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Equity Method – the IASB project

Cover note

Objective

- 1 The reason for the session is to update the EFRAG CFSS and FR TEG members on the recent developments in the IASB project on the equity method of accounting, and to receive the input in regard to the discussed potential amendments to equity method of accounting in IAS 28 *Investments in Associates and Joint Ventures* as applied to subsidiaries and joint-ventures.

Background and history of the IASB project

- 2 Following the Feedback Statement to the 2011 Agenda Consultation, the IASB decided to add a project on equity method of accounting to the research programme. The IASB justified its decision using the feedback from constituents what included the criticisms related to application of the equity method, its complexities, and inconsistencies. The research was intended to involve a fundamental assessment of the equity method in terms of usefulness and difficulties for preparers.
- 3 In October 2020, the IASB reconsidered the scope of project and decided that its objective is to:
Assess whether application questions with the equity method, as set out in IAS 28, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.
- 4 Accordingly, the IASB decided not to fundamentally reconsider IAS 28 guidance. Consequently, some of the application issues would be excluded from the scope of the Project.
- 5 Please refer to Appendix 1 and 2 of [November 2022 FR TEG and CFSS meeting agenda paper](#) for the list of principles underlying IAS 28 requirements, identified by the IASB, and a list of issues/questions that satisfied the IASB selection criteria (i.e. whether application questions were not-yet-solved, possible to solve without fundamentally rewriting IAS 28, possible to solve without amending other IFRS Standards, and important - frequent, widespread, material, and affecting consistent application of IAS 28).
- 6 Following the discussions in April 2023, the IASB members decided to:
 - (a) move the Equity Method research project to the standard-setting work plan;
 - (b) work towards publishing an exposure draft; and
 - (c) to further consult its consultative groups.
- 7 The IASB also decided to re-phrase the project objective and clarify that the project is to:

develop answers to application questions about the equity method, as set out in IAS 28 Investments in Associates and Joint Ventures, using the principles derived from IAS 28 where possible.

Recent developments in the IASB project

- 8 Following the IASB meeting in July 2023, the IASB is finalising its discussions towards an exposure draft.
- 9 The tentative decisions till the meeting in July 2023, are summarised in the IASB Staff paper: [Equity method - summary of tentative decisions](#).
- 10 In July 2023, apart from the tentative decisions to amend the guidance of IAS 28, the IASB also decided to extend the scope of the project to cover five other application questions.
- 11 **At its September 2023 meeting**, the IASB plans to discuss the implications of the tentative decisions to:
 - (a) investments in subsidiaries presented in separate financial statements;
 - (b) investments in joint ventures; and to further discuss
 - (c) possible improvements to disclosure requirements for investments in associates; and
 - (d) the scope of the project.
- 12 The issues in **(a) and (b) above** are the topics for the discussion at today's EFRAG CFSS and FR TEG meeting.
- 13 In particular, **Agenda paper 06-03 (ASAF Agenda Paper 4A)** discusses two alternatives for equity accounting for subsidiaries in separate financial statements of the investor:
 - (a) Alternative 1 - Equity method as applicable in IAS 28;
 - (b) Alternative 2 - Equity method as applicable in IAS 28, with a requirement to restrict gains or losses from transactions between the parent and its subsidiaries.
- 14 In both alternatives mentioned above, 'Equity method as applicable in IAS 28' refers to the equity method as it would be amended by the IASB's tentative decisions.
- 15 The details are presented in Agenda Paper 06-03 on page 16 starting from paragraph 44.
- 16 Moreover, **Agenda paper 06-04 (ASAF Paper 4B)** discusses the application of the IASB tentative decisions to investments in joint ventures.

Questions for EFRAG CFSS and FR TEG members

- 17 Considering the Equity Method project's scope and objective:
 - (a) Do you have comments on Agenda Papers 06-03 and 06-04 (ASAF Agenda Papers 4A and 4B)?
 - (b) What are your views on the alternatives discussed in Agenda Paper 06-03 (ASAF Agenda paper 4A)? Please explain the rationale for your view.

Agenda Papers

- 18 In addition to this cover note, the following Agenda papers have been made available:
 - (a) Agenda Paper 06-02 – Equity Method – ASAF Agenda Paper 4 – Cover – for background purposes;
 - (b) Agenda Paper 06-03 – Equity Method – ASAF Agenda Paper 4A – Subsidiaries – for background purposes;

- (c) Agenda Paper 06-04 – Equity Method – ASAF Agenda Paper 4B – Joint Ventures – for background purposes.