Consultation on IASB Exposure Draft – Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures (revised 202x)

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Consultation on IASB Exposure Draft – Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures (revised 202x)		
Question 1—Measurement of cost of an associate (Appendix A and paragraphs 13, 22, 26 and 29 of [draft] IAS 28 (revised 202x))		
1.	Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example: (a) whether to measure any previously held ownership interest in the associate at fair value; or (b) whether and if so how to recognise and measure contingent consideration. The IASB is proposing an investor: (a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. (b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter: i. not remeasure contingent consideration classified as an equity instrument; and ii. measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss. Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.	Principally agreed, the banks are of the view that the proposals provide clearer guidance on initial recognition and measurement for cost of an associate. While for the contingent consideration, the banks suggest further clarification could be supplemented on whether the measurement requirement should also be aligned with IFRS 3 paragraph 58, for instance, the measurement period adjustments.

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	Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	
Question 2—Changes in an investor's ownership interest while retaining significant influence (Paragraphs 30–34 of [draft] IAS 28 (revised 202x))		
2.	IAS 28 does not include requirements on how an investor accounts for changes in its ownership interest in an associate, while retaining significant influence, that arise from: (a) the purchase of an additional ownership interest in the associate; (b) the disposal of an ownership interest (partial disposal) in the associate; or (c) other changes in the investor's ownership interest in the associate. The IASB is proposing to require that an investor: (a) at the date of purchasing an additional ownership interest in an associate: (i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred; (ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and (iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss. (b) at the date of disposing of an ownership interest: (i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and	(a) Principally agreed. However, as there is no explicit requirement on whether goodwill's measurement should be consistent with the requirements in IFRS 3, particularly the remeasurement subject to measurement period requirement (IFRS 3 paragraph 45-50). It would be grateful if further supplement could be made. The banks also suggest IASB to consider the practical expedient on offsetting criteria among goodwill and bargain purchase could be adopted if there are two (or more) acquisitions arisen within one financial year whereas goodwill arisen from the former transaction and bargain purchase resulted from the latter. (b) Agreed. (c) Generally agreed. However, as the timing on recognising the dilution effect from associates' equity-settled share-based payments arrangement may be varied among entities (i.e. Over vesting period, one-off upon granting or exercise of options). To avoid the inconsistency on the treatment and potentially lower the comparability of financial statements among entities, it is recommended the timing should be clearly determined.

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	(ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss. (c) for other changes in its ownership interest in an associate: (i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'. (ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'. Paragraphs BC20–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative	
Question 3—Recognition of the investor's share of losses (Paragraphs 49–52 of [draft] IAS 28 (revised 202x))		
3.	Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil: (a) on purchasing an additional ownership interest, recognises any losses not recognised as a 'catch up' adjustment by deducting those losses from the cost of the additional ownership interest; or (b) recognises separately its share of each component of the associate's comprehensive income.	The banks agree the proposals on no "catch up" adjustments recognised from purchasing additional ownership interest and separate recognition of associate's OCI. However, for the treatment and the example as stated on paragraph 52, it would be confusing and somehow misleading to users on the rationale that recognising the share of associate's profit of OCI and loss of profit or loss simultaneously whereas the entity still has unrecognised loss on that associate. To rationalise the treatment, the banks suggest IASB to consider the requirement on unrecognised losses also separately "off-book" accounted for profit or losses and OCI, and the

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	The IASB is proposing an investor: (a) on purchasing an additional ownership interest, not recognise its share of an associate's losses that it has not recognised by reducing the carrying amount of the additional ownership interest. (b) recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income. Paragraphs BC47–BC62 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	profit will only be recognised "on book" only respective unrecognised losses diminished.
Question 4—Transactions with associates (Paragraph 53 of [draft] IAS 28 (revised 202x))		
4.	Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor). If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary. The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.	Agreed.

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	Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain why you disagree and your suggested alternative.	
Question 5—Impairment indicators (decline in fair value) (Paragraph 57 of [draft] IAS 28 (revised 202x))		
5.	Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition. The IASB is proposing: (a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount'; (b) to remove 'significant or prolonged' decline in fair value; and (c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment. The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 Impairment of Assets. Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.	Yes, the banks are of the view that the proposals provided clearer guidance on impairment indicators whereas no significant impact on current practice of impairment assessment for associates.

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	Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	
Application of the proposed requirements to investments in subsidiaries to which the equity method is applied in separate financial statements		
Question 6—Investments in subsidiaries to which the equity method is applied in separate financial statements		
6.	Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements. The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements. Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain why you disagree and your suggested alternative.	No comments.
Proposed amendments to IFRS 12 and IAS 27—Disclosure requirements		
Question 7—Disclosure requirements (Paragraphs 20(c), 21(d)–21(e) and 23A–23B of IFRS 12 and paragraph 17A of IAS 27)		
7.	The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose: (a) gains or losses from other changes in its ownership interest; (b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures;	Refer to BC144, it's too broad to disclose any gains or losses from downstream transactions with its associates. The banks suggest that IASB to define the nature of items to be disclosed, for example whether to disclose monetary and/or non-monetary gains or losses. The IASB is suggested to collect users' feedback to give out some examples (like IAS 24 para 21) for items that are of higher users' interest.

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	(c) information about contingent consideration arrangements; and (d) a reconciliation between the opening and closing carrying amount of its investments. The IASB is also proposing an amendment to IAS 27 to require a parent—if it uses the equity method to account for its investments in subsidiaries in separate financial statements—to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries. Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	Moreover, the banks suggest IASB considers to explain the rationale for not requiring an investor that account for its investment in subsidiaries using equity method to add disclosures as stated in Question 7(a), (c), (d).
Proposed amendments to IFRS 19		
Question 8—Disclosure requirements for eligible subsidiaries (Paragraphs 88(c), 91A and 240A of IFRS 19)		
8.	IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards. As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries. The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary: (a) to disclose information about contingent consideration arrangements; and	Agreed the amendments to IFRS 19.

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	(b) to disclose gains or losses resulting from ‘downstream’ transactions with its associates or joint ventures. The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from ‘downstream’ transactions with those subsidiaries. Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB’s rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).	
Other matters		
Question 9—Transition (Paragraphs C3–C10 of [draft] IAS 28 (revised 202x))		
9.	The IASB is proposing to require an entity: (a) to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures; (b) to apply the requirements on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date—generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments in associates or joint ventures accordingly; and (c) to apply prospectively all the other requirements from the transition date. The IASB is also proposing relief from restating any additional prior periods presented.	Agreed the requirement on transitions.

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	Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	
Question 10—Expected effects of the proposals		
10.	Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?	Agreed.
Question 11—Other comments		
11.	Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft? Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?	In the case where an associate issued additional shares in separate tranches within one financial year whereas the ultimate outcome on the shareholding remains the same though there is certain time lag between tranches (i.e. less than one year), the banks suggest IASB could clarify whether this case could be treated as single transaction provided that the transactions are intended to achieve a single commercial objective (i.e. maintain the same shareholding percentage), thus the shareholding to apply equity method should not be changed during the time lag between tranches.