issue raised by stakeholders in the insurance industry (see paragraphs 25–33); and

   (f) IASB tentative decisions from its redeliberations to date (see paragraphs 34–39).

Starting point for the IASB's discussions

6. Paragraph 82(c) of IAS 1 *Presentation of Financial Statements* requires an entity to present a line item in the statement of profit or loss for the share of the profit or loss of associates and joint ventures accounted for using the equity method. However, IAS 1 does not prescribe where in the statement of profit or loss this line item should be presented.

7. During the research phase of the project we noted significant diversity in practice in the presentation of this line item (see Agenda Paper 21A of November 2016 IASB meeting). Therefore, the IASB began developing the proposals in this project by focusing on reducing this diversity in practice and enhancing comparability by specifying where in the statement of profit or loss an entity should present this line item (see paragraph BC77 of the Basis for Conclusions on the Exposure Draft).

Proposals in the Exposure Draft

8. The Exposure Draft proposed that income and expenses from associates and joint ventures accounted for using the equity method would be classified outside of the operating category by all entities as follows:

   (a) income and expenses from associates and joint ventures accounted for using the equity method that are integral to the entity's operations would be classified in a separate category directly below operating profit followed by a subtotal of 'operating profit or loss and income and expenses from integral associates and joint ventures'; and

   (b) income and expenses from non-integral associates and joint ventures would be classified in the investing category (see paragraphs 47, 48, 53 and 60 of the Exposure Draft).

9. The Exposure Draft proposed that a significant interdependency between an entity and an associate or joint venture would indicate that the associate or joint venture is integral to the main business activities of the entity. Examples given in the Exposure

Draft of significant interdependency between an entity and an associate or joint venture include:

(a) having integrated lines of business with the associate or joint venture;

(b) sharing a name or brand with the associate or joint venture so that externally it may appear as one business in relation to the activities of the associate or joint venture (although the reporting entity may have other, separate businesses); and

(c) having a supplier or customer relationship with the associate or joint venture that the entity would have difficulty replacing without significant business disruption (see paragraph 20D of the proposed amendments to IFRS 12 *Disclosures of Interests in Other Entities* in the Exposure Draft).

10. The Exposure Draft also proposed that income and expenses from associates and joint ventures *not accounted for using the equity method* be classified in the investing category unless they are investments made in the course of an entity's main business activities[1] in which case the entity would classify them in the operating category (see paragraphs 48 and B32 of the Exposure Draft).

11. These proposals in the Exposure Draft were developed with significant input from stakeholders[2]. In particular, the proposal to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit has generally been supported by many users since the start of the project (see the summary of the February 2016 CMAC meeting, paragraphs 13-16 of Agenda Paper 21E of the June 2017 IASB meeting and the summary of the March 2018 CMAC meeting).

[1] In the redeliberations, the IASB has tentatively decided to change 'invests in the course of main business activities' to 'invests as a main business activity'.

[2] Key discussions on classification of share of profit or loss from associates and joint ventures accounted for using the equity method with consultative bodies prior to issuing the Exposure Draft include: the February 2016 CMAC meeting, the July 2017 ASAF meeting, the December 2017 ASAF meeting, the March 2018 GPF meeting and the March 2018 CMAC meeting.

12. In summary, users have explained that they would like the share of profit or loss from associates and joint ventures accounted for using the equity method to be classified in a consistent location by all entities so that they have a consistent starting point for their analysis. They also said that when analysing the performance of an entity and determining a valuation for an entity they consider investments in associates and joint ventures accounted for using the equity method separate to an entity's consolidated operations[3]. The reasons given include:

    (a) the equity method of accounting combines income and expenses that users would normally analyse separately, including financing expenses and income taxes;

    (b) classifying the share of profit or loss of associates and joint ventures in the operating category would significantly disrupt users' analyses of operating margins and distort the metrics included in their earnings multiples; and

    (c) the entity does not control the activities of associates and joint ventures as it controls the other activities that give rise to income and expenses classified in the operating category (see BC82 of the Basis for Conclusions to the Exposure Draft).

13. Some users also explained that they make adjustments to their analysis of an entity for the results of some associates and joint ventures accounted for using the equity method. For example, when the associate or joint venture accounted for using the equity method has a material impact on an entity's valuation or when there is hidden leverage[4].

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[3] This approach was confirmed by reviewing a sample of analysts' reports. A more detailed discussion of how users analyse entities with associates and joint ventures accounted for using the equity method is included in paragraphs 13-16 of Agenda Paper 21E of the June 2017 IASB meeting. The approach to analysing entities with associates and joint ventures accounted for using the equity method was most recently discussed in the equity method session at the CMAC meeting in March 2023.

[4] Associates and joint ventures may have liabilities which are explicitly or implicitly guaranteed by the investor. An investor may also make a capital injection and take control of an associate or joint venture if the associate or joint venture is unable to repay its liabilities as they fall due or if it breaches its debt covenants.

Feedback on the proposals in the Exposure Draft

14. The IASB discussed the feedback on the proposals in the Exposure Draft in December 2020 (see Agenda Paper 21D), October 2021 (see Agenda Paper 21A) and December 2021 (see Agenda Paper 21B) for entities that do not have specified main business activities and in May 2022 (see Agenda Paper 21D) and September 2022 (see Agenda Paper 21B) for entities with specified main business activities[5].

15. Overall, there was not much support among stakeholders for the proposal to require entities to distinguish between integral and non-integral associates and joint ventures and fieldwork indicated significant difficulties with the proposed requirements. Some respondents suggested alternative approaches, including requiring an entity to classify income and expenses from associates and joint ventures accounted for using the equity method in a single line in the operating category. These stakeholders included entities in specific jurisdictions and industries, such as real estate (see Agenda Paper 21D of the May 2022 IASB meeting).

16. However, most users agreed with one aspect of the proposals, the exclusion from operating profit of the share of profit or loss from associates and joint ventures accounted for using the equity method (see Agenda Paper 21D of December 2020 IASB meeting, Agenda Paper 21D of the January 2021 IASB meeting and Agenda Paper 21D of the May 2022 IASB meeting).

17. Of the users that commented, one organisation representing users specifically commented on the proposal for entities with specified main business activities. This organisation said that the only case where the IASB should consider requiring an entity to classify income and expenses from associates and joint ventures accounted for using the equity method in the operating category is when the investments in the associates or joint ventures back insurance contracts (see Agenda Paper 21D of the

[5] Entities with specified main business activities are entities that invest as a main business activity in assets that generate a return individually and largely independently of the other resources held by the entity (referred to as 'entities that invest as a main business activity') or provide financing to customers as a main business activity.

May 2022 IASB meeting and Agenda Paper 21B of the September 2022 IASB meeting).

18. Other stakeholders, including a few entities in the insurance industry and accountancy bodies, also raised similar concerns about the proposals for entities in the insurance industry (see Agenda Paper 21D of the May 2022 IASB meeting).

Issue raised by stakeholders in the insurance industry

Relationship between IFRS 17 and the proposals in the Exposure Draft

19. IFRS 17 *Insurance Contracts* requires an entity to separately present:

    (a) insurance service result, comprising insurance revenue and insurance service expenses; and

    (b) insurance finance income or expense, comprising the change in the carrying amount of the group of insurance contracts arising from the effect of, and changes in, the time value of money and financial risk (see paragraphs 80, 87 and BC16 of IFRS 17).

20. Investments in assets are recognised and measured in accordance with other IFRS Accounting Standards. However, IFRS 17 requires an entity to disclose and explain the relationship[6] between investment returns on its assets and insurance finance income or expenses to enable users of its financial statements to evaluate the sources of finance income or expenses recognised in profit or loss and other comprehensive income (paragraph 110 of IFRS 17). The difference between investment returns and insurance finance income or expense, is referred to as 'net financial result' (see paragraph B78(d) of the Exposure Draft).

[6] A few stakeholders refer to this relationship as an ‘economic link between the insurance liabilities and invested assets’.

21. Applying the proposals in the Exposure Draft, 'insurance service result' and 'net financial result' are examples of subtotals similar to gross profit[7]. These subtotals that are similar to gross profit are important indicators of operating performance of entities with specified main business activities that are included in the operating category.

Associates and joint ventures held by insurance entities

22. Outreach with preparers in the insurance industry indicated that there are three key types of investments in associates and joint ventures:

    (a) investments in associates and joint ventures that are directly or indirectly linked to insurance contracts;

    (b) investments in associates and joint ventures backed by shareholders funds that are held for prudential purposes to meet solvency requirements; and

    (c) investments in associates and joint ventures held to undertake insurance and other business activities in some jurisdictions, particularly in Asia (see Appendix B for an illustration).

23. These preparers explained that:

    (a) investments in associates and joint ventures and portions of investments in associates that are directly linked to insurance contracts where policyholders bear the investment risk (some of the investments in associates and joint ventures in (a) of paragraph 22) are generally measured at fair value through profit or loss;

    (b) the purpose for holding the investment in the associate or joint venture accounted for using the equity method may change over the life of the investment, so entities do not generally distinguish between investments that are indirectly linked to insurance contracts in (a) and those that are held for prudential purposes to meet solvency requirements in (b) of paragraph 22;

[7] A subtotal is similar to gross profit when it represents the difference between a type of revenue and directly related expenses incurred in generating that revenue (see paragraph B78 of the Exposure Draft).

(c) investments in (a) and (b) of paragraph 22 would generally be considered to be part of 'investment return' and comprise 'net financial result' regardless of whether the associate or joint venture is accounted for using the equity method or at fair value through profit or loss—applying the proposals in the Exposure Draft these associates and joint ventures if accounted for using the equity method would generally be non-integral associates and joint ventures; and

(d) investments in (c) of paragraph 22 are similar to associates and joint ventures used to undertake business activities in other industries—applying the proposals in the Exposure Draft these associates and joint ventures if accounted for using the equity method may be either integral or non-integral associates and joint ventures.

24. Stakeholders in the insurance industry were particularly concerned about mismatches between investment income and insurance finance expenses that would arise in operating profit if the income and expenses from associates and joint ventures accounted for using the equity method in (a) and (b) of paragraph 22 were excluded from operating profit (see Agenda Paper 21D of the May 2022 IASB meeting).

Analysis of the issue raised by stakeholders in the insurance industry

25. In developing the proposals in the Exposure Draft, the IASB did not separately discuss the classification of income and expenses from each type of investment in associates and joint ventures discussed in paragraph 22. Therefore, in response to the concerns raised we conducted additional analysis to assess the size of the issue and which entities it may affect.

26. The work performed prior to the IASB making its tentative decision in September 2022 on classification of income and expenses from associates and joint ventures accounted for using the equity method held be insurance entities included:

(a) outreach with preparers in the insurance industry, the large networks and users, including audit partners and users that specialise in the insurance industry; and

(b) extensive analysis of data extracted from S&P CapitalIQ and the financial statements of insurance entities (contained in Agenda Paper 21D of the May 2022 and Agenda Paper 21B of the September 2022 IASB meetings).

Outreach with users that specialise in the insurance industry

27. The outreach with users that specialise in the insurance industry was requested by several IASB members during the IASB's discussions in May 2022 as the proposal to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit was strongly supported by users and one organisation representing users had also raised concerns about the proposal for insurance entities (see paragraphs 16 and 17). The approach to this outreach is explained in Appendix C.

28. As explained in paragraphs 45–49 of Agenda Paper 21B of the September 2022 IASB meeting, all users that participated in the outreach generally agreed with the comments from stakeholders that income and expenses from investments in associates and joint ventures accounted for using the equity method that are directly or indirectly linked to insurance contracts or held for prudential purposes to meet solvency requirements should ideally be included in net financial result in operating profit. However, they said that requiring entities in the insurance industry to classify income and expenses from all associates and joint ventures accounted for using the equity method in the investing category would not be problematic for their analysis.

29. A few of the users said that income and expenses from investments in associates and joint ventures that undertake insurance underwriting activities should be included in operating profit. One user said that distinguishing between associates and joint ventures that undertake insurance underwriting activities and associates and joint ventures held for investments purposes would currently not provide material information. However, if the information was to become material in the future, then they would like sufficient disclosures to be able to determine the split between income

and expenses from associates and joint ventures accounted for using the equity method that relate to the investment result and those that relate to the insurance result.

30. A few users said that they prefer income and expenses from associates and joint ventures accounted for using the equity method to be classified consistently across all entities. A few users acknowledged that if the IASB were to develop requirements that would permit or require entities in a specific industry to classify income and expenses from investments in associates and joint ventures accounted for using the equity method in the operating category, entities in other industries, such as private equity funds, may also request similar requirements.

31. The users also said that it tends to be large insurance entities that invest in associates and joint ventures and such investments tend to be in the life insurance sector of the industry.

Staff conclusion from the outreach and analysis discussed by the IASB

32. The staff conclusion from the outreach and analysis that was discussed by the IASB in September 2022 (see Agenda Paper 21B) was that on balance insurance entities should classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category the same as all other entities because:

    (a) the issue raised in the feedback is not pervasive across the global insurance industry; and

    (b) outreach with users that specialise in the insurance industry did not indicate that requiring insurance entities to classify income and expenses from all associates and joint ventures accounted for using the equity method in the investing category would be problematic for their analysis.

33. At the May and September 2022 IASB meetings, IASB members acknowledged that information to support a decision on the proposal for insurance entities is incomplete as financial statements applying IFRS 17 are not available in the marketplace.

However, IASB members said that they do not think that additional research now would result in additional information and that they should not delay making a decision until a full set of financial statements applying IFRS 17 becomes available as it would substantially delay the project (see Agenda Paper 21B of the September 2022 IASB meeting).

IASB tentative decisions from its redeliberations to date

34. In the redeliberations on the proposals in the Exposure Draft, the IASB has tentatively decided to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category in the statement of profit or loss (see Agenda Paper 21A of the October 2021 IASB meeting, Agenda Paper 21B of the December 2021 IASB meeting and Agenda Paper 21B of the September 2022 IASB meeting).

35. In summary, the IASB tentatively decided to specify that income and expenses from associates and joint ventures accounted for using the equity method should be classified in the investing category, regardless of their relationship with an entity's main business activities, because:

   (a) of the strong support from users for these income and expenses to be classified outside of operating profit (see paragraphs 12 and 16);

   (b) some associates and joint ventures accounted for using the equity method (non-integral associates and joint ventures) are assets that generate returns individually and largely independently from an entity's other resources and these assets are classified in the investing category;

   (c) the benefits of simplicity of classification in a single category given the IASB's tentative decision to withdraw the proposal to require entities to distinguish between integral and non-integral associates and joint ventures; and

(d) different requirements for different entities introduces complexity and subjectivity as entities would be required to exercise judgement to apply the requirements.

36. In February 2022 (see Agenda Paper 21A), the IASB tentatively decided to retain the requirement in IAS 1 for entities to present a specified line item for the share of profit or loss from associates and joint ventures accounted for using the equity method. The IASB also tentatively decided that:

(a) an entity would present a specified line item when the resulting presentation does not detract from the statement of profit or loss providing an understandable overview; and

(b) an entity would disclose a specified line item in the notes when the amount is material and not presented in the statement of profit or loss.

37. In September 2021 (see Agenda Paper 21D), the IASB also tentatively decided to emphasise that a single dissimilar (non-shared) characteristic between items would be sufficient to require an entity to disaggregate information about those items if that information were material. Applying the IASB's tentative decisions an entity would disaggregate the share of profit of loss from associates and joint ventures accounted for using the equity method with dissimilar characteristics when material. The share of profit or loss from associates and joint ventures accounted for using the equity method can be presented in more than one line in the investing category when the resulting presentation is necessary for understanding performance of the entity.

38. In September 2022 (see Agenda Paper 21E), the IASB also tentatively decided to make 'operating profit or loss and income and expenses from investments accounted for using the equity method' a specified subtotal (see Appendix D for a statement of profit or loss illustrating this subtotal). An entity would present this subtotal when it is necessary for understanding performance of the entity. An entity may use a different label if that label faithfully represents the income and expenses included in it.

39. If an entity uses this subtotal to communicate its financial performance in its public communications, it would not meet the definition of a management performance measure. The specified subtotal would include income and expenses from all associates and joint ventures accounted for using the equity method, so if an entity used a subtotal that included only the income and expenses from selected associates and joint ventures, that subtotal would be a management performance measure.

Targeted outreach feedback

40. During targeted outreach (see Agenda Paper 21A of the January 2023 IASB meeting), we did not ask a specific question on classification of income and expenses from associates and joint ventures accounted for using the equity method. However, at some outreach events the Accounting Standards Advisory Forum (ASAF) member hosting the event asked a specific question on the IASB's tentative decisions related to associates and joint ventures accounted for using the equity method and at other outreach events some participants shared their views even though a specific question was not asked.

41. This section of the paper we discuss:

    (a) the general feedback received (see paragraphs 42–47);

    (b) the feedback from a national standard setter (see paragraphs 48–50);

    (c) the feedback from stakeholders in the insurance industry (see paragraphs 51–56); and

    (d) the staff analysis, staff recommendation and question for the IASB (see paragraphs 57–75).

General feedback received

42. During some outreach events, some participants expressed strongly held views about the classification of income and expenses from associates and joint ventures accounted for using the equity method. Some (mainly preparers and particularly those

in some jurisdictions in Europe and Asia) said that in their view some or all income and expenses from such investments should be included in operating profit.

43. The most frequent reasons for disagreeing with the IASB's tentative decision are:

(a) associates and joint ventures accounted for using the equity method are a core part of the entity's operations and not investments and, therefore, should be classified in the operating category rather than the investing category; and

(b) in some jurisdictions entities can only conduct operations through associates and joint ventures, but these associates and joint ventures are managed in the same way as operations conducted by the entity and its subsidiaries.

44. One participant said that there can be an economic relationship between the associate and joint venture and the reporting entity that would justify classification of the income and expenses from associates and joint ventures accounted for using the equity method in the operating category, but in this participant's view the IASB's tentative decision to classify them in the investing category removes judgement over determining which associates and joint ventures should be classified in the operating category and makes classification clear.

45. Some participants supported the IASB's tentative decision to withdraw the proposal to distinguish between integral and non-integral associates and joint ventures. However, a few participants would have preferred the IASB to continue with the proposal to distinguish between integral and non-integral associates and joint ventures.

46. A few participants provided examples of market developments since the Exposure Draft was published, such as new legislation in the banking industry related to the provision of financial services. One participant explained that the new legislation has resulted in industry peers entering into new joint arrangements that are operational in nature. These joint arrangements are accounted for as joint operations or joint ventures depending on the terms of the arrangement. This participant is concerned about structuring opportunities that could arise from the IASB's tentative decision to

classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit.

47. Some participants (mainly users) said income and expenses from associates and joint ventures accounted for using the equity method should not be included in the operating category because they include a mix of income and expenses from all categories including those of financing and income tax which impact on margin analysis. Some of these participants also said that the results of non-controlled entities should not be included in an entity's operating profit.

Feedback from a national standard setter

48. At one targeted outreach event we were presented with a detailed analysis of associates and joint ventures accounted for using the equity method held by 4,940 listed entities over a three-year period (2019-2021) that was conducted by the national standard setter in response to the concerns raised by stakeholders in their jurisdiction of the impact of the IASB's tentative decision on operating profit in certain industries that operate using associates and joint ventures accounted for using the equity method. As a result of their analysis, the national standard setter noted that:

(a) the number of listed entities that hold investments in associates and joint ventures in their jurisdiction is increasing (57.39% in 2019, 59.55% in 2020 and 61.60% in 2021);

(b) the top three industries with associates and joint ventures from 2019-2021 were automobile manufacturing, insurance and real estate and other industries in the top five in a particular year(s) during this three-year period were mining (2019), IT services (2020), transport storage and postal services (2019 and 2021) and electricity, heat, gas and water production and supply (2020 and 2021);

(c) the listed entities in these industries explicitly disclose the operation data from associates and joint ventures together with data from subsidiaries as the overall operating performance of the listed entity within the management discussion and analysis; and

(d) the IASB’s tentative decision to classify income and expenses from all associates and joint ventures accounted for using the equity method outside of operating profit will have a significant impact and even a distorting impact on the operating performance of those entities with a high proportion of associates and joint ventures accounted for using the equity method.

49. The national standard setter asked that ‘the IASB take into full consideration the actual situation for entities in the automobile manufacturing, real estate, insurance and other industries that will be greatly impacted and not just focus on improving comparability while ignoring reflecting the economic substance faithfully’.

50. We understand from outreach with stakeholders that entities in this jurisdiction are required to follow a template that classifies the share of profit or loss from associates and joint ventures accounted for using the equity method in operating profit[8]. Users in this jurisdiction also explained that they analyse an entity’s operating performance including the share of profit or loss from associates and joint ventures accounted for using the equity method. Therefore, the IASB’s tentative decision to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit will result in a significant change for many preparers and users in this jurisdiction.

Feedback from stakeholders in the insurance industry

51. During some targeted outreach events some preparers in the insurance industry continued to express concerns about the IASB’s tentative decision to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit. One ASAF member, EFRAG,

[8] We understand from outreach with stakeholders in another jurisdiction that entities in that jurisdiction are required to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit.

published a summary report and recommendations from their outreach events which can be found on their website at this link (see pages 18–19 for the concerns raised and the recommendations). In other targeted outreach events, a few preparers in the insurance industry said that they would not be impacted by the IASB's tentative decision.

52. Since the IASB's discussions of the targeted outreach feedback in January 2023, we have also received correspondence from an insurance industry body and conducted outreach with representatives of this industry body who explained that the concerns raised are material for some of their members.

Scope of associates and joint ventures

53. In our targeted outreach and subsequent discussions with stakeholders in the insurance industry, we noted that there are different views on the scope of associates and joint ventures accounted for using the equity method that these stakeholders think should be classified in the operating category (Appendix B provides an illustration). Some of these stakeholders said that the IASB should only require entities to classify the income and expenses from associates and joint ventures accounted for using the equity method in the operating category when the investments in the associates and joint ventures are directly or indirectly linked to insurance contract liabilities (associates and joint ventures in (a) of paragraph 22) because of the presentation mismatches that would arise between the income and expenses on the associates and joint ventures and the insurance contract liabilities.

54. Other stakeholders in the insurance industry think that income and expenses from associates and joint ventures accounted for using the equity method that are backed by shareholders funds and held for prudential purposes to meet solvency requirements (associates and joint ventures in (b) of paragraph 22) should also be classified in the operating category as they are part of the core business model of an insurance entity.

Other comments and concerns from stakeholders

55. Other concerns raised during targeted outreach events and subsequent discussions with stakeholders included:

    (a) concerns related to fair value measurement and diversity in how entities interpret the scope of the election to measure associates and joint ventures at fair value through profit and loss in paragraph 18 of IAS 28. This feedback is discussed in the next section of this paper together with transition requirements related to this election (see paragraphs 76–94);

    (b) concerns about the inconsistency between the IASB's tentative decisions and the IASB's objectives when developing IFRS 17 would not be mitigated by the specified subtotal 'operating profit or loss and income and expenses from investments accounted for using the equity method' because associates and joint ventures accounted for using the equity method related to the investment result would be excluded from net financial result;

    (c) concerns that it is counterintuitive that the income and expenses from an investment in equity instruments would be classified in the operating category, but income and expenses from associates and joint ventures accounted for using the equity method that are held for the same investment purposes would not; and

    (d) the presentation outcome from applying the IASB's tentative decisions not providing useful information to users (see paragraphs 70–72).

56. We note that users that specialise in the insurance industry that participated in the targeted outreach 'expressed some sympathy for a presentation within the operating category' (see the EFRAG summary report in paragraph 51)[9]. They said that it is important that there is a clear distinction between income and expenses from associates and joint ventures accounted for using the equity method that relate to the

[9] One user subsequently clarified that they expressed sympathy for a presentation in the operating category when the associates and joint ventures are measured at fair value through profit or loss. In this user's view, associates and joint ventures accounted for using the equity method should be classified outside of operating profit by all entities.

investment result and those that relate to the insurance result. These views are similar to the views of users that participated in our outreach last year (see paragraph 27).

Staff analysis and recommendation on classification

57. This section is structured as follows:

    (a) analysis of the general feedback received and the feedback received from a national standard setter (see paragraphs 58–60);

    (b) analysis of the feedback from the insurance industry (see paragraph 61–72); and

    (c) staff recommendation (see paragraph 73–75).

Analysis of the general feedback received and the feedback received from a national standard setter

58. The staff acknowledge the concerns raised by stakeholders during targeted outreach and that the IASB's tentative decisions may result in a change in practice for some stakeholders and a classification outcome which some stakeholders do not view as ideal (see paragraph 50). However, we also note that users generally continue to support the IASB's tentative decision to require entities to classify income and expenses from associates and joint ventures outside of operating profit and that such an approach aligns with the way users analyse entities with associates and joint ventures accounted for using the equity method (see paragraphs 12 and 47). We also note that classification in a consistent location will ensure that users have a consistent starting point for their analysis across all entities.

59. We do not think that the feedback received introduces any new points that the IASB had not considered when making its tentative decisions. In particular, the two most common reasons for disagreeing with the IASB's tentative decisions in paragraph 43 are points that the IASB considered before publishing the Exposure Draft.

Staff recommendation

60. We note that the IASB's tentative decision to classify income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit may have a material impact for some entities, but this impact is expected to be mitigated by presenting the specified subtotal 'operating profit or loss and income and expenses from investments accounted for using the equity method' (see paragraph 38–39 and Appendix D). Therefore, we do not recommend that the IASB change its tentative decision as a result of this feedback.

Analysis of the feedback from the insurance industry

61. We continue to acknowledge the concerns (see paragraph 55) raised and the conceptual basis for the views expressed by stakeholders in the insurance industry for classifying income and expenses from some associates and joint ventures accounted for using the equity method in net financial result in the operating category.

Identifying the scope and distinguishing between associates and joint ventures

62. We think that when associates and joint ventures are directly linked to insurance contract liabilities because the returns on the asset are paid to policyholders, it would be possible for an entity to identify the scope of the associates and joint ventures to classify in the operating category because the contractual terms of the insurance contract refer to the pool of assets. For such investments in associates and joint ventures, we expect that an entity will apply the election in paragraph 18 of IAS 28 to measure these associates and joint ventures at fair value through profit or loss because the fair value of the assets determines the fair value of the liabilities (this election is discussed further in paragraphs 76–94).

63. Providing a specific requirement for these associates and joint ventures to be classified in the operating category is unlikely to have an effect because associates and joint ventures measured at fair value through profit and loss would be classified in

the operating category (and probably within net financial result) when investing is a main business activity, in accordance with the IASB's tentative decisions (see paragraph 10).

64. It would be more difficult to define associates and joint ventures accounted for using the equity method that are indirectly linked to insurance contracts or held for prudential purposes to meet solvency requirements. This is because there is no contractual link to insurance contract liabilities; these associates and joint ventures can be sold and replaced by other assets at any time and at any point they may be backed by policyholder funds or shareholder funds. Holdings of these associates and joint ventures differ from one insurance entity to another, so creating requirements for these associates and joint ventures would add complexity.

65. We also think that it is not always clear how to distinguish between associates and joint ventures that are indirectly linked to insurance contracts or held for prudential purposes to meet solvency requirements and associates and joint ventures that undertake insurance and other business activities. Based on information received in outreach, analysis of the financial statements of insurance entities and press releases by insurance entities, we identified the following examples:

    (a) an associate held for investment returns and also to access the sales channels of the associate to sell the reporting entity's insurance products;

    (b) a reporting entity that issues medical insurance contracts and invests in associates and joint ventures that provide the related medical services to generate investment income and for future expansion of the entity's business;

    (c) cross shareholdings and related party transactions between the reporting entity, the associates and joint ventures and other entities within the group. In particular, for conglomerates where the ultimate parent is a holding company with banking, securities, asset management, insurance and other business lines; and

    (d) associates and joint ventures with the same 'brand' as the investor included in its name.

66. Given the IASB's tentative decision to withdraw the proposal to distinguish between integral and non-integral associates and joint ventures due to the difficulties identified in applying the proposals during fieldwork (see paragraph 15), we think similar difficulties may arise if the IASB were to require an entity to classify some or all of the income and expenses from associates and joint ventures accounted for using equity method in the operating category.

Additional analysis of the financial statements of insurance entities

67. In the light of the feedback received from the insurance industry, we analysed the financial statements of 23[10] insurance entities that are members of the insurance body that raised concerns to assess the pervasiveness of the issue and whether we could obtain any new information. Our analysis focused on:

    (a) the accounting policies disclosed about associates and joint ventures;

    (b) where associates and joint ventures are presented in the statement of profit or loss;

    (c) the amounts included in the statement of financial position and the statement of profit or loss for associates and joint ventures and what those amounts were as a percentage of total assets and profit before tax and profit after tax; and

    (d) the disclosures provided about associates and joint ventures accounted for using the equity method applying the requirements in IFRS 8 *Operating Segments*[11] and IFRS 12 *Disclosure of Interests in Other Entities*[12].

68. The results of our analysis are as follows:

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[10] Four entities either: (i) do not have associates and joint ventures; (ii) do not apply IFRS Accounting Standards; or (iii) only have associates and joint ventures at fair value through profit or loss.

[11] Paragraph 23(g) of IFRS 8 requires an entity to disclose its interest in the profit or loss of associates and joint ventures accounted for using the equity method if it is included in the measure of segment profit or loss reviewed by the chief operating decision maker (CODM) or otherwise provided to the CODM even if not included in that measure of segment profit or loss. Paragraph 24(a) of IFRS 8 requires an entity to disclose the amount of investment in associates and joint ventures accounted for using the equity method if it is included in the measure of segment assets reviewed by the CODM or are otherwise regularly provided to the CODM even if not included in the measure of segment assets.

[12] Paragraph 21 of IFRS 12 contains disclosure requirements for associates and joint ventures accounted for using the equity method that are material to the reporting entity and aggregate information for individually immaterial associates and joint ventures accounted for using the equity method.

(a) seven entities disclosed that they account for associates and joint ventures at fair value through profit or loss when they back participating contracts[13];

(b) the reasons for holding investments in associates and joint ventures accounted for using the equity method are diverse and presentation of the share of profit or loss from associates and joint ventures accounted for using the equity method in the statement of profit or loss is also diverse[14];

(c) it is not possible to determine the amounts in the statement of financial position and statement of profit or loss for each type of associate and joint venture described in paragraph 22 and it was not possible to determine the impact on the statement of profit or loss for all associates and joint ventures accounted for using the equity method as some entities did not present or disclose the total amount;

(d) six entities provided the disclosures for associates and joint ventures accounted for using the equity method in their segment note (these mostly appeared to be associates and joint ventures that conduct insurance and other business activities) and six did not, while the remaining seven entities provided some of the disclosures; and

(e) half the entities provided the disclosures in IFRS 12 for material associates and joint ventures (most of these associates and joint ventures appeared to conduct insurance and other business activities) and the remaining entities disclosed that the associates and joint ventures are not considered to be material or only disclose aggregate information.

69. We acknowledge the limitations of this analysis as the financial statements are not the financial statements applying IFRS 17. However, the results of our analysis are

[13] Some entities disclosed that they account for assets at fair value through profit and loss when they back participating contracts, but they did not disclose if those assets include associates and joint ventures.

[14] Three entities included the share of profit or loss of associates and joint ventures accounted for using the equity method as a separate line item within investment income, four presented it as a separate line item within the income section, five presented it after operating profit or a similar subtotal, one presented it as the last line item before profit before tax, one presented it after finance costs, one presented as a separate line item the share of profit or loss of some, but not all, associates and joint ventures accounted for using the equity method and four did not present it.

consistent with our analysis of the financial statements of insurance entities discussed by the IASB in May 2022 (see Agenda Paper 21D). While we acknowledge that the impact on some of these entities may be material, the concerns raised do not appear to be pervasive.

Additional information requested by users

70. Users have said that they would like sufficient information to distinguish between income and expenses from associates and joint ventures accounted for using the equity method that relate to the investment result and those that relate to the insurance result (see paragraphs 29 and 56). Ideally this request would be met by creating specific disclosure requirements, but creating such disclosure requirements is likely to be difficult for the reasons stated in paragraphs 65–66.

71. We think that the information needs can also be addressed through the proposals in this project and the existing disclosure requirements in IFRS Accounting Standards. In addition to the disclosures required by IFRS 8 and IFRS 12 for associates and joint ventures accounted for using the equity method, we think that the proposed requirements developed in this project for the roles of primary financial statements and the notes, the general principles for disaggregation and disclosure of management performance measures would help ensure that this information requested by users in paragraph 70 will be provided. However, we acknowledge that the disclosures given would be based on each entity's definitions and may not be comparable with other entities.

72. Applying the IASB tentative decisions to date an entity:

(a) would be required to present the share of profit or loss from associates and joint ventures accounted for using the equity method classified in the investing category in the statement of profit or loss (see paragraph 36);

(b) would present the specified subtotal 'operating profit or loss and income and expenses from investments accounted for using the equity method' when it is necessary for understanding performance of the entity and label it in a way that faithfully represents what is included in it;

(c) would be required to disaggregate income and expenses from associates and joint ventures accounted for using the equity method with dissimilar characteristics, in accordance with general guidance on disaggregation (see paragraph 37);

(d) would present a subtotal of operating profit or loss and *some* income and expenses from investments accounted for using the equity method, when it is necessary for understanding performance of the entity and label it in a way that faithfully represents what is included in it; and

(e) if subtotal in paragraph (d) is used in in its public communications (see paragraph 39) it would likely meet the definition of management performance measure and the entity would give the disclosures for management performance measures.

Staff recommendation

73. When an entity uses the election in paragraph 18 of IAS 28 to measure its investments in associates and joint ventures at fair value through profit and loss, the income and expenses from those investments would be classified in the operating category (and probably within net financial result) when investing is a main business activity (this election is discussed further in paragraphs 76–94). We acknowledge the concerns that the current proposals do not allow insurance entities to include results from some associates and joint ventures accounted for using the equity method in net financial result and the operating profit.

74. Our research and outreach showed that:

(a) defining the scope of associates and joint ventures for which income and expenses could be classified in the operating category regardless of measurement method is likely to be as difficult as drawing a line between integral and non-integral associates and joint ventures;

(b) the issue may be material for some insurance entities but is not pervasive; and

(c) the issue may be further reduced if the IASB agrees with the recommendation in the next section of this paper, to provide transition requirements for an entity to apply the election in paragraph 18 of IAS 28 to measure investments in associates and joint ventures at fair value through profit or loss when it first applies IFRS X.

75. Therefore, on balance, in conjunction with the recommendation in the next section, we recommend that the IASB confirm its tentative decision to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.

Fair value measurement and transition requirements

76. In this section of the paper we consider the targeted outreach feedback on the election in IAS 28 to measure investments in associates and joint ventures at fair value through profit or loss and the IASB's request to consider providing transition requirements to permit entities to apply this election on transition to IFRS X (see Agenda Paper 21D of the May 2022 and Agenda Paper 21B of the September 2022 IASB meetings). This section of the paper is structured as follows:

(a) background (see paragraphs 77–81);

(b) targeted outreach feedback on paragraph 18 of IAS 28 (see paragraphs 82–87); and

(c) staff analysis, staff recommendation and question for the IASB (see paragraphs 88–94).

Background

77. IAS 28 permits some entities to elect to measure investments in associates and joint ventures at fair value through profit or loss in accordance with IFRS 9. An entity that measures an investment in an associate or joint venture at fair value through profit or

loss is required to classify the income and expenses from that investment in the operating category if the entity makes that investment as a main business activity (see paragraph 10).

78. This election can be applied when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds. The election is applied separately for each associate or joint venture at initial recognition of the associate or joint venture (see paragraph 18 of IAS 28). This election was provided because fair value measurement provides more useful information for users of financial statements of these entities than application of the equity method (see paragraph BC12 of IAS 28).

79. The election can also be applied to a portion of an investment in an associate[15] held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds regardless of whether the venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment in the associate. The remaining portion of the investment is accounted for using the equity method (see paragraph 19 of IAS 28).

80. IAS 28 does not define venture capital organisation, mutual fund, unit trust and similar entities including investment-linked insurance funds. An example of an investment-linked insurance fund[16] was added to IAS 28 when IFRS 17 was issued to prevent measurement mismatches arising when investments in associates and joint ventures underlie insurance contracts with direct participation features (see Agenda Paper 2B of the November 2015 IASB meeting). These amendments to IAS 28 can be applied on initial recognition or when an entity adopts IFRS 17 (see paragraphs 18 and 45F of IAS 28).

[15] The election cannot be applied to a portion of an investment in a joint venture (see paragraph 19 of IAS 28).

[16] An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features (see paragraph 18 of IAS 28).

81. Appendix E contains a summary of the transition requirements for previous amendments to paragraph 18 of IAS 28.

Targeted outreach feedback on paragraph 18 of IAS 28

82. During targeted outreach, a few participants explained their interpretation of the scope of entities that can apply the election in paragraph 18 of IAS 28. The interpretation of each participant that offered a view was different with some interpreting the scope narrowly, some interpreting it broadly and the reminder interpreting it somewhere in between. This feedback is consistent with the observation in Agenda Paper 21D of the May 2022 IASB meeting.

83. During targeted outreach, a few participants also discussed application of paragraph 19 of IAS 28 which permits an entity to apply the election to measure at fair value through profit or loss to a portion of an investment in an associate that is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds regardless of whether the venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment in the associate. The remaining portion of the investment is accounted for using the equity method.

84. Based on these discussions and similar to the outreach feedback discussed by the IASB in May 2022 (see Agenda Paper 21D), we noted that a few insurance entities have investments in associates that are held for dual purposes with a portion of the investment that is directly linked to insurance contracts and the remaining portion that is indirectly linked to insurance contracts or held for prudential purposes to meet solvency requirements.

85. One participant explained that they apply paragraph 19 of IAS 28 to the portion of the investment that is directly linked to insurance contracts and account for the remaining portion using the equity method. Applying the IASB’s tentative decisions, the income and expenses from the portion of the investment in the associate measured at fair

value through profit or loss would be classified in the operating category and the remaining portion accounted for using the equity method in the investing category.

86. A few targeted outreach participants also said that measuring investments in associates and joint ventures at fair value through profit or loss would not entirely address their concerns because measuring associates and joint ventures using fair value would increase earnings volatility. However, a few users that specialise in the insurance industry said that they would like to see such volatility reflected in the statement of profit or loss.

87. A few stakeholders in one jurisdiction also said that they would like the IASB to consider the proposed transition requirements to permit entities to apply the election in paragraph 18 of IAS 28 on transition to IFRS X. The election in paragraph 18 of IAS 28 has not been commonly used in this jurisdiction before and entities would like to consider whether the election should be applied when they apply IFRS X.

Staff analysis, staff recommendations and questions for the IASB

88. We note that the objective of providing the election in paragraph 18 of IAS 28 is because fair value measurement provides more useful information to users (see paragraph 78) and the amendments made to paragraph 18 of IAS 28 when IFRS 17 was issued ensure that measurement mismatches do not arise between associates and joint ventures and insurance contract liabilities (see paragraph 80). A few targeted outreach participants said that volatility would arise when associates and joint ventures are measured at fair value through profit or loss. However, volatility is expected to arise in some instances for entities that do or do not apply the other comprehensive income (OCI) option[17] in IFRS 17; the volatility that may arise will

[17] IFRS 17 permits an entity to make an accounting policy choice to: (i) include insurance finance income or expenses for the period in profit or loss; or (ii) disaggregate between profit or loss and OCI (the OCI option) (see paragraphs 88-90 and B129 of IFRS 17).

differ depending on the model in IFRS 17 that is applied and the measurement method of the assets[18].

89. The staff acknowledge that some consider the outcome discussed in paragraph 85, where an entity would classify the income and expenses from an associate with a portion measured at fair value through profit or loss and a portion accounted for using the equity method in the operating and investing categories, respectively, as counterintuitive. However, based on our analysis we expect such investments in portions of associates measured using different measurement methods to be limited.

90. We acknowledge that there appears to be diversity in practice in how to interpret the scope of paragraph 18 of IAS 28. As the amendments to paragraph 18 of IAS 28 can be applied when an entity first applies IFRS 17, we expect practice in applying this paragraph to evolve as entities apply IFRS 17.

91. Clarifying the scope of paragraph 18 of IAS 28 is beyond the scope of the Primary Financial Statements project. However, it may be useful for the IASB to consider application of paragraph 18 of IAS 28 once it has evidence from implementation of IFRS 17.

92. We recommend that the IASB provide the transition requirements for the following reasons:

(a) the election was provided because fair value measurement provides more useful information for users of financial statements of a venture capital organisation, or a mutual fund, unit trust and similar entities, including investment-linked insurance funds (see paragraph 78);

(b) the election is only available on initial recognition of an associate or joint venture and some entities may not have chosen to apply the election on initial

[18] Examples of volatility are given in Financial stability implications of IFRS 17 Insurance Contracts (pages 43-45) and 2022 insurers' reporting on IFRS 17 and IFRS 9 (page 23).

recognition—for example, when the election has not been commonly used before (see paragraph 87);

(c) an entity would not be able to apply the election to change their measurement method from fair value through profit or loss to the equity method; and

(d) entities that would be able to apply the requirements are expected to be limited.

93. As explained in Appendix E, when the IASB provided transition requirements for paragraph 18 of IAS 28 in the past, an entity was required to apply them retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In providing the transition requirements for IFRS X, we think that the IASB should align the approach. Therefore, we recommend that the transition requirements are applied retrospectively in accordance with IAS 8.

94. We do not think that transition requirements are required for paragraph 19 of IAS 28 because its application is not limited to initial recognition of a portion of an associate and the IASB did not provide any transition requirements for this paragraph when providing transition requirements in the past. We also do not think that any amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* are required similar to previous amendments to paragraph 18 of IAS 28 (see Appendix E).

Questions for the IASB

1. Does the IASB agree with the staff recommendations to:

   (a) confirm the tentative decision to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category; and

   (b) provide transition requirements which permit an entity to apply the election in paragraph 18 of IAS 28 to measure an investment in an associate or joint venture at fair value through profit or loss in accordance with IFRS 9 when such an investment is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, when it first applies IFRS X?

Cash flows from investments in associates and joint ventures

95. This section of the paper is structured as follows:

    (a) background (paragraphs 96–103); and

    (b) staff analysis, staff recommendation and question for the IASB (see paragraphs 104–112).

Background

Proposals in the Exposure Draft

96. The proposed new paragraph 38A of IAS 7 in the Exposure Draft proposed that:

> An entity shall classify cash flows from the acquisition and disposal of investments in associates and joint ventures applying paragraphs 16(c)–16(d). An entity shall classify as cash flows from investing activities dividends received from associates and joint ventures accounted for using the equity method. An entity shall present cash flows in respect of its investments in integral associates and joint ventures separately from cash flows in respect of its investments in non-integral associates and joint ventures.

Feedback on the proposals in the Exposure Draft

97. The Exposure Draft did not ask any specific question on the proposed new paragraph 38A of IAS 7. Therefore, we did not receive many specific comments on this topic. However, most stakeholders did not express any objection to the proposal in the Exposure Draft to require entities to classify cash flows specified in paragraph 96 of this paper as cash flows arising from investing activities.

98. One standard setter agreed that cash flows from acquisition and disposal of such entities shall be classified as cash flows arising from investing activities, other than those made in the entity's ordinary course of business (such as by investment entities).

99. Some respondents commented on classification of some or all dividends received from associates and joint ventures accounted for using the equity method as cash flows from operating activities as follows:

(a) one standard setter and one preparer group commented that dividends received from associates and joint ventures accounted for using the equity method should be classified as cash flows from operating activities if these associates and joint ventures are investments in the course of the entity's main business activities. This is because dividends received from such associates and joint ventures are the same as dividends received from any other investments made in the course of the entity's main business activities.

(b) one accounting body said dividends received from integral associates and joint ventures should be classified as cash flows from operating activities because they are operating in nature.

(c) a few preparers said all the dividends received from associates and joint ventures accounted for using the equity method should be classified as cash flows from operating activities because they are a 'return on investment' rather than 'return of investment'.

100. A few preparers mentioned the potential divergence from US GAAP[19].

Summary of related IASB tentative decisions from its redeliberations to date

101. In March 2021 (see Agenda Paper 21C), the IASB tentatively decided to proceed with the proposals in the Exposure Draft to require entities other than those with specified

[19] Under US GAAP, when a reporting entity applies the equity method, it should make an accounting policy election to classify distributions received from equity method investees using either of the following approaches: (1) cumulative earnings approach: distributions received are considered returns on investment and classified as cash inflows from operating activities, unless the investor's cumulative distributions received less distributions received in prior periods that were determined to be returns of investment exceed cumulative equity in earnings recognized by the investor. When such an excess occurs, the current-period distribution up to this excess should be considered a return of investment and classified as cash inflows from investing activities; (2) nature of the distribution approach: distributions received should be classified on the basis of the nature of the activity or activities of the investee that generated the distribution as either a return on investment (classified as cash inflows from operating activities) or a return of investment (classified as cash inflows from investing activities) when such information is available to the investor (see *Classification of Certain Cash Receipts and Cash Payments* issued by FASB Emerging Issues Task Force).

main business activities to classify dividends received as cash flows arising from investing activities.

102. In January 2023 (see Agenda Paper 21F), the IASB tentatively decided to confirm the proposals in the Exposure Draft to require entities with specified main business activities to classify the following cash flows in a single category of the statement of cash flows (that is, either as cash flows from operating, investing or financing activities):

(a) dividends received (other than dividends received from associates and joint ventures accounted for using the equity method);

(b) interest paid; and

(c) interest received.

103. The IASB's tentative decisions related to classification of income and expenses from associates and joint ventures accounted for using the equity method in the statement of profit or loss are contained in paragraphs 34–39.

Staff analysis, staff recommendations and question for the IASB

104. We recommend the IASB withdraw the proposed new paragraph 38A of IAS 7 in the Exposure Draft.

Cash flows from the acquisition and disposal of investments in associates and joint ventures

105. The proposed amendments to paragraphs 16(c)–16(d) of IAS 7 in the Exposure Draft specified that cash payments to acquire interests in associates and joint ventures and cash receipts from sales of interests in associates and joint ventures are cash flows arising from investing activities. We think there is no need to repeat this requirement in the proposed paragraph 38A of IAS 7 and therefore recommend the IASB withdraw the reference to the amended paragraphs 16(c)–16(d) of IAS 7. Any further

amendment about the classification of cash flows from acquisition and disposal is not within the scope of this project.

Dividends received from associates and joint ventures accounted for using the equity method

106. As mentioned in paragraphs 101 and 102 of this paper, applying the IASB's tentative decisions to date, dividends received, other than dividends received from associates and joint ventures accounted for using the equity method, will be classified in a single category in the statement of cash flows for both general corporates and entities with specified main business activities. Allowing entities with specified main business activities to apply the accounting policy choice in paragraph 102 of this paper to dividends received from associates and joint ventures accounted for using the equity method will enable all the dividends received to be classified in a single category, which will provide a more understandable presentation for users.

107. For general corporates and entities that only provide financing to customers or invest in non-financial assets as a main business activity, the classification of income and expenses from associates and joint ventures accounted for using the equity method in the statement of profit or loss (investing category) would be aligned with the classification of dividends received from associates and joint ventures accounted for using the equity method in the statement of cash flows (cash flows arising from investing activities).

108. However, under the single category approach, for entities that invest in financial assets as a main business activity, there might be a misalignment between:

    (a) the classification of income and expenses from associates and joint ventures accounted for using the equity method in the statement of profit or loss (investing category); and

    (b) the classification of dividends received from associates and joint ventures accounted for using the equity method in the statement of cash flows (accounting policy choice).

109. The classification of dividends received from associates and joint ventures in the statement of cash flows should not be based on the measurement basis adopted for these investments because the measurement basis adopted has no influence on dividends received (as mentioned in the feedback in paragraph 99(a) of this paper). As there is no reason to require entities that invest in financial assets as a main business activity to classify dividends received from associates and joint ventures accounted for using the equity method differently from dividends received from associates and joint ventures measured at fair value through profit or loss, we think that dividends received from all investments in associates and joint ventures should be classified applying the accounting policy choice in paragraph 102 in the statement of cash flows.

110. Paragraph 33 of IAS 7 states that dividends received are usually classified as operating cash flows for a financial institution. If the IASB withdraws the proposed requirement for all the entities to classify dividends received from associates and joint ventures accounted for using the equity method as cash flows arising from investing activities, we expect that limited to no changes either compared with practice or proposals in the Exposure Draft as:

(a) financial institutions would not need to change the classification of dividends received from associates and joint ventures accounted for using the equity method (still as cash flows arising from operating activities) because they are expected to invest in financial assets as a main business activity; and

(b) general corporates are expected to classify all dividends received in the investing category, same as if they applied proposals in the Exposure Draft.

111. Based on the analysis in paragraphs 106–110, we recommend the IASB withdraw the proposed requirement in paragraph 38A of IAS 7 for all the entities to classify dividends received from associates and joint ventures accounted for using the equity method as cash flows arising from investing activities. As a result, all entities would be required to classify dividends received from interests in associates and joint ventures accounted for using the equity method in a single category applying the same

guidance as applicable to the entity for all other dividends received. There would be no other changes from the requirements in IAS 7.

The proposal for integral and non-integral associates and joint ventures

112. In October 2021 (see Agenda Paper 21A), the IASB has tentatively decided to withdraw the proposals related to integral and non-integral associates and joint ventures in the statement of profit or loss. From this it follows that the IASB withdraws the proposal in the Exposure Draft to require an entity to present cash flows in respect of its investments in integral associates and joint ventures separately from cash flows in respect of its investments in non-integral associates and joint ventures.

Question for the IASB
2. Does the IASB agree with the staff recommendation to withdraw the proposed new paragraph 38A of IAS 7 in the Exposure Draft? As a result, all entities would be required to classify dividends received from interests in associates and joint ventures accounted for using the equity method in a single category applying the same guidance as applicable to the entity for all other dividends received.

Appendix A—Previous IASB discussions on associates and joint ventures accounted for using the equity method

A1. The following table contains a summary of the IASB's previous discussions on associates and joint ventures accounted for using the equity method.

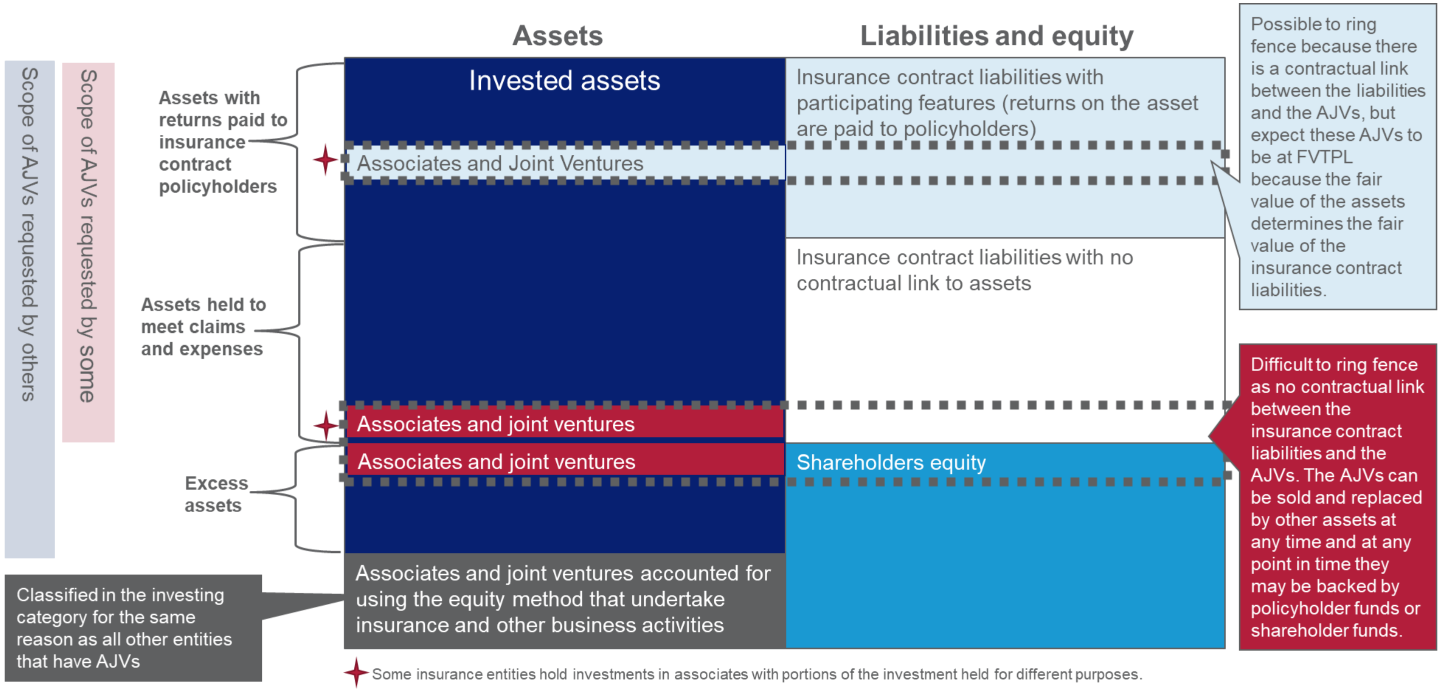
Meeting date	Paper number and title	Key tentative decisions
November 2016	Agenda Paper 21A Analysis of financial statements presentation	This paper explored the problems with the structure of primary financial statements, including the diversity in presentation of the share of profit or loss from associates and joint ventures accounted for using the equity method. No tentative decisions were made.
June 2017	Agenda Paper 21E Presentation of the share of the profit or loss of associates and joint ventures accounted for using the equity method	This paper explored whether to require a specific location for presenting share of profit or loss from associates and joint ventures accounted for using the equity method. No tentative decisions were made.
January 2018	Agenda Paper 21B Presentation of the share of the profit or loss of 'integral' associates and joint ventures	The IASB tentatively decided to require entities to present the results of 'integral' associates and joint ventures separately from 'non-integral' associates and joint ventures.
February 2018	Agenda Paper 21C Presentation of the cash flows of 'integral' and 'non-integral' associates and joint ventures	The IASB tentatively decided to require separate presentation of the cash flows that arise between an entity and its 'integral' associates and joint ventures from the cash flows that arise between an entity and its 'non-integral' associates and joint ventures within the 'investing activities' section of the statement of cash flows.

Meeting date	Paper number and title	Key tentative decisions
September 2018	Agenda Paper 21A Scope of proposals for subtotals in the statement of profit or loss	The IASB tentatively decided that all entities are required to separately present the share of profit or loss from integral and non-integral associates and joint ventures below the 'business profit from consolidated entities' subtotal (operating profit).
September 2018	Agenda Paper 21D Presentation of the results of integral and non-integral associates and joint ventures in the statement(s) of financial performance	The IASB suggested that some indicators could help preparers decide whether an associate or joint venture is 'integral'. The IASB tentatively decided to: (a) state that the classification of an associate or joint venture as integral or non-integral shall be changed only if the relationship between the reporting entity and the associate or joint venture changes; and (b) amend the disclosure requirements of IFRS 12 *Disclosure of Interests in Other Entities* to reflect the introduction of the integral and non-integral categorisation of associates and joint ventures.
November 2019	Agenda Paper 21 Income and expenses from integral associates and joint ventures	The IASB tentatively decided on income and expenses to be included in the integral associates and joint ventures category.
December 2020	Agenda Paper 21D Feedback summary—Subtotals and categories—integral and nonintegral associates and joint ventures	The paper summarised the feedback on the Exposure Draft proposals related to integral and non-integral associates and joint ventures. No tentative decisions were made.

Meeting date	Paper number and title	Key tentative decisions
October 2021	Agenda Paper 21A Associates and Joint Ventures	The IASB tentatively decided to: (a) present income and expenses from associates and joint ventures accounted for using the equity method outside of operating profit due to the strong support from users; and (b) withdraw the proposal to distinguish between integral and non-integral associates and joint ventures.
December 2021	Agenda Paper 21B Income and expenses classified in the investing category	The IASB tentatively decided to require entities other than those with specified main business activities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.
May 2022	Agenda Paper 21D Investments accounted for using the equity method	This is an educational paper about associates and joint ventures accounted for using the equity method held by entities with specified main business activities. No tentative decisions were made.
September 2022	Agenda Paper 21B Entities with specified main business activities—Associates and joint ventures	The IASB tentatively decided to require all entities to classify income and expenses from associates and joint ventures accounted for using the equity method in the investing category.
September 2022	Agenda Paper 21C Investments in subsidiaries, associates and joint ventures	The IASB tentatively decided to classify income and expenses from subsidiaries accounted for using the equity method in the investing category in separate financial statements.
January 2023	Agenda Paper 21A Targeted outreach feedback and next steps	This paper summarised the targeted outreach feedback on associates and joint ventures. The IASB decided to add to its redeliberations plan whether it should reconfirm its proposal on classification of income and expenses from associate and joint ventures accounted for using the equity method.

Appendix B—Overview of associates and joint ventures held by insurance entities

B1. The following diagram illustrates the type of associates and joint ventures held by insurance entities and the different scopes of associates and joint ventures that stakeholders asked the IASB to consider requiring an entity to classify in the operating category.



Appendix C—Outreach with users that specialise in the insurance industry

C1. In July and August 2022, we conducted outreach with users that specialise in the insurance industry[20]. We asked users that participated whether the IASB's proposed statement of profit or loss for an insurance entity would be acceptable to users and, if not, why not and what format they would suggest in order to meet their information needs.

C2. In order to facilitate the discussion, we explained to the users that participated:

(a) background information on IFRS 17 and the primary financial statements project (see paragraphs 19–21);

(b) the three types of associates and joint ventures held by insurance entities described in paragraph 22 and illustrated in Appendix B;

(c) the proposed structure of the statement of profit or loss for an insurance entity using the illustrative example in the Exposure Draft and two alternatives suggested by stakeholders (see paragraphs C3 and C4);

(d) where the income and expenses from each type of associate and joint venture would be classified in the statement of profit or loss (see paragraphs C3 and C4); and

(e) our preliminary findings discussed by the IASB in May 2022 (see Agenda Paper 21D).

C3. The following illustration is the proposed statement of profit or loss for an insurance entity included in the illustrative examples in the Exposure Draft with additional explanation of where an entity would classify the income and expenses from associates and joint ventures applying the proposals in the Exposure Draft.

[20] The users that participated in the outreach analyse insurance entities in regions, including Europe, Asia, the Americas and Africa.

Insurance revenue
Insurance service expenses
Insurance service result
Interest revenue calculated using the effective interest method
Other investment revenue
Credit impairment losses
Insurance finance expenses
Net financial result
Other expenses
Operating profit
Share of profit or loss of associates and joint ventures
Profit before financing and income tax/Profit before tax
Income tax
Profit for the year

Income and expenses from associates and joint ventures measured at fair value through profit or loss classified in the operating category when the investment is in the course of its main business activities

Income and expenses from all associates and joint ventures accounted for using the equity method classified outside of operating profit, including those held for investment purposes

C4. The following two alternatives were proposed by stakeholders in comment letters.

Alternative 1

Insurance revenue
Insurance service expenses
Insurance service result
Interest revenue calculated using the effective interest method
Other investment revenue
Credit impairment losses
Insurance finance expenses
Net financial result
Share of profit or loss of associates and joint ventures
Net financial result and income and expenses from associates and joint ventures
Other expenses
Operating profit
Profit before financing and income tax/Profit before tax
Income tax
Profit for the year

Present income and expenses from associates and joint ventures accounted for using the equity method directly after net financial result with an additional subtotal

Alternative 2

Insurance revenue
Insurance service expenses
Insurance service result
Interest revenue calculated using the effective interest method
Other investment revenue
Credit impairment losses
Share of profit or loss of associates and joint ventures
Insurance finance expenses
Net financial result
Other expenses
Operating profit
Profit before financing and income tax/Profit before tax
Income tax
Profit for the year

Present income and expenses from associates and joint ventures accounted for using the equity method within net financial result

Appendix D—Statement of profit or loss illustrating 'operating profit or loss and income and expenses from investments accounted for using the equity method'

D1. The following statement of profit or loss illustrates the specified subtotal of 'operating profit or loss and income and expenses from investments accounted for using the equity method'.

Revenue	Operating
Other income	
Changes in inventories of finished goods and work in progress	
Raw materials used	
Employee benefits	
Depreciation	
Amortisation	
Operating profit	
Income and expenses from associates and joint ventures	Investing
Operating profit and income from associates and joint ventures (specified subtotal)	
Income and expenses from investments	
Income and expenses from cash and cash equivalents	
Profit before financing and income tax	
Income and expenses from liabilities that arise from transactions that involve only the raising of finance	Financing
Unwinding of discount on provisions	
Profit before tax	
Income tax	
Profit for the year	

Line items illustrate what is included in each category and do not necessarily denote specified line items.
An entity would present line items that provide an understandable overview of the entity's income and expenses.

Appendix E—Transition requirements for previous amendments to IAS 28

E1. Amendments were made to paragraph 18 of IAS 28 as part of the *Annual Improvements to IFRS Standards 2014-2016 Cycle* (referred to below as '2016 amendments') to clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities, including investment-linked insurance funds may apply this election on initial recognition of each associate and joint venture. These amendments were made to address feedback that it became unclear when amendments were made to IAS 28 in 2011 whether the election in paragraph 18:

(a) is an accounting policy choice that is required to be applied consistently to all investments in associates and joint ventures; or

(b) can be applied separately to each investment.

E2. An entity applying the 2016 amendments was required to apply them retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 45E of IAS 28). The reasons for this approach to transition are:

(a) the amendments affect only a narrow population of entities;

(b) the entities impacted would typically be expected to have fair value information for their investment management purposes;

(c) if costs to apply are excessive an entity can choose not to change its previous decisions; and

(d) retrospective application in accordance with IAS 8 means that an entity will not use hindsight (see paragraphs 52–53 of IAS 8) when first applying the amendments (see paragraph BC19I of IAS 28 and AP16 of November 2014 meeting of the IFRS Interpretations Committee).

E3. No transition guidance was given for paragraph 19 of IAS 28 as this paragraph was not amended in 2011. No amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards* were made for the 2016 amendments.

E4. The amendments to paragraph 18 of IAS 28 issued with IFRS 17 are to be applied when an entity applies IFRS 17 (paragraph 45F of IAS 28). These amendments will also be applied retrospectively in accordance with IAS 8.