IFRS Foundation

World Standard-setters Conference 2024

Exposure Draft

Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)

#WSS2024

Presenters

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Agenda

1. Overview of the project
2. Overview of the proposals

Overview of the project

Project's objective and approach

Objective

- Reduce diversity in practice by answering application questions on the equity method of accounting; and
- Improve the understandability of IAS 28.

Approach

Identify application questions → Identify the underlying principles → Apply the principles to the application questions

Identify application questions:
- can be solved efficiently and effectively
- affected consistent application
- involves a widespread matter that occurs frequently

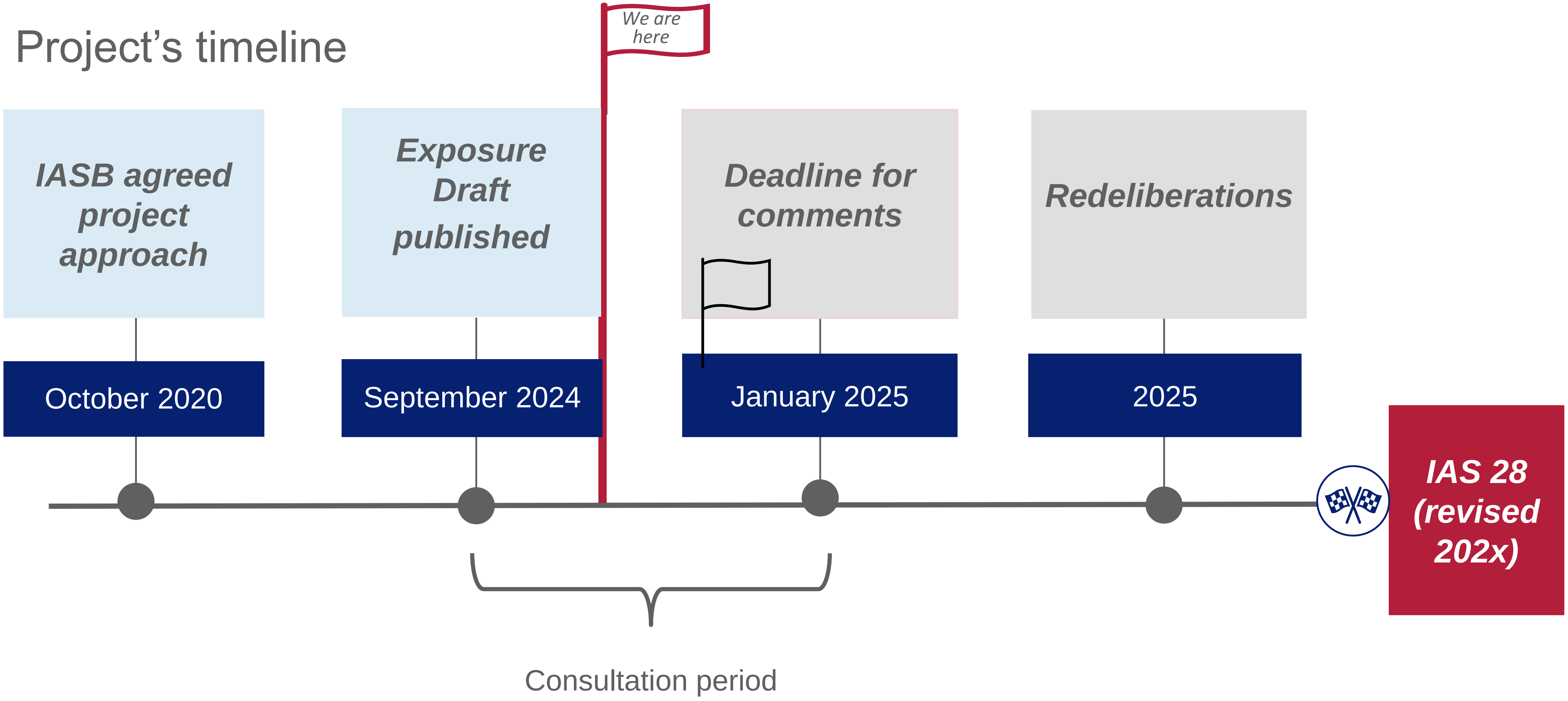
Identify the underlying principles:

Group IAS 28 requirements:
- into topics
- identity the principle for each topic

Apply the principles to the application questions:

Proposed answers in the Exposure Draft

Project’s timeline



Expected effects

Expected effects—benefits to users

Reduce diversity in practice

Improve comparability of information

Improve information from new disclosures:

- for example, disclose a reconciliation between the opening and closing balance of the carrying amount

Expected effects—costs and benefits to preparers

Reduce costs to preparers in developing their own accounting policies

Reduce costs to auditors and regulators in reviewing those accounting policies

Improving the understandability of IAS 28

Improving understandability of IAS 28

Improving understandability

IAS 28 structure has been mostly unchanged since it was first issued. Changes to IAS 28 have been added on a piecemeal basis.

As part of the Third Agenda Consultation, the IASB decided to increase focus on the understandability of IFRS Accounting Standards.

IASB's proposals

To improve the understandability of IAS 28 in the Exposure Draft:

- requirements have been reordered; and
- topics have been grouped, following the structure of more recent IFRS Accounting Standards.

The Exposure Draft includes a table of concordance.

A supplementary document of a marked-up IAS 28 will be available on the IFRS Foundation website.

Responding to the Invitation to Comment

Slide 11 summarises the IASB's proposals on improving the understandability of IAS 28

The Invitation to Comment to the Exposure Draft asks for 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).

NSSs are asked:

- if the proposals improve the understandability of IAS 28?
- does the Exposure Draft, together with the supplementary document, provide sufficient information for NSSs to assess the improvements to IAS 28?

Overview of the proposals

Proposals:

- obtaining significant influence or joint control
- purchasing an additional interest
- disposing of an ownership interest
- other changes in ownership

Obtaining significant influence or joint control

Application question

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

IASB's proposed answer

- Measure cost 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.
- Include in the carrying amount of the investment the deferred tax effects.

Changes in ownership—purchasing an additional interest

Application question

How does an investor or joint venturer purchasing an additional ownership interest, *while retaining significant influence or joint control*, recognise and measure that additional ownership interest?

IASB’s proposed answer

- Add, to the carrying amount of the investment, the additional share of the fair value of the identifiable assets and liabilities at the date of purchase.
- Account for any difference between the fair value of consideration transferred and the additional share of the fair value identifiable assets and liabilities either:
  - as goodwill (included in carrying amount of the investment); or
  - as a gain from bargain purchase in profit or loss.

Changes in ownership—disposing of an ownership interest

Application question

How does an investor or joint venturer disposing an ownership interest, *while retaining significant influence or joint control*, measure the disposed portion of its investment?

IASB's proposed answer

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

IFRS Accounting

Changes in ownership—other changes

Application question

How does an investor or joint venturer account for other changes in its ownership interest, *while retaining significant influence or joint control*?

IASB's proposed answer

Account for the change as if purchasing or disposing of an ownership interest.

An associate issues new shares to a third party in exchange for cash. The investor's ownership interest decreases, however, the investor retains significant influence.

The investor treats the decrease in its ownership interest as a disposal and recognises a gain or loss in profit or loss for the difference between its share of the change in the associate's net assets and the disposed portion of its investment.

Responding to the Invitation to Comment

Slides 15 to 18 summarise the IASB's proposals when:

- obtaining significant influence or joint control
- purchasing an additional ownership interest
- disposing of an ownership interest
- other changes in ownership interest.

The Invitation to Comment to the Exposure Draft asks if respondents agree with the proposals.

It would be helpful if NSS could, in answering the question, explain:

- Why, or why not, you agree with the proposals.
- If there are different views among stakeholder groups in the jurisdiction, what these views are.
- Whether you agree with the expected effects (cost and benefits) of the proposals.
- If you disagree with the proposals, your suggested alternative.

Proposals:

- share of profit or loss and OCI
- changes in ownership—losses not recognised
- transactions with associates and joint ventures
- impairment indicators
- improving disclosures
- separate financial statements
- transition

Share of profit or loss and other comprehensive income

Application question

How does an investor or joint venturer recognise its share of profit or loss and other comprehensive income:

- if its share of profit or loss and its share of other comprehensive income are both losses that equal or exceed its net investment?
- if its net investment has been reduced to nil and if either its share of profit or loss or its share of other comprehensive income is a profit?

IASB's proposed answer

The investor or joint venturer would:

- recognise its share of profit or loss and then its share of other comprehensive income.
- recognise separately its share of profit or loss and its share of other comprehensive income.

Changes in ownership—losses not recognised

Application question

Does an investor or joint venturer that has reduced the carrying amount of its investment to nil 'catch-up' losses not recognised when purchasing an additional ownership interest?

IASB's proposed answer

No, an investor or joint venturer does not 'catch-up' those losses by reducing the carrying amount of the additional ownership interest.

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?

IASB's proposed answer

Recognise the full gains or losses from all transactions with its associates or joint ventures.

The existing requirement in IAS 28 is to recognise gains or losses to the extent of unrelated investors' interests in the associate (for instance, an investor with a 25% ownership interest recognises 75% of gains or losses). The proposed amendment changes that requirement to require recognising full gains or losses. The proposed amendment withdraws the amendments to IAS 28 and IFRS 10 issued in 2014, that were indefinitely deferred.

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?

IASB's proposed amendment

Compare the fair value to the carrying amount of the investment at the reporting date.

The IASB is also proposing:

- to remove the reference to 'a significant or prolonged' decline in the fair value of an investment.
- to change some of the wording in IAS 28 on impairment indicators to align with IAS 36.

The proposed amendment does not change the requirements in IAS 36 *Impairment of Assets* on how an entity measures the recoverable amount of the net investment.

Improving disclosures

Gains or losses from other changes in ownership interest in the associate's or joint venture's net assets	Amount of the gains or losses
Gains and losses from transactions with associates or joint ventures	Amount of the gains or losses from 'downstream' transactions
Contingent consideration arrangements	Information on the nature of the arrangement, amounts recognised and changes in those amounts, and range of possible outcomes
Changes in the carrying amount of investments	Reconciliation of the opening to the closing balance of the carrying amount

Separate financial statements

Consolidated financial statements

- Eliminate intragroup gains or losses
- Revalue previously held interest when acquiring control
- Revalue retained interest when losing control

Parent’s separate financial statements

- Do not eliminate intragroup gains or losses
- Do not revalue previously held interest under equity method
- Do not revalue retained interest kept under equity method

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.

Transition

Transition reliefs

The IASB is proposing reliefs to facilitate the proposals' application.

IASB's transition proposals

Apply the proposals **prospectively**, except, at transition date, recognise:

- any previously restricted portion of gains or losses from transactions with associates or joint ventures in retained earnings; and
- contingent consideration at fair value as an adjustment to the carrying amount of the investment.

Responding to the Invitation to Comment

Slides 21 to 27 summarise the IASB's proposals on:

- share of profit or loss and OCI
- losses not recognised
- transactions with associates and joint ventures
- impairment indicators
- improving disclosures
- separate financial statements
- transition

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