
Accounting Standards Advisory Forum meeting

Date	July 2023
Project	Equity Method
Topic	Format of the exposure draft
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This paper has been prepared for discussion at a public meeting of the Accounting Standards Advisory Forum (ASAF). This paper does not represent the views of the International Accounting Standards Board (IASB) or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Objective of the session

1. The objective of the session is to ask Accounting Standards Advisory Forum (ASAF) members for their views on whether the International Accounting Standards Board (IASB) should publish an exposure draft of amendments to IAS 28 *Investments in Associates and Joint Ventures* or an exposure draft of IAS 28 revised. To clarify, an exposure draft of amendments to IAS 28 would add, delete, or amend paragraphs in IAS 28 but would not change the order or re-number paragraphs in IAS 28.

Structure of this paper

2. This paper is structured as follows:
 - (a) project update (paragraphs 3–45 of this paper);
 - (b) staff analysis:
 - (i) guidance in the Due Process Handbook (paragraphs 6–11);
 - (ii) publishing an exposure draft of amendments to IAS 28 (paragraphs 12–13);
 - (iii) publishing an exposure draft of IAS 28 revised (paragraphs 14–17);
 - (c) question for the ASAF members; and
 - (d) Appendix—Summary of IASB's tentative decisions on application questions.

Project update

3. At its April 2023 meeting¹, the IASB decided to move the Equity Method project from its research programme to its standard-setting work plan. The IASB also decided to work towards publishing an exposure draft as the next due process step. In reaching its decision, the IASB considered that the research project had provided sufficient evidence that:
 - (a) the application questions and research undertaken in the project provide evidence that there are deficiencies in financial reporting;
 - (b) these deficiencies are likely to affect many entities in many jurisdictions;
 - (c) developing solutions to the application questions in a holistic way will reduce divergence in practice; and
 - (d) the benefits of the project are likely to outweigh the costs.
4. A summary of the IASB tentative decisions on application questions is set out in Appendix A of this paper.
5. At its June 2023 meeting, the IASB will discuss the application question about contingent consideration on acquisition of an investment in an associate leaving one application question to be discussed. The remaining steps in the project include:
 - (a) deciding whether to add any application questions to the scope of the project;
 - (b) discussing any implications of applying the IASB's tentative decisions to investments (other than those in associates) accounted for using the equity method; and
 - (c) discussing possible improvements for the disclosure requirements to accompany the IASB's tentative decisions and transition requirements.²

¹ See [IFRS - IASB Update April 2023](#).

² See [AP13 Cover paper of June 2023 IASB meeting](#).

Staff analysis

Guidance in the Due Process Handbook

6. In determining whether to publish an exposure draft of amendments to IAS 28 or an exposure draft of IAS 28 revised, the IASB is guided by the Due Process Handbook.
7. Paragraph 6.2 of the Due Process Handbook states that an exposure draft sets out a specific proposal in the form of a proposed IFRS Standard (or amendment to a Standard) and is therefore generally set out in the same way as, and has all components of, a Standard.
8. The staff considered the approaches followed by the IASB for past projects. Often the IASB publishes first an exposure draft of amendments to a Standard and then the amendments, but other approaches have included for example;
 - (a) publishing a draft of amendments to an IFRS Accounting Standard and issuing a revised Standard — Exposure Draft *Defined Benefit Plans – Proposed Amendments to IAS 19* (April 2010) and *IAS 19 Employee Benefits* (June 2011).
 - (b) publishing a draft revised Standard and issuing a revised Standard — *Exposure Draft of proposed amendments to IFRS 3 Business Combinations* (June 2005) and *IFRS 3 Business Combinations* (January 2008).
 - (c) issuing a revised Standard — IAS 28 with a new title in May 2011 as part of the consolidation package.
9. The Due Process Handbook is not specific in prescribing when an exposure draft should be published as an amendment to a Standard or as a revised Standard. In deciding the format, the IASB should consider its aim of developing IFRS Accounting Standards that are clear, understandable, and enforceable³.

³ Paragraph 3.27 of the Due Process Handbook.

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10. In thinking about whether to publish an exposure draft of amendments to IAS 28 or an exposure draft of IAS 28 revised, it should be noted that the proposed amendments to IAS 28 will add new requirements or expand IAS 28 requirements and delete the requirement to restrict gains or losses from upstream and downstream transactions.
 11. Since the start of the Equity Method project, the IASB has explained that the objective of the project is to answer application questions by amending IAS 28 or adding application guidance applying the principles that underlie IAS 28. The project does not change the basis for the recognition of investments in associates and joint ventures (significant influence and joint control, respectively); and does not replace the equity method with method of accounting or introduce a new measurement basis for these investments. In the staff's view, considering the project objective, it would not be necessary to replace IAS 28 with a new IFRS Accounting Standard.

Publishing an exposure draft of amendments to IAS 28

12. The project objective and approach support the publication of an exposure draft of amendments to IAS 28. Furthermore, publishing an exposure draft of amendments to IAS 28 would:
 - (a) communicate better what the boundary of the project is and what areas of IAS 28 are not affected by the project; and
 - (b) encourage stakeholders to focus and provide comments only on the proposed amendments, and not on other requirements in IAS 28.
13. A further advantage of publishing an exposure draft of amendments to IAS 28 is that stakeholders may have developed internal guidelines and publications that reference the paragraph numbers in IAS 28. Changes in the numbering of the paragraphs would require a revision of these materials.

Publishing an exposure draft of IAS 28 revised

14. Based on the IASB's tentative decisions the staff anticipate that at least 10 paragraphs will be either added, amended, or deleted from IAS 28. This is a large number of amendments and publishing an exposure draft of IAS 28 revised may make it easier for stakeholders to assess how the amendments interact with requirements unchanged in IAS 28.
15. IAS 28 was issued in 2011 and does not follow the structure of more recent IFRS Standards. Successive amendments were introduced on a piecemeal basis, which have been 'fitted' around the structure of IAS 28, perhaps not improving the understandability of the Standard. An exposure draft of IAS 28 revised would allow the IASB to update the structure of IAS 28, for instance by moving defined terms to an Appendix like in IFRS 15 *Revenue from Contracts with Customers* or IFRS 16 *Leases*.
16. In the staff's view there are opportunities to improve and clarify the wording and ordering in IAS 28. For example, an exposure draft of IAS 28 revised would allow the IASB to rearrange the order of the Standard and group requirements on scope, exemptions from the use of the equity method, recognition and measurement requirements. This would improve the understandability of IAS 28 by making it clearly articulated and using consistent terminology and structure, and therefore the consistent application of the Standard.
17. However, publishing an exposure draft of IAS 28 revised may require more time and resources and have consequences for the timing of other projects on the IASB's work plan and research project pipeline.

Question for ASAF members

1. What are ASAF members' views on whether the IASB should issue an exposure draft of amendments to IAS 28 or an exposure draft of IAS 28 revised?

Appendix—Summary of IASB’s tentative decisions on application questions

Application questions	IASB Meeting	IASB’s tentative decisions
Changes in an investor’s interest while retaining significant influence		
How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?	<p style="text-align: center;">April 2022 March 2023</p> <p style="text-align: center;">June 2022</p>	<ol style="list-style-type: none"> 1. The IASB tentatively decided that an investor would measure the cost of an investment, when an investor obtains significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. 2. The IASB tentatively decided that an investor purchasing an additional interest in an associate while retaining significant influence would recognise any difference between the cost of the additional interest and its additional share in the net fair value of the associate’s identifiable assets and liabilities either as goodwill, or as a gain from a bargain purchase. 3. The IASB tentatively decided that an investor purchasing an additional interest in an associate (that is a bargain purchase), while retaining significant influence, would recognise a gain from a bargain purchase in profit or loss.
Whether an investor recognises its share of other changes in an associate’s net assets, and if so, how is the change presented?	September 2022	<ol style="list-style-type: none"> 4. The IASB tentatively decided that when the investor’s ownership interest: <ol style="list-style-type: none"> (a) increases and retains significant influence, an investor would recognise that increase as a purchase of an additional interest. (b) decreases and retains significant influence, an investor would recognise that decrease as a partial disposal.

Application questions	IASB Meeting	IASB's tentative decisions
<p>How does an investor apply the equity method when disposing of an interest in an associate while retaining significant influence?</p>	<p>December 2022</p>	<p>5. The IASB tentatively decided that an investor applying the equity method is measuring a single investment in an associate. Accordingly, in a partial disposal, an investor would be required to measure the portion of the investment in the associate to be derecognised as a proportion of the carrying amount of the investment at the date of the disposal.</p>
Recognition of losses		
<p>Whether an investor that has reduced its interest in an associate to nil is required to 'catch up' unrecognised losses if it purchases an additional interest in the associate?</p>	<p>December 2022</p>	<p>6. The IASB tentatively decided that an investor applying the equity method that has reduced the carrying amount of its investment in an associate to nil and has therefore stopped recognising its share of an associate's losses would not recognise any unrecognised losses on purchasing an additional interest in the associate.</p>
<p>Whether an investor that has reduced its interest in an associate to nil recognises each component of comprehensive income separately?</p>	<p>December 2022</p>	<p>7. The IASB tentatively decided:</p> <ul style="list-style-type: none"> (a) to clarify that an investor would recognise its share of an associate's comprehensive income until its interest in the associate is reduced to nil. (b) that when an investor has reduced the carrying amount of its investment in an associate to nil the investor would recognise separately its share of each component of the associate's comprehensive income. (c) if an investor's share of an associate's comprehensive income is a loss that is larger than that carrying amount of its investment in the associate, an investor would recognise in order its share of the associate's profit or loss, and its share of the associate's other comprehensive income.

Application questions	IASB Meeting	IASB's tentative decisions
Whether an investor that has reduced its interest in an associate to nil continues eliminating its share of gains arising from a downstream transaction?	March 2023	8. The IASB tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 concluded the discussions on this application question.
Transactions with (and between) equity accounted investments		
How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?	March 2023	9. The IASB tentatively decided: (a) that an investor would recognise the full gain or loss on all transactions with its associate. (b) to propose improvements for the disclosure requirements when an investor recognises the full gain or loss on transactions with its associate.
Whether to recognise the portion of the investor's share of gain that exceeds the carrying amount of its investment in the investee in a downstream transaction?	March 2023	10. The IASB tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 and IAS 28 concluded the discussions on these application questions.
Whether the investor's share of gain or loss is eliminated from the carrying amount of the investment in the investee or the acquired asset in an upstream transaction?		
Whether the provision of service and transactions that are not transfer of assets are upstream or downstream transaction?		
Whether the requirement for adjustment of gains or losses in intra-group transactions between subsidiaries should be applied by analogy to transactions between investees that are accounted for applying the equity method?		

Application questions	IASB Meeting	IASB's tentative decisions
Initial recognition of an investment in an associate–Deferred taxes		
Does an investor account for a deferred tax asset (or liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value?	April 2023	11. The IASB tentatively decided that an investor would account for, and include in the carrying amount of its investment in an associate, a deferred tax asset (or liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value.