Exposure Draft

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

Obtaining significant influence or joint control

Application question	IASB's proposed answer
• 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?	• 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.

Changes in ownership—other changes

Application question	IASB's proposed answer
How does an investor or joint venturer account for other changes in its ownership interest, *while retaining significant influence or joint control*?	Account for the change as if purchasing or disposing of an ownership interest.

Example

An associate issues new shares to a third party in exchange for cash. The investor's ownership interest decreases, while 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.*

Share of profit or loss and other comprehensive income

Application question	IASB's proposed answer
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?	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.

Transactions with associates and joint ventures

Application question	IASB's proposed answer
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?	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.

Investments in subsidiaries in 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.

Thank you!

We invite you to review the proposals and send your feedback

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