IFRS®
Accounting

Staff paper

Agenda reference: 1

Accounting Standards Advisory Forum meeting

Date	**March 2025**
Project	**Equity Method**
Topic	**Overview of feedback on the Exposure Draft and staff preliminary recommendations to the IASB for the project's next stage**
Contacts	**Filippo Poli (fpoli@ifrs.org)** **Mostafa Mouit (mmouit@ifrs.org)**

Purpose of this session

- Provide ASAF members with an overview of the feedback on the Exposure Draft *Equity Method of Accounting – IAS 28* Investments in Associates and Joint Ventures *(revised 202x)*.
- Seek ASAF members' views on staff's preliminary recommendations to the IASB for the project's next stage (the project direction).

Questions for ASAF members are on slide 6.

Agenda

Advice from ASAF members

Staff's preliminary recommendations on the way forward

Who we obtained feedback from

Key messages and overview of the feedback on the Exposure Draft

Appendix—Terms used in the analysis of feedback

Advice from ASAF members

Advice from ASAF members

- The staff are developing the feedback summary on the Exposure Draft and plan to discuss this with the IASB at its May 2025 meeting.
- After the IASB has considered the feedback summary, the staff will develop a project plan and ask the IASB to approve it.
- This presentation sets out the staff's preliminary recommendations on what to include in the project plan.
- This presentation covers Questions 1–6 and Questions 10–11 in the Invitation to Comment. The staff will consider the implications for disclosure requirements and transitional provisions after the topics to which they relate have been discussed.

Questions for ASAF members

At this ASAF meeting, we are asking for views on the staff's preliminary recommendations. We are not asking for further feedback on the proposals in the Exposure Draft.

1. Do ASAF members have any comments on the staff's preliminary recommendations on the way forward on slide 8:
    a. project objective
    b. project approach
2. Do ASAF members agree on the list of key topics that need further analysis on slide 9?

Staff's preliminary recommendations on the way forward

Staff's preliminary recommendations on the way forward

Project objective	As almost all respondents supported the project objective, the staff's preliminary recommendation is to retain it.
Approach	Although most respondents agreed with the project approach, some would have preferred for the IASB to undertake a fundamental review. The staff's preliminary recommendation is not to change the approach, but to examine the overall cohesiveness of the proposals. Although there are some calls for the IASB to address additional topics, the staff's preliminary recommendation is that there should be a high hurdle to add application questions to the scope of the project.

Staff’s preliminary recommendations on the way forward

Based on the feedback in slides 13–25, the staff’s preliminary recommendation is that the following topics will need further analysis:

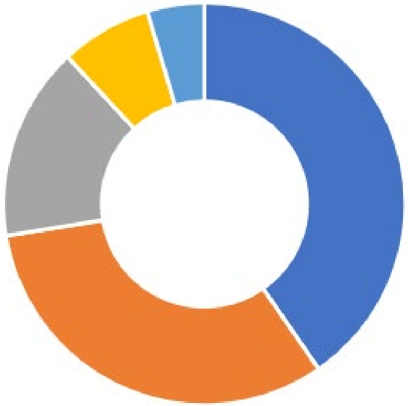
- Changes in an investor’s ownership interest. — Slides 17–18
- Recognition of the investor’s share of losses (share of profit or loss and share of OCI). — Slide 20
- Subsidiaries accounted for using the equity method in separate financial statements. — Slide 23

IFRS Accounting

Who we obtained feedback from

Analysis by respondent type and region

Respondent type	Number	Percentage
Preparers	29	27%
Standard-setters	28	26%
Accounting professional bodies	18	17%
Accounting firms	13	12%
Academics	7	6%
Regulators	5	5%
Users	4	4%
Others	5	5%
Total comment letters	109	100%



Region	Number	Percentage
Europe	44	40%
Asia and Oceania	35	32%
Americas	17	16%
Global	8	7%
Africa	5	5%
Total comment letters	109	100%

Comment deadline closed 20 January 2025

109 comment letters

32 outreach meetings & events

IFRS Accounting

Key messages and overview of the feedback on the Exposure Draft

Key messages

Proposals	Overall, there is support for the proposals. There were mixed views on:	
	• the cost and benefit of applying the 'layers approach' for additional purchases.	Slides 17–18
	• recognition of the investor's share of losses (share of profit or loss and share of OCI).	Slide 20
	• the use of the equity method for subsidiaries in separate financial statements.	Slide 23
	• removal of 'significant or prolonged decline in fair value' criterion when assessing impairment, mostly from preparers.	Slide 22
Other comments	Most respondents said the IASB should address the treatment of acquisition-related costs.	Slide 16
	Respondents suggested additional topics the IASB should add to the project.	Slide 25

Project objective—feedback

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.

Almost all respondents agreed with the project objective.

They said the proposals will:

- clarify the application of the equity method and reduce diversity in practice, providing users with more comparable information.
- improve the understandability of IAS 28.

Project approach—feedback

- Identify application questions
- Identify the principles that underlie IAS 28
- Develop proposals

Most respondents agreed with the project approach; however, some would have preferred the IASB to undertake a fundamental review of the equity method before answering the application questions.

Those who would have preferred a fundamental review, thought the IASB should have decided if the equity method is a one-line consolidation method or a measurement method.

Q1—Measurement of the cost of an associate[1]

Almost all respondents agreed with the proposals on how to measure the cost of the associate on obtaining significant influence.

That said, most of these respondents suggested the IASB should address acquisition-related costs. Many of these respondents cited the IFRS IC May 2009 Agenda Decision that states:

… the cost of an investment in an associate determined in accordance with paragraph 11 of IAS 28 comprises its purchase price and any directly attributable expenditures necessary to obtain it.

"How does an investor recognise the acquisition-related costs (transaction costs), when obtaining significant influence?"

[1]For simplicity, Questions 1–5 were expressed in relation to investments in associates. References to 'investor', 'associate' and 'significant influence' should be read as also referring to 'joint venturer', 'joint venture' and 'joint control' in relation to investments in joint ventures.

Q2—Changes in an investor’s ownership interest while retaining significant influence (purchases and disposals)

There were mixed views from respondents on the proposals for purchases of an additional ownership interest whilst retaining significant influence (‘layers approach’):

- Most users, regulators and many standard-setters agreed with the ‘layers approach’.
- Some respondents agreed with the ‘layers approach’ but were concerned about the complexity, particularly the cost of determining the fair values of each additional share of net assets purchased (cost and benefit of the approach). They suggested the IASB consider relief from applying the ‘layers approach’ in certain circumstances.
- Some respondents disagreed with the ‘layers approach’.

There were different views on what relief should be made or alternative proposals.

Most respondents agreed with the proposal for measuring the portion of the investment to be derecognised in a partial disposal.

Q2—Changes in an investor’s ownership interest while retaining significant influence (other changes in ownership interest)

Most respondents agreed with the proposal to recognise an increase in an ownership interest as if purchasing an additional ownership interest, and a decrease as if disposing of an ownership interest. However, some respondents said this agreement was subject to concerns already raised about the cost and benefit of applying the ‘layers approach’.

Almost all respondents agreed with the proposal to recognise these gains or losses in profit or loss.

Many respondents asked the IASB to add requirements for other transactions not addressed by the proposals (for example share-based payments or changes in an associate’s non-controlling interests).

Q3—Recognition of the investor’s share of losses (‘catch-up adjustment’)

Many respondents agreed with the proposal when purchasing an additional ownership interest, an investor does not deduct losses not recognised from the cost of that additional ownership interest.

Some respondents suggested clarifying how the investor subsequently determines its share of the associate’s profit or loss. Respondents asked if an investor recognises:

- its share of profit or loss attributable to its total ownership interest; or
- its share of profit or loss first on its share of profit and loss before purchasing an additional ownership interest; and secondly, its share of profit and loss attributable to the additional ownership interest.

Q3—Recognition of the investor’s share of losses (share of profit or loss and share of other comprehensive income (OCI))

Almost all respondents agreed with the proposal that when an investor’s share of profit or loss and its share of OCI are both losses, the investor recognises its share of profit or loss first.

Some respondents asked the IASB to specify the order in which an investor resumes recognising its share of profits after its share of total profits equals the total unrecognised losses.

There were mixed views on the proposal that an investor recognises separately its share of profit or loss and its share of OCI when the carrying amount of the investment is nil. Many noted that the proposal does not address different fact patterns while some disagreed with the proposal.

Q4—Transactions with associates

Most respondents agreed with the proposal to recognise in full gains and losses resulting from all ‘upstream’ and ‘downstream’ transactions, including transactions involving the loss of control of a subsidiary.

Some respondents disagreed with this proposal because, in their view, the equity method is a one-line consolidation method. However, there were different views on alternative proposals; some suggested recognition of partial gains or losses for all transactions, while others suggested recognition of partial gains or losses when a transaction involves an asset.

A few respondents cautioned about structuring opportunities and earnings management, mainly for investments in joint ventures, and suggested enhanced disclosures to alleviate this risk.

Q5—Impairment indicators (decline in fair value)

Almost all respondents agreed with the proposals to update the impairment requirements in IAS 28, except for removing the reference to a ‘significant or prolonged’ decline in fair value.

Most respondents agreed with removing reference to ‘significant or prolonged’. However, some (mostly preparers) disagreed and said that the removal could result in performing an impairment test every time the fair value falls below the carrying amount of the investment.

A few respondents suggested aligning the impairment section in IAS 28 with IAS 36 *Impairment of Assets*.

Q6—Investments in subsidiaries to which the equity method is applied in separate financial statements

Many respondents agreed that the proposals in the Exposure Draft should apply to investments in subsidiaries to which the equity method is applied in a parent's separate financial statements.

Some respondents agreed with the alternative view on the Exposure Draft. In their view, having two versions of the equity method would enable the amounts reported in separate financial statements (SFS) to align with amounts reported in consolidated financial statements (CFS).

Respondents are divided on whether the equity method as proposed in the Exposure Draft should include exceptions when applied to subsidiaries in SFS, or an alternative 'equity method' be permitted where the carrying amount of the investment in the subsidiary equals the amounts in the CFS.

Q10—Expected effects of the proposals

Most respondents agreed with the IASB's analysis of the expected effects of implementing its proposals, as set out in paragraphs BC217–BC229 of the Basis for Conclusions to the Exposure Draft.

That said, many of these respondents referred to their responses to other questions in the Invitation to Comment, including the cost and benefit of applying the 'layers approach'.

Q11—Other comments

Respondents welcomed the illustrative examples and encouraged the IASB to provide further examples illustrating different fact patterns.

Amongst other topics raised, respondents also suggested the IASB consider:

- introducing further application guidance from IFRS 3, for example on 'measurement period'.
- questions on the scope of applying the equity method. For example, the use of the fair value option (paragraphs 18 and 19 of IAS 28) and applying the equity method to an associate that does not constitute a business.
- presentation of profit and loss and other income and expenses from investments accounted for using the equity method.

IFRS Accounting

Appendix—Terms used in the analysis of feedback

Terms used in the analysis of feedback [1]

Term	Extent of response among respondents
Almost all	all except a very small minority
Most	a large majority, with more than a few exceptions
Many	a small majority or large minority
Some	a small minority, but more than a few
A few	a very small minority

[1] In determining which term to use, the staff:

(a) considered not just the number of responses, but also other factors, such as whether a response reports the views of a single individual or the views of a broader group.

(b) assessed whether comments appeared to be concentrated in specific geographical areas or among particular types of respondents.

(c) have also considered the nature of the comments and whether they are qualitatively significant irrespective of the number of respondents who shared such views.

Follow us online

ifrs.org

@IFRSFoundation

IFRS Foundation

International Accounting
Standards Board