

September 2024

Exposure Draft—Snapshot

IFRS[®] Accounting Standards

Equity Method of Accounting

IAS 28 Investments in Associates and Joint Ventures (revised 202x)

Project objectives

The project objectives are:

- to reduce diversity in practice by answering application questions on the equity method of accounting; and
- to improve the understandability of IAS 28 *Investments in Associates and Joint Ventures*.

Proposals

The proposed amendments:

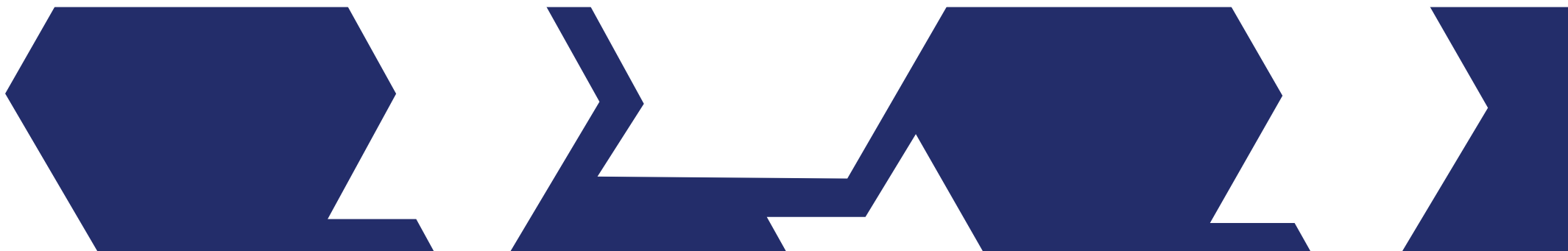
- clarify and add to the requirements in IAS 28; and
- improve the understandability of IAS 28 by reordering the requirements.

Next steps

The IASB will consider the feedback on the Exposure Draft and decide whether to proceed with the proposed amendments.

Comment deadline

20 January 2025



Introduction

Why the IASB undertook the project

IFRS Accounting Standards require an investor or joint venturer to apply the equity method of accounting (equity method) for investments in associates and joint ventures in its consolidated financial statements. IFRS Accounting Standards also permit an entity to apply the equity method in its separate financial statements for investments in subsidiaries, joint ventures and associates.

The IASB Work Plan 2017–2021 — *Feedback Statement on the 2015 Agenda Consultation* states:

A number of queries on equity accounting and its interaction with the accounting for other ways of holding interests in other entities have been raised with the Interpretations Committee.

The IASB added a project on the equity method to its research pipeline to explore these questions and the resulting diversity in practice in accounting for investments in associates and joint ventures.

Feedback requested

The IASB is requesting feedback on:

- the proposed amendments to the equity method; and
- whether the reordering of the requirements improves the understandability of IAS 28.

Summary of main proposals in the Exposure Draft



How does an investor or joint venturer initially measure the cost of an associate or joint venture?

The IASB is proposing cost be the fair value of the consideration transferred, including the fair value of any previously held ownership interest and any contingent consideration.



How does an investor or joint venturer measure the purchase of an additional ownership interest or the disposal of a portion of its ownership interest?

The IASB is proposing an investor or joint venturer:

- add to the carrying amount of its investment the additional share of the fair value of the associate's or joint venture's identifiable assets and liabilities including any goodwill; and
- reduce the carrying amount of its investment by the percentage disposed of and recognises a gain or loss in profit or loss.

Other changes in net assets are accounted for as an addition or disposal of an ownership interest.



Does an investor or joint venturer recognise gains or losses from the sale of a subsidiary to its associates or joint ventures?

The IASB is proposing gains and losses be recognised in full on all transactions with associates or joint ventures.



Does an investor or joint venturer recognise separately its share of profit or loss and its share of other comprehensive income?

The IASB is proposing an investor or joint venturer recognise separately its share of profit or loss and its share of other comprehensive income (including when the investment has been reduced to nil).



What are the other proposals?

The IASB's proposals would also apply to investments in subsidiaries in a parent's separate financial statements accounted for using the equity method.

The equity method in IAS 28

The equity method is a method of accounting whereby an investment is initially recognised at cost. On obtaining significant influence or joint control, an investor or joint venturer accounts for the difference between the cost of the investment and the investor's share of the associate's net assets either as goodwill, which is included in the carrying amount of the investment, or as a gain on a bargain purchase in profit or loss.

The investor or joint venturer adjusts the carrying amount of the investment for the post-acquisition changes in the investor or joint venturer's share of the associate or joint venture's net assets.

Applying the proposals

The proposed amendments would also apply if an entity uses the equity method for investments in associates and joint ventures in its consolidated financial statements, and for investments in associates, joint ventures and subsidiaries in its separate financial statements.

Glossary

| Term | Definition |
|--------------------------------------|--|
| associate | An entity over which the investor has significant influence. |
| significant influence | Power to participate in the financial and operating policy decisions of the investee. |
| joint venture | A joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. |
| separate financial statements | Financial statements presented by an entity in which an entity could elect, subject to the requirements in <i>IAS 27 Separate Financial Statements</i> , to account for its investments in subsidiaries, joint ventures and associates either at cost, in accordance with <i>IFRS 9 Financial Instruments</i> or using the equity method as described in <i>IAS 28</i> . |

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Project approach

How the IASB identified the application questions

The IASB identified application questions from:

- submissions to the IFRS Interpretations Committee;
- comments from the Global Preparers Forum;
- a research report published by the Korea Accounting Standards Board in September 2014; and
- outreach to national standard-setters, accounting firms and regulators in 2021.

The IASB selected application questions to include in the scope of the project based on whether each question:

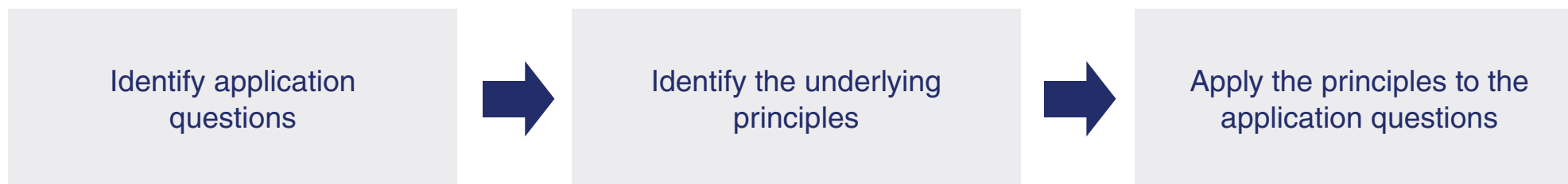
- could be solved efficiently and effectively without fundamentally revising IAS 28 *Investments in Associates and Joint Ventures* or amending other IFRS Accounting Standards (other than consequential amendments);
- affected the consistent application of IAS 28; and
- involved a matter that was widespread or occurred frequently.

How the IASB identified the principles

The IASB identified the principles underlying IAS 28 by grouping the requirements in IAS 28 into topics (such as classification or measurement at initial recognition). The IASB then reviewed each group to identify the underlying principles. The Appendix to this Snapshot sets these principles.

The principles were intended to assist the IASB in developing answers.

The IASB also decided how to develop answers to an application question if none of the identified principles could be used. The IASB decided it would analogise and consider the applicability of the requirements in IFRS Accounting Standards that deal with similar and related issues and use the *Conceptual Framework for Financial Reporting*.



Proposals clarifying the measurement requirements

Initial recognition

Application questions

- How does an investor or joint venturer initially measure the cost of an associate or joint venture?
 - Does an investor or joint venturer include in the cost any previously held interest?
 - Does an investor or joint venturer include in the consideration transferred any contingent consideration, and if so, how is contingent consideration measured?
- Does the investor or joint venturer include the deferred tax effects related to its share of the fair value of the associate's or joint venture's identifiable assets and liabilities?

Proposed answers in the Exposure Draft

The IASB is proposing that an investor or joint venturer:

- measure the cost of an associate or joint venture at the fair value of the consideration transferred, including the fair value of any previously held ownership interest;
- recognise contingent consideration as part of the consideration transferred and measure it at fair value; and
- include in the carrying amount of the associate or joint venture the deferred tax effects related to its share of the fair value of the associate's or joint venture's identifiable assets and liabilities.

The investor or joint venturer classifies contingent consideration as either a liability or equity instrument. Contingent consideration classified as a liability is measured at fair value at each reporting date with changes recognised in profit or loss.

Diagram 1—Obtaining significant influence



Disclosure

The IASB is proposing that an investor or joint venturer disclose the nature of the contingent consideration arrangement, amounts recognised and changes in those amounts, and the range of possible outcomes.

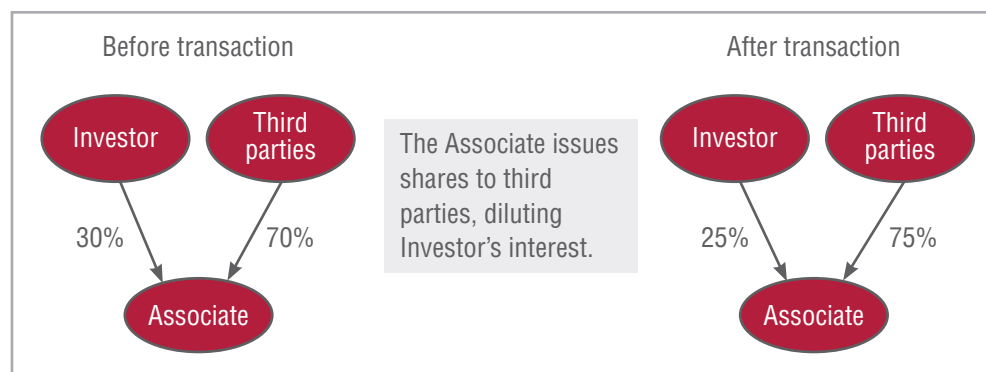
Proposals clarifying the measurement requirements

Changes in ownership

Application questions

- How does an investor or joint venturer purchasing or disposing an ownership interest while retaining significant influence or joint control, measure:
 - o the additional ownership interest; and
 - o the disposed portion of its investment?
- How does an investor or joint venturer account for other changes in ownership interests (for example, if an associate issues new shares to a third party and the investor's ownership interest decreases) and where does it recognise any gain or loss?

Diagram 2—Change in ownership interest in an associate—Dilution



Proposed answers in the Exposure Draft

The IASB is proposing that an investor or joint venturer purchasing an additional ownership interest while retaining significant influence or joint control:

- add to the carrying amount of its investment the additional share of the fair value of the associate's or joint venture's identifiable assets and liabilities at the date of purchase, including the related deferred tax effects;
- account for any difference between fair value of consideration transferred and the additional share of the fair value of the associate's or joint venture's identifiable assets and liabilities either as goodwill or as bargain purchase in profit or loss.

The IASB is proposing that an investor or joint venturer disposing of ownership interest:

- measure the disposed portion as a percentage of the carrying amount of the investment at the date of disposal; and
- recognise the difference between the consideration received and the disposed portion as a gain or loss in profit or loss.

The IASB is proposing that an investor or joint venturer account for other changes in its ownership interests as if purchasing or disposing an ownership interest.

Disclosure

The IASB is proposing that an investor disclose the amount of gains or losses from other changes in ownership—for example, dilutions.

Proposals clarifying the measurement requirements

Share of profit or loss and other comprehensive income

Application questions

- Does an investor or joint venturer that has reduced the carrying amount of its investment to nil:
 - o 'catch up' losses not recognised when purchasing an additional ownership interest?
 - o recognise separately its share of profit or loss and its share of other comprehensive income?

Requirements in IAS 28

IAS 28 requires an investor or joint venturer to recognise its share of its associate's or joint venture's total comprehensive income. In the circumstance an investor's or joint venturer's interest is reduced to nil, the investor or joint venturer does not recognise its share of additional losses unless it has incurred a legal or constructive obligation to fund those losses.

Proposed answers in the Exposure Draft

The IASB is proposing that an investor or joint venturer does not 'catch-up' losses not recognised by reducing the carrying amount of an additional ownership interest.

The IASB is also proposing that an investor or joint venturer recognise separately its share of profit or loss and other comprehensive income.

Example 1—Share of profit or loss and other comprehensive income

After reducing the carrying amount of the investment to nil, the investor's share in an associate's profit or loss is a loss of CU200¹ and the investor's share of the associate's other comprehensive income is a profit of CU50.

The investor would recognise a loss of CU50 in its profit or loss and a profit of CU50 in its other comprehensive income.

¹ In this Snapshot, monetary amounts are denominated in 'currency units' (CU).

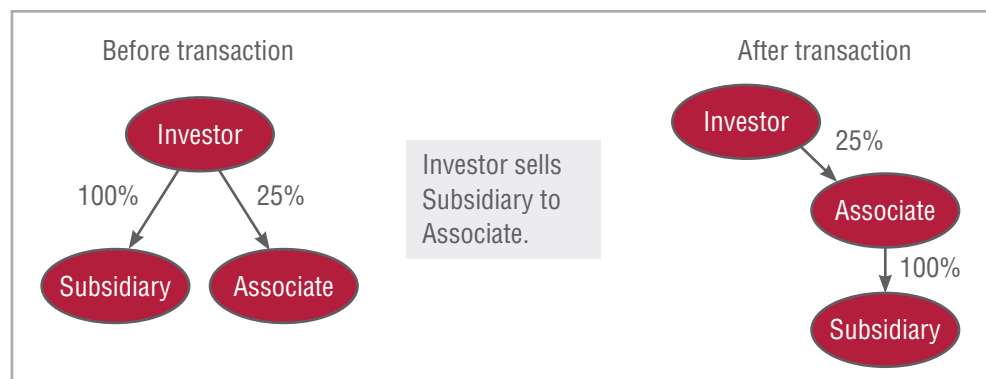
Proposals changing the measurement requirements

Transactions with associates and joint ventures

Application question

- How does an investor or joint venturer recognise gains or losses that arise from the sale of a subsidiary to its associate or joint venture, applying the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28?

Diagram 3—Sale of a subsidiary to an associate



Requirements in IAS 28 and IFRS 10

IAS 28 requires an investor to recognise gains or losses resulting from transactions with an associate only to the extent of the unrelated investors' interests in the associate. For example, if an investor owns 25% of an associate and sells an asset to that associate, the investor recognises 75% of the gain at the date of the sale, and the remaining 25% over the asset's life or when the asset is sold to third parties.

IFRS 10 requires a parent to recognise in full a gain or loss from the sale of a subsidiary.

Proposed answer in the Exposure Draft

The IASB is proposing that an investor or joint venturer recognise in full gains and losses from all transactions with its associates and joint ventures.

The IASB proposals also answer application questions that arise when the restricted portion of the gain exceeds the carrying amount of the investment in the associate.

Disclosure

The IASB is proposing that an investor or joint venturer disclose the amount of gains or losses from 'downstream' transactions (sales from investor to its associates).

Other proposals

Impairment indicators

Application question

- Does an investor or joint venturer assess a decline in the fair value of the net investment by comparing the fair value to the original purchase cost or the carrying amount at the reporting date?

Requirements in IAS 28

IAS 28 requires an investor to assess whether an investment in an associate or joint venture might be impaired. If there is evidence that an investment might be impaired, an investor applies the requirements in IAS 36 *Impairment of Assets* to test for impairment.

Proposed answer in the Exposure Draft

The IASB is proposing that an investor or joint venturer compare the fair value to the carrying amount of the investment at the reporting date. Therefore, the IASB is proposing to replace the reference to ‘cost’ of the investment in paragraph 41C of IAS 28 with ‘carrying amount’ to clarify how an investor assesses whether an investment might be impaired.

The IASB is also proposing to remove the reference to ‘a significant or prolonged’ decline in the fair value of an investment in paragraph 41C of IAS 28 and add guidance in IAS 28 on how to gather information on the fair value of the investment.

The IASB is also proposing to change some of the wording in IAS 28 on impairment indicators to align the wording in IAS 36.

The IASB is not proposing changes to the requirements in IAS 36 for the impairment test as part of the Exposure Draft.

Other proposals

Separate financial statements

IAS 27 *Separate Financial Statements* permits an entity to choose whether to apply the equity method to its investments in subsidiaries, associates or joint ventures when presenting its separate financial statements.

The IASB decided its proposed answers to the application questions would also apply to a parent that chooses to use the equity method to account for its investments in subsidiaries in its separate financial statements.

In the IASB's view, developing different requirements for a parent that applies the equity method to investments in subsidiaries in separate financial statements would create two versions of the equity method with no obvious benefit.

Improving disclosures

In addition to other proposed disclosure requirements described in this Snapshot, the IASB is proposing that an investor disclose a reconciliation between the opening and closing carrying amount of its investments in associates and joint ventures.

Example 2—Reconciliation of investments in associates and joint ventures

| | CU |
|--|--------------|
| Opening balance | 1,200 |
| Acquisitions—new associates | 1,000 |
| Acquisitions—additional interests | 250 |
| Share of profit or loss for the period | 100 |
| Dividends | (200) |
| Other | (10) |
| Closing balance | <u>2,340</u> |

Other proposals

Transition

The IASB is proposing that an investor or joint venturer:

- recognise the previously restricted portion of gains or losses from transactions with associates (see page 10 of this Snapshot) as an adjustment to the carrying amount of the investment and the retained earnings at the transition date;
- recognise any change to contingent consideration (see page 7 of this Snapshot) as an adjustment to the carrying amount of the investment at the transition date; and
- apply all the other proposed amendments prospectively.

The IASB is proposing reliefs to facilitate the application of the proposed requirements.

Improving understandability

The IASB and its predecessor bodies have revised IAS 28 several times since it was first issued in 1989.

As a result of its Third Agenda Consultation, the IASB decided to slightly increase its current level of focus on the understandability and accessibility of IFRS Accounting Standards, which will indirectly support their consistent application.

The structure of IAS 28 has been mostly unchanged since it was issued, with new requirements being added or existing requirements being amended over time on a piecemeal basis.

In publishing the Exposure Draft, the IASB decided to improve the understandability of IAS 28 by regrouping the requirements by topic, such as initial recognition, and reordering the requirements. The Exposure Draft includes a table of concordance between IAS 28 and the draft IAS 28 (revised 202x).

Expected effects of the proposals

Expected effects on the quality of financial reporting

The IASB expects the proposed amendments to reduce diversity in practice and therefore provide users with more comparable information.

Diversity in practice arises because IAS 28 either does not specify requirements or includes requirements inconsistent with those in other IFRS Accounting Standards.

In the IASB's view, the proposals would provide users with more relevant information. For example, disclosing a reconciliation between the opening and closing balance of the carrying amount of an investor's investments in associates and joint ventures would help users understand the changes in that balance.

Expected cost of implementing and applying the proposals

Currently, preparers incur costs to develop their own accounting policies for those application questions, including researching potential accounting policies and engaging in discussions with auditors and regulators, who also incur costs to review those accounting policies. The proposals would reduce some costs to preparers, auditors and regulators by providing answers to application questions arising in practice for entities applying the equity method.

Appendix—Principles underlying IAS 28

| | |
|---|--|
| Classification | Power to participate is an investor’s shared power to affect changes in, and to access, net assets. |
| Boundary of the reporting entity | <p>Application of the equity method includes an investor’s share in the associate’s or joint venture’s net asset changes in the investor’s statement of financial position.</p> <p>An investor’s share of an associate’s or joint venture’s net assets is part of the reporting entity.</p> |
| Measurement on initial recognition | Fair value at the date that an investor obtains significant influence or joint control provides the most relevant information and faithful representation of an associate’s or joint venture’s identifiable assets and liabilities. |
| Subsequent measurement | <p>An investor recognises changes in an associate’s or joint venture’s net assets. An investor recognises the share of changes in net assets that it can currently access.</p> <p>An investor’s maximum exposure is its gross interest in an associate or joint venture.</p> <p>If an investor’s ownership interest in an associate or joint venture decreases and the investor continues to apply the equity method, it reclassifies amounts previously recognised in other comprehensive income.</p> |
| Derecognition | <p>An investor:</p> <ul style="list-style-type: none"> • applies IFRS 3 <i>Business Combinations</i> and IFRS 10 if it obtains control of a former associate or joint venture; • applies IFRS 9 if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and • recognises a gain or loss and reclassifies amounts recognised in other comprehensive income on the date that significant influence or joint control is lost. |

Information for respondents

The deadline for comments on the Exposure Draft is 20 January 2025

You can submit comments on our [Open for comment](#) page.

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To stay up to date with the latest developments in this project and to sign up for email alerts, please visit our [project page](#).

Exposure Draft package

The Exposure Draft package includes:

- the Exposure Draft *Equity Method of Accounting—IAS 28 (revised 202x)*;
- the Basis for Conclusions on the Exposure Draft *Equity Method of Accounting—IAS 28 (revised 202x)*, which summarises how the IASB developed its proposals;
- Illustrative Examples of the proposals in the Exposure Draft; and
- an Invitation to Comment, including questions for respondents.

In addition, a supplementary document, reproducing the draft IAS 28 (revised 202x) in marked-up form, is available on the IFRS Foundation website.

This document

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