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Project	**Annual Improvements to IFRSs 2014-2016 Cycle—Comment letter analysis**
Paper topic	IAS 28 *Investments in Associates and Joint Ventures*—Measuring investees at fair value through profit or loss on an investment-by-investment basis

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Introduction

1. The Exposure Draft *Annual Improvements to IFRSs 2014–2016 Cycle* (the ED), published in November 2015, included a proposal to clarify the accounting related to exemptions from applying the equity method in paragraphs 18 and 36A of IAS 28 *Investments in Associates and Joint Ventures*.

2. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds (‘other qualifying entity’) , the entity may elect to measure that investment at fair value through profit or loss (FVTPL). The ED proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* to clarify that the election is available for each investment in an associate or a joint venture on an investment-by-investment basis, upon initial recognition.

3. In addition, the ED proposed a similar clarification for an entity that is not an investment entity and that has an interest in an investment entity associate or joint venture.

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Objective

4. The objective of this paper is to provide an analysis of the comment letters received on the proposed amendments to IAS 28. The proposals in the ED resulted from discussions of the IFRS Interpretations Committee ('the Interpretations Committee') and subsequently the Board.

Structure of the paper

5. This paper:
   (a) provides a description of the issue that led to the proposed amendments;
   (b) analyses the comments received on the ED; and
   (c) asks the Board whether it agrees with the staff recommendation to finalise the amendments to IAS 28.
6. Appendix A to this paper sets out the proposed amendments to IAS 28, together with some proposed changes to those amendments that reflect the staff recommendations in this paper.

Description of the issue

7. When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation or other qualifying entity, the entity may elect to measure that investment in the associate or joint venture at FVTPL applying paragraph 18 of IAS 28.
8. The Interpretations Committee received a request to clarify whether the entity is able to choose between applying the equity method to the investment or measuring the investment at FVTPL on an investment-by-investment basis, or whether instead the entity must apply the same accounting to all of its investments in associates and joint ventures.

9. The Interpretations Committee noted that:

   (a) before it was revised in 2011, IAS 28 (2003) permitted a venture capital organisation or other qualifying entity to elect to measure investments in associates and joint ventures at FVTPL on an investment-by-investment basis (see Appendix B to this paper). However, after the revision, it had become less clear whether such an election was still available to those entities;

   (b) there is no indication that the Board intended to change this option when revising IAS 28 in 2011; and thus

   (c) any lack of clarity that arose as a consequence of the revision in 2011 was unintended.

10. Consequently, the Interpretations Committee recommended that the Board amend paragraph 18 of IAS 28 as an Annual Improvement to specify that a venture capital organisation or other qualifying entity may elect on an investment-by-investment basis to measure investments in associates and joint ventures at FVTPL.

Similar clarification of the proposed Annual Improvement—application of the equity method to an investment entity investee

11. In December 2014, the Board issued amendments to IAS 28 regarding investment entity associates and joint ventures.[1] This amendment permits a non-investment entity investor, when applying the equity method, to retain the FVTPL measurement applied by its investment entity associates or joint ventures for their subsidiaries.

12. Because this amendment permits, but does not require, the retention of FVTPL measurement, a question similar to that outlined above in paragraph 8 could arise for this accounting choice—is the choice available on an investment-by-investment basis?

[1] *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28).

13. When the Board developed the amendment to IAS 28 issued in December 2014, it noted that:

    (a) the amendment was made to address concerns about the potentially significant practical difficulties that may arise in unwinding the FVTPL measurement applied by the investment entity associate or joint venture.

    (b) there could be circumstances in which the information to unwind the FVTPL measurement is available and thus IAS 28 should permit a choice.

14. In developing the proposed Annual Improvement, the Board concluded that permitting an accounting choice on an investment-by-investment basis would be consistent with its past discussions related to the 2014 amendment. Accordingly, the Board decided that it should also amend paragraph 36A of IAS 28.

15. The Board proposed retrospective application of the proposed amendments.

Comment letter analysis

16. The comment period for the ED ended on 17 February 2016.

17. The Board received 50 comment letters on the ED. From these comment letters:

    (a) many respondents fully agree with the proposals in the ED for the reasons provided in the ED.

    (b) some respondents agree with the proposed amendments, but they have further comments or request further clarification of the proposed amendments.

    (c) some respondents disagree with the proposed amendments.

    (d) some respondents do not support retrospective application of the proposed amendments.

Comments received on the proposed amendments

18. Many respondents support the proposals on the grounds that the proposed amendments clarify that an entity elects to measure investments at FVTPL on an investment-by-investment basis.

19. Nonetheless, some respondents comment that the election to measure investments at FVTPL on an investment-by-investment basis appears to:

    (a) be inconsistent with IFRS 10 *Consolidated Financial Statements* (hereafter, Issue 1);

    (b) conflict with IAS 39 *Financial Instruments: Recognition and Measurement* (hereafter, Issue 2); and

    (c) conflict with IAS 27 *Separate Financial Statements* (hereafter, Issue 3).

20. Although agreeing with the proposed amendments, some respondents suggest changes, which include:

    (a) adding disclosure requirements to enhance a user's understanding of the financial statements (hereafter, Issue 4); and

    (b) more clarity about the proposed amendment to paragraph 36A of IAS 28 (hereafter, Issue 5).

21. We have analysed each of these issues in the following paragraphs.

Issue 1: inconsistency with IFRS 10

22. Some respondents think that the proposed amendment to paragraph 18 of IAS 28 is inconsistent with IFRS 10.[2] They note that paragraph 31 of IFRS 10 *requires* an investment entity parent to measure all of its subsidiaries at FVTPL, instead of consolidating them. Similarly, one respondent thinks that the proposed amendment to

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[2] For example, Institute of Certified Public Accountants in Israel (ICPAI), Public Accountants and Auditors Board Zimbabwe (PAAB), Grupo Latinoamericano de Emisores de Normas de Información Financiera (GLENIF) [Group of Latin-american Accounting Standard Setters (GLASS)].

paragraph 36A of IAS 28 is inconsistent with paragraph 33 of IFRS 10, which *requires* a non-investment entity parent to consolidate all of its subsidiaries.[3]

23. In the view of those respondents, there is no conceptual basis to provide an accounting choice (ie equity method or FVTPL) to an investment entity with an interest in an associate or a joint venture, given that it is mandatory for an investment entity parent to measure all of its subsidiaries at FVTPL. This is because the business model of an investment entity as described in paragraph B85K of IFRS 10 is the same, regardless of whether its investment is in an associate, a joint venture or a subsidiary:

> B85K An essential element of the definition of an investment entity is that it measures and evaluates the performance of substantially all of its investments on a fair value basis, because using fair value results in more relevant information than for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures…

24. They express concern that the proposed amendments will lead to earnings management ('cherry picking'), and will reduce the comparability and understandability of the information provided. Consequently, they suggest that the proposed amendment should be clarified by either:

    (a) providing criteria (for example, based on business model) to determine which investments may be measured at FVTPL; or

    (b) specifying that the fair value election is not available to investment entities.

25. They also think that the proposed amendment is inconsistent with paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. That paragraph states that consistent application of an accounting policy is required, unless other Standards specifically require or permit categorisation of items for which different policies may be appropriate.

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[3] Israel Accounting Standards Board (IASB).

Staff analysis and recommendation

26. The Board considered these points when developing the amendments to IFRS 10 and IAS 28 regarding investment entities in 2012 and 2014.

27. As described in paragraph BC283 of IFRS 10, the Board acknowledged the inconsistency in developing the proposal *Investment Entities* (the amendments to IFRS 10, IFRS 12 and IAS 27 issued in 2012). However, it noted that:

    (a) it was important to retain fair value accounting that had been allowed for venture capital organisations and other qualifying entities before the investment entity amendments; and

    (b) the difference between using the equity method and fair value measurement for investments in associates and joint ventures is smaller than that between consolidation and fair value measurement for investments in subsidiaries.

28. With respect to the proposed amendment to paragraph 36A of IAS 28, the Board also discussed a similar comment in developing the proposal *Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10 and IAS 28 issued in 2014). As described in paragraphs BC46C-BC46G of IAS 28, the Board decided to provide relief to non-investment entity investors on the grounds that:

    (a) the degree of practical difficulty and additional costs that may arise for an entity in unwinding the FVTPL measurement applied by an investment entity associate or joint venture for their interests in subsidiaries is different for an investee situation compared to a subsidiary situation. This is because the investor does not control its investees and therefore may not be able to gain access to the detailed information required to make the necessary adjustments to the investee's financial statements in a timely manner.

    (b) an investor's ability to achieve different accounting outcomes by holding investments directly or indirectly through an investment entity investee (ie structuring risk) is different depending on whether the investee is an associate, a joint venture or a subsidiary.

29. Consistently with the Board's intentions when it amended IFRS 10 and IAS 28 regarding investment entities, we do not think that the proposed amendments to IAS 28 should be revised to address the concerns related to inconsistency with IFRS 10.

Question 1—Issue 1
Does the Board agree with the staff recommendation not to revise the proposed amendments to address the concerns related to inconsistency with IFRS 10?

Issue 2: conflict with IAS 39

30. Some respondents think that the proposed wording 'on an investment-by-investment basis' will create an inconsistency with IAS 39.[4] More specifically, they refer to paragraph 9(b)(ii) of IAS 39, which describes a circumstance in which an entity can designate a financial asset or financial liability as at FVTPL. That circumstance relates to when an entity manages and evaluates the performance of a group of financial assets, financial liabilities or both on a fair value basis. Paragraph AG4J of IAS 39 includes application guidance relating to paragraph 9(b)(ii)—if an entity designates financial instruments as at FVTPL on the basis of the condition in paragraph 9(b)(ii), then it must designate *all* eligible financial instruments that are managed and evaluated together.

31. Those respondents suggest amending the requirement in paragraph AG4J of IAS 39 to allow the designation permitted by IAS 28 on investment-by-investment basis.

Staff analysis and recommendation

32. We think that the proposed amendments to paragraph 18 of IAS 28 will not create an inconsistency with the requirements in AG4J of IAS 39. This is because, in our view, a venture capital organisation or other qualifying entity does not designate investments in an associate or a joint venture as at FVTPL applying paragraph 9(b)(ii) of IAS 39. Instead, it applies paragraph 18 of IAS 28 in electing investments in an

[4] PricewaterhouseCoopers (PwC), Korea Accounting Standards Board (KASB), Korean Institute of Certified Public Accountants (KICPA), GLASS.

associate or a joint venture to measure at FVTPL, and then applies the requirements of IAS 39 (IFRS 9) in measuring those investments at FVTPL.

33. This approach is consistent with the following references:

    (a) IAS 39 excludes from its scope interests in associates or joint ventures that are accounted for applying IAS 28. However, paragraph 2(a) of IAS 39 also states that, in some cases, IAS 28 permits an entity to account for an interest in an associate or a joint venture applying some or all of the requirements of IAS 39.

    (b) paragraph BC13 of IAS 28 confirms that the Board views the FVTPL measurement option available to venture capital organisations or other qualifying entities as 'an exemption from the requirement to measure interests in joint ventures and associates using the equity method, rather than an exception to the scope of IAS 28 for the accounting for joint ventures and associates held by those entities'.

    (c) paragraph AG4I(a) of IAS 39 provides an example of when the designation conditions in paragraph 9(b)(ii) of IAS 39 could be met. The wording of that paragraph notes that IAS 28 itself allows a venture capital organisation or other qualifying entity to similarly measure investments in associates and joint ventures at FVTPL:

> The entity is a venture capital organisation, mutual fund, unit trust or similar entity whose business is investing in financial assets with a view to profiting from their total return in the form of interest or dividends and changes in fair value. *IAS 28 allows such investments to be measured at fair value through profit or loss in accordance with this Standard.* An entity may apply the same accounting policy to other investments managed on a total return basis but over which its influence is insufficient for them to be within the scope of IAS 28. *(emphasis added)*

34. Accordingly, a venture capital organisation or other qualifying entity does not apply all of the requirements in IAS 39 when applying paragraph 18 of IAS 28—it applies only the measurement requirements in IAS 39. Consequently, we do not think that an amendment is needed to paragraph AG4J of IAS 39.

Question 2—Issue 2
Does the Board agree with the staff recommendation not to amend paragraph AG4J of IAS 39?

Issue 3: conflict with IAS 27

35. Paragraph 10 of IAS 27 states that, when preparing separate financial statements, an entity can choose to account for its investments in associates and joint ventures either (i) at cost, (ii) in accordance with IFRS 9, or (iii) using the equity method. Paragraph 10 of IAS 27 goes on to require an entity to apply the same accounting for each category of investments.

36. Paragraph 11 of IAS 27 then states that, if an entity elects, in accordance with paragraph 18 of IAS 28, to measure its investments in associates or joint ventures at FVTPL, the entity also accounts for those investments in the same way in its separate financial statements.

37. The Board did not propose any change to these paragraphs of IAS 27 as part of the proposed amendments to IAS 28.

38. Some respondents think that it is not clear from these paragraphs whether, in its separate financial statements, a venture capital organisation or other qualifying entity[5]:

    (a) is allowed to measure investments in associates and joint ventures at FVTPL on an investment-by-investment basis (as it is allowed to do applying paragraph 18 of IAS 28, clarified by the proposed amendments); or

[5] KASB, KICPA, Malaysian Accounting Standards Board (MASB).

(b) is required to measure *all* such investments at FVTPL, on the grounds that paragraph 10 requires the same accounting for each category of investments and paragraph 11 requires any investments measured at FVTPL applying IAS 28 to also be measured at FVTPL in separate financial statements. If this is the case, those respondents note that such an outcome would appear to be inconsistent with the objective of the proposed amendments.

39. Those respondents suggest that the Board provide more clarity in relation to paragraphs 10 and 11 of IAS 27 to achieve consistency with the proposed amendments.

Staff analysis and recommendation

40. We think that the proposed amendment to paragraph 18 of IAS 28 will not create an inconsistency with the requirements in IAS 27. This is because we think that paragraph 10 of IAS 27 should not be read to mean that, in all circumstances, all investments in associates are one 'category' of investment and all investments in joint ventures are one 'category' of investment. The issue raised by respondents arises only if the requirement in paragraph 10 of IAS 27 is interpreted in that way.

41. 'Category' is not defined in IFRS Standards, but is used in a number of Standards. For example, IFRS 7 *Financial Instruments: Disclosures* uses 'category' to refer to groupings of financial assets and financial liabilities that are measured in different ways—eg financial assets measured at FVTPL is one category of financial asset and financial assets measured at amortised cost is another category of financial asset.

42. If the Board confirms the proposed amendments to IAS 28, it will be clear that paragraph 18 of IAS 28 permits a venture capital organisation or other qualifying entity to measure an investment in an associate or a joint venture differently from other similar investments. On this basis, we think that a venture capital organisation or other qualifying entity preparing separate financial statements could, for example, have two categories of investments in associates distinguished on the basis of how they are measured—one category of investments in associates that the entity has elected to measure at FVTPL applying paragraph 18 of IAS 28 and another category

of investments in associates to which it applies the equity method applying paragraph 10 of IAS 27.

43. We think that this categorisation would be appropriate to retain when applying paragraph 10 of IAS 27, which requires an entity to apply the same accounting for each category of investment in its separate financial statements. This means that an entity that elects to measure some associates at FVTPL applying paragraph 18 of IAS 28 would retain that measurement basis for those associates in its separate financial statements, as required by paragraph 11 of IAS 27. The entity could then choose whether to measure its remaining associates at FVTPL, cost or using the equity method applying paragraph 10 of IAS 27.

44. In addition, we note that the requirement in IAS 27 to apply the same accounting for each category of investments has been in place since 2003, and we are not aware that this has created practice issues for venture capital organisations or other qualifying entities.

45. Consequently, we do not recommend an amendment or clarification to paragraph 10 or paragraph 11 of IAS 27.

Question 3—Issue 3
Does the Board agree with the staff recommendation not to amend paragraph 10 or paragraph 11 of IAS 27?

Issue 4: disclosure requirements

46. One respondent—that agrees with the proposed amendments—expresses concern that, without additional disclosures, permitting a choice between two different measurement methods on an investment-by-investment basis could reduce users' understanding of the financial statements.[6] That respondent suggests requiring specific disclosures when an entity elects to measure investments in associates or joint ventures at FVTPL.

[6] Association of Chartered Certified Accountants (ACCA).

47. Another respondent notes the requirement in paragraph 21(c) of IFRS 12 *Disclosure of Interests in Other Entities* to disclose aggregated financial information for individually immaterial investments in associates and joint ventures[7]. That respondent does not think that such information will be meaningful if those individually immaterial investments are measured in different ways. The respondent notes that paragraph 21A of IFRS 12 states that an investment entity need not provide such a disclosure, and suggests that the Board expand this exemption to include investments in associates or joint ventures measured at fair value.

Staff analysis and recommendation

48. We think that additional disclosures or exemptions from existing disclosure requirements are not necessary on the basis of the following:

    (a) paragraph 21(a) and (b) of IFRS 12 require extensive disclosures for each investment in an associate or a joint venture that is material. Those disclosures include the measurement basis applied (ie equity method or fair value), summarised financial information, and the available quoted market price if the investment is accounted for using the equity method.

    (b) paragraph 21(c) of IFRS 12 requires the disclosure of aggregate financial information for immaterial investments in associates and joint ventures. However that information is required only for investments in associates and joint ventures accounted for using the equity method (as described in paragraph B16 of IFRS 12).

    (c) IFRS 7 and IFRS 13 *Fair Value Measurement* both include disclosure requirements that are applicable for investments in associates and joint ventures measured at FVTPL.

    (d) the proposed amendments focus on clarifying the requirements in paragraph 18 of IAS 28. Hence, requiring additional disclosures or providing exemptions from existing disclosure requirements is outside the scope of this Annual Improvement project.

[7] South African Institute of Chartered Accountants (SAICA).

Question 4—Issue 4
Does the Board agree with the staff recommendation that additional disclosure requirements or exemptions from existing disclosure requirements are not necessary?

Issue 5: further clarification of the amendment to paragraph 36A

49. One respondent questions whether the proposed amendment to paragraph 36A is merely a clarification of an already implied concept, and requests that the Board explain more clearly the rationale for the amendment in the Basis for Conclusions.[8]

Staff analysis and recommendation

50. As described in paragraphs 11-14 of this paper, the Board decided to propose an amendment to paragraph 36A of IAS 28 for the following reasons:
    (a) paragraph 36A of IAS 28 permits, but does not require, the retention of FVTPL measurement and, thus, the Board thought that a similar question could arise as arose regarding paragraph 18—ie is the measurement choice available on an investment-by-investment basis?
    (b) applying paragraph 36A on an investment-by-investment basis would be consistent with the Board's discussion that led to the development of the requirement in paragraph 36A.

51. The Basis for Conclusions on the proposed amendments did not explain that rationale fully and, thus, we recommend expanding the explanation in the Basis for Conclusions to the final amendments.

Question 5—Issue 5
Does the Board agree with the staff recommendation to expand the explanation in the Basis for Conclusions regarding the amendment to paragraph 36A?

[8] European Financial Reporting Advisory Group (EFRAG).

Comments received on transition

52. The Board proposed retrospective application of the proposed amendments. This was because a change from accounting for investments in associates or joint ventures using the equity method to measuring them at FVTPL (or vice versa) results in a change in the measurement basis. This is a change in an accounting policy applying paragraph 35 of IAS 8.

53. Many respondents agree with the proposed transition requirements because they enhance the comparability of financial information. However, some respondents express alternative views (hereafter, Issue 6).

Issue 6: further clarification on or change in the proposed transition

54. Some respondents who agree with the proposed transition requirements express concern that it is not clear whether entities are allowed to change decisions taken in earlier years, and apply the election to measure investments at FVTPL from the date of first applying the amendments.[9] They suggest that the Board further clarify the transition requirements in this respect.

55. Some other respondents question whether the costs to produce or collect all information needed to apply these amendments retrospectively is practical without significant use of hindsight. Some of them suggest prospective application so that the amendments would apply only to investments in associates or joint ventures that are initially recognised after the effective date of the amendments.[10]

56. Others that support prospective application suggest providing transition relief only for entities that previously interpreted IAS 28 as requiring all investments in associates and joint ventures to be measured at FVTPL or the equity method.[11] They think that

[9] The Hong Kong Association of Banks (HKAB), Institut Akauntan Awam Bertauliah Malaysia [The Malaysian Institute of Certified Public Accountants (CPA)], EFRAG, Raad voor de Jaarverslaggeving [Dutch Accounting Standards Board (DASB)].

[10] Dewan Standar Akuntansi Keuangan (DSAK) [Indonesian Financial Accounting Standard Board], Ernst & Young Global Limited.

[11] Accounting Standards Board of Japan (ASBJ), Deloitte Touche Tohmatsu Limited, Grant Thornton International, BDO.

such entities should be allowed to elect to measure each existing investment at FVTPL or using the equity method when the amendments are first applied.

57. A few respondents suggest a modified retrospective approach for cost reasons.[12] Such an approach would require a cumulative catch-up adjustment to equity at the beginning of the earliest comparative period.

Staff analysis and recommendation

58. We support retaining the proposed retrospective approach, which we think would not be onerous. This is because:

   (a) the proposed amendments are expected to affect only a narrow range of entities—for example, venture capital organisations and other qualifying entities that previously measured all investments applying the equity method that, as a result of the proposed amendments, elect to measure some investments at FVTPL on an investment-by-investment basis (or vice versa);

   (b) if an entity qualifies as a venture capital organisation or other qualifying entity, the entity typically would be expected to have information about the fair value of their investments for management purposes; and

   (c) if the costs of applying the proposed amendments retrospectively are excessive, an entity can choose not to change any of its previous decisions. This is because the proposed amendments are less restrictive than some had previously interpreted—retrospective application of an investment-by-investment choice of measurement, in effect, means that an entity is not required to reassess its previous decisions.

59. We understand the concerns that it is not clear whether entities are allowed to change decisions taken in earlier years. Some respondents suggest that entities that had already applied paragraphs 18 and 36A of IAS 28 on an investment-by-investment basis should be prevented from changing their previous decisions; others suggest clarifying that retrospective application means that an entity can change its previous

[12] SAICA, the Institute of Chartered Accountants of Zimbabwe (ICAZ).

accounting subject to the requirements in IAS 8; whilst others were concerned about the use of hindsight in reassessing previous decisions.

60. We think that applying the proposed amendments retrospectively applying IAS 8 would include the following outcomes:

    (a) an entity that had previously read paragraph 18 or paragraph 36A of IAS 28 as an election for all investments in associates and joint ventures, rather than an election on an investment-by-investment basis, could reassess its previous decisions subject to the requirements in IAS 8 regarding a change in accounting policy.

    (b) there would be no change in accounting policy for entities that previously applied paragraph 18 or paragraph 36A of IAS 28 on an investment-by-investment basis. Accordingly, such entities would not reassess or change previous decisions.

    (c) an entity would not apply hindsight inappropriately. Paragraph 53 of IAS 8 states that an entity should not use hindsight when applying a new accounting policy to a prior period, either in making assumptions about what management's intentions would have been in a prior period or estimating the amounts recognised, measured and disclosed in a prior period.

61. Consequently, we think that an entity should apply the proposed amendments retrospectively applying IAS 8, and recommend stating this explicitly within the transition requirements.

Question 6—Issue 6
Does the Board agree with the staff recommendation to retain the proposed retrospective transition approach applying IAS 8?

The wording of the amendment to paragraph 18 of IAS 28

62. The proposed amendment to paragraph 18 of IAS 28 used the phrase 'on an investment-by-investment basis', whereas the proposed amendment to paragraph 36A was worded differently and referred to the election being made 'separately for each investment entity associate or joint venture'.

63. We think that the phrase 'on an investment-by-investment basis' could be misinterpreted. For example, assume an entity that is a venture capital organisation acquires a 25% interest in an associate—the entity has significant influence over the associate. Subsequently, the entity acquires a further 10% interest in the associate, retaining significant influence. 'Investment-by-investment' could be read to mean that the entity could choose whether to measure the 10% investment at FVTPL or using the equity method, regardless of the measurement choice made for the initial 25% investment in the associate.

64. We think that the Board does not intend a venture capital organisation or other qualifying entity to have a measurement choice for each individual investment made in the same associate or joint venture—rather, the intention is that an entity can choose to measure each associate or joint venture at FVTPL or using the equity method. So, in the example above, at the time of initially recognising its 25% investment in the associate, the entity would choose whether to measure that 25% investment at FVTPL or using the equity method. Having made that choice, it would account for the additional 10% investment in the associate in the same way as the initial 25% investment.

65. We recommend rewording the amendment to paragraph 18 along the lines of that outlined in Appendix A to address this concern—the wording proposed in Appendix A for paragraph 18 of IAS 28 is similar to the wording proposed for paragraph 36A.

Effective date

66. Paragraph 6.35 of the *Due Process Handbook* requires that the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new

requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.

67. We expect to issue the final amendment in the fourth quarter of 2016. The amendments to IAS 28 are narrow in scope. This amendment would apply retrospectively on or after the effective date. However, as discussed in paragraph 58, we think that the retrospective application would not be onerous. Furthermore, the amendment is clarifying in nature.

68. Consequently, we propose that the mandatory effective date for the amendment is annual periods beginning on or after 1 January 2018. We also propose that early application for the amendment is permitted.

69. The question for the Board regarding the effective date of this amendment is included in Agenda Paper 12F.

Summary of staff recommendations

70. On the basis of the analysis in this paper, we recommend that the Board proceed with the proposed amendments to IAS 28. We also recommend that the Board make some changes to clarify the amendments to IAS 28.

71. Our initial thoughts on the wording of the amendments to IAS 28 are set out in Appendix A to this paper. Our recommended changes to the proposed amendments are summarised as follows:

    (a) redraft the amendment to paragraph 18 to further clarify that an entity can choose to measure each associate or joint venture at FVTPL or using the equity method.

    (b) in paragraph 45E of IAS 28, state explicitly that an entity applies the amendments retrospectively in accordance with IAS 8.

    (c) in the Basis for Conclusions, clarify the rationale of the proposed amendment to paragraph 36A of IAS 28.

Question 7
Does the Board agree with the staff recommendation that it proceed with the amendments to IAS 28?

Appendix A—Draft amendments

This appendix includes the staff's initial thoughts on the wording of the amendments to IAS 28, incorporating the staff recommendations in this paper—this drafting is subject to change. The amendments to the proposals in the ED are shown in red and *italics*.

Exemptions from applying the equity method

…

18 When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the entity may elect to measure *that* investments ~~*in those associates and joint ventures*~~ at fair value through profit or loss in accordance with IFRS 9. *An entity shall make* ~~*T*~~*t*his election *separately* ~~*is made on an investment-by-investment basis*~~ for each ~~*investment in an*~~ associate or joint venture, ~~*upon*~~ *at the* initial recognition of *the associate or joint venture* ~~*each investment*~~.

…

Equity method procedures

…

36A Notwithstanding the requirement in paragraph 36, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of (i) ~~*on*~~ *the* initial recognition of the investment entity associate or joint venture, (ii) when ~~*an*~~ *the* associate or joint venture becomes an investment entity and (iii) when ~~*an*~~ *the* investment entity associate or joint venture first becomes a parent.

…

Effective date *and transition*

…

45E ~~[Draft]~~ *Annual Improvements to IFRS 2014–2016 Cycle*, issued in [date], amended paragraphs 18 and 36A. An entity shall apply those amendments *retrospectively, in accordance with IAS 8* Accounting Policies, Changes in Accounting Estimates and Errors for annual periods beginning on or after *1 January 2018*. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix B—Extracts

<u>IAS 28 (before revision in 2011)</u>

Scope

1. This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:

(a) venture capital organisations, or

(b) mutual funds, unit trusts and similar entities including investment-linked insurance funds

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change.

…

Basis for Conclusions on IAS 28

Measurement at Fair Value in Accordance with IAS 39

BC7. Accordingly, the Board decided that investments held by venture capital organisations, mutual funds, unit trusts and similar entities including investment linked insurance funds should be excluded from the scope of IAS 28 and IAS 31when they are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement.* The Board understands that fair value information is often readily available because fair value measurement is a well-established practice in these industries including for investments in entities in the early stages of their development or in non-listed entities.

Treatment of Changes in Fair Value

BC8. The Board decided that if venture capital organisations, mutual funds, unit trusts and similar entities are to be excluded from the scope of IAS 28, it should be only when they recognise changes in the fair value of their investments in associates in profit or loss in the period in which those changes occur. This is to achieve the same treatment as for investments in subsidiaries or associates that are not consolidated or accounted for using the equity method because control or significant influence is intended to be temporary. The Board's approach distinguishes between accounting for the investment and accounting for the economic entity. In relation to the former, the Board decided that there should be consistency in the treatment of all investments, including changes in the fair value of these investments.

BC9. The Board noted that if such investments were classified in accordance with IAS 39, they would not always meet the definition of investments classified as held for trading because venture capital organisations may hold an investment for a period of 3-5 years. In accordance with IAS 39 such an investment is classified as available for sale (unless the entity elects to designate the investment on initial recognition at fair value through profit or loss). Classification as available for sale would not result in recognising changes in fair value in profit or loss. To achieve a similar effect on income to that of applying the equity method, the Board decided to exempt investments held by venture capital organisations, mutual funds, unit trusts and similar entities from this Standard only when they are measured at fair value through profit or loss (either by designation or because they meet the definition in IAS 39 of held for trading).