IFRS®

STAFF PAPER

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IASB Meeting

Project	**Amendments to IAS 28 *Investments in Associates and Joint Ventures*—Long-term interests**
Paper topic	Analysis of feedback on the proposed amendments

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Introduction

1. The Board published the Exposure Draft *Annual Improvements to IFRS Standards 2015–2017 Cycle* (the ED) in January 2017. One of the proposed amendments included in the ED relates to IAS 28 *Investments in Associates and Joint Ventures*. The proposal is to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied (long-term interests).

2. The objective of this paper is to provide an analysis of the comment letters received on the proposed amendments to IAS 28, and ask the Board whether it agrees with our recommendation to finalise the amendments.

Summary of staff recommendation

3. The staff recommend that the Board should:

   (a) reaffirm its proposed amendments to IAS 28 to clarify that IFRS 9 applies to long-term interests;

   (b) clarify in IAS 28 that:

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(i) an entity applies the requirements in IFRS 9 to long-term interests before applying the loss allocation and impairment requirements in IAS 28; and

(ii) in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28

(c) develop educational material that includes an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests;

(d) set an effective date of 1 January 2019, with earlier application permitted;

(e) require retrospective application of the amendments applying IAS 8, subject to the transition requirements in (f) below; and

(f) provide transition requirements similar to those in IFRS 9 regarding the classification and measurement of financial assets (including an option not to restate comparative information) for those entities that apply the amendments after they first apply IFRS 9.

Structure of this paper

4. This paper is structured as follows:

(a) description of the issue and the proposed amendments;

(b) staff analysis of the comments received on the ED;

(c) Appendix A—Analysis of other matters raised by respondents;

(d) Appendix B—Illustrative example; and

(e) Appendix C—Excerpts from past agenda papers.

Description of the issue and the proposed amendments

5. The Board received a request to clarify whether IFRS 9 applies to long-term interests. The request asked whether long-term interests are within the scope of IFRS 9 and, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.

6. Paragraph 2.1(a) of IFRS 9 states that the scope of IFRS 9 excludes interests in associates and joint ventures that an entity accounts for in accordance with IAS 28. Paragraph 38 of IAS 28 explains that interests in an associate or joint venture that are subject to the allocation of losses are: (a) investments that an entity accounts for using the equity method; and (b) long-term interests. The net investment, which includes long-term interests, is then subject to the impairment requirements in paragraphs 40 and 41A–43 of IAS 28. In the light of these requirements in IFRS 9 and IAS 28, some had suggested that it is unclear whether paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only interests to which an entity applies the equity method, or whether it also excludes long-term interests. Some view long-term interests as being within the scope of IFRS 9 but not subject to the impairment requirements in IFRS 9. Those with this view reach this conclusion because paragraph 41 of IAS 28 states that the impairment requirements in IFRS 9 apply to interests that do not form part of the net investment, and paragraph 38 states that long-term interests are part of the net investment.

7. In considering the request, the Board noted that IAS 28 does not specify how to account for long-term interests. IAS 28 mentions long-term interests and the net investment, which includes long-term interests, only in the context of recognising losses of an associate or joint venture and impairment. Accordingly, IAS 28 does not specify general recognition or measurement requirements for long-term interests and, as such, long-term interests are not accounted for in accordance with IAS 28, as envisaged in paragraph 2.1(a) of IFRS 9. The Board also noted that paragraph 14 of IAS 28 states that 'IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method'.

8. Accordingly, the Board concluded that paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only those interests to which the equity method is applied, and not long-term interests. The Board proposed to clarify those requirements in the ED.

Staff analysis of the comments received on the ED

9. The comment period ended on 12 April 2017. The Board received 50 comment letters on the proposed amendments to IAS 28. The comment letters can be accessed here.

10. A large number of respondents agreed with the proposed amendments, and some disagreed. Half of the respondents who agreed with the proposed amendments expressed concerns about particular aspects of the proposals.

11. The main issues identified by respondents are as follows:

    (a) Reconsideration of the proposed amendments (paragraphs 12–25); and

    (b) Further clarifications, including an illustrative example (paragraphs 26–33).

Reconsideration of the proposed amendments

Summary of feedback

12. Some respondents disagreed with the proposed amendments. The main reasons for disagreement were as follows:

    (a) given the nature of long-term interests:

        (i) a few respondents suggested that an entity should consider these interests together with its equity interest in an associate or joint venture; and

        (ii) one respondent suggested that application of the loss allocation and impairment requirements in IAS 28 to long-term interests appears to be logical and consistent with the concept of the net investment in the associate.

(b) some thought that applying both IAS 28 and IFRS 9 to long-term interests could lead to double counting of losses.

13. One respondent who disagreed also said that it would be challenging to apply the IFRS 9 impairment requirements to financial instruments whose settlement is neither planned nor likely to occur in the foreseeable future (ie long-term interests).

14. Another respondent suggested that applying two different Standards to long-term interests creates unnecessary complexity.

15. In the light of the concerns described in paragraphs 12–14 of the paper, respondents who disagreed suggested that the Board reconsider the proposed amendments so that the Standards would specify that:

    (a) an entity applies only IAS 28 to long-term interests; or

    (b) an entity applies only IAS 28 or IFRS 9 to long-term interests; or

    (c) an entity initially recognises and measures long-term interests applying IFRS 9, and subsequently accounts for long-term interests applying IAS 28.

16. Some respondents also suggested that the Board define interests considered to be long-term interests.

17. Some respondents who agreed with the proposed amendments suggested that the amendments be only a short-term measure to address the existing diversity. In their view, the Board should comprehensively review the accounting for long-term interests as part of its research project on the equity method of accounting.

Staff analysis

18. We note that the Board and the IFRS Interpretations Committee (the Committee) discussed many of the concerns raised by respondents when developing the proposed amendments.

19. At its meeting in May 2016, the Committee discussed, among other things:

    (a) whether the proposed amendments would result in an entity double counting losses associated with its investments in an associate or joint venture; and

    (b) the possible practical challenge of applying the IFRS 9 impairment requirements to long-term interests.

20. The Committee observed that applying both IAS 28 and IFRS 9 to long-term interests would not be expected to lead to double counting of losses because the objective and the unit of account for the impairment requirements in each Standard is different. The Committee also noted that any potential difficulty in applying the IFRS 9 impairment requirements is not limited to long-term interests. This is because IFRS 9 envisages that an entity might apply amortised cost accounting, including the impairment requirements in IFRS 9, to financial instruments that are similar in nature to such long-term interests. Appendix C to this paper includes an excerpt of the staff analysis presented to the Committee on these issues (paragraphs C11–C17 and C18–C22, respectively).

21. With respect to defining long-term interests, the Board discussed this matter at its meeting in February 2016. Appendix C to this paper includes an excerpt of the staff analysis presented to the Board (paragraphs C2–C9). As suggested at that meeting, we continue to think that defining long-term interests is beyond the scope of this project. We also note that there are wider implications of defining long-term interests than simply the application of the requirements in IAS 28 and IFRS 9. IAS 21 *The Effects of Changes in Foreign Exchange Rates* includes the same notion of long-term interests as is included in IAS 28.[1]

22. We note that the Board and the Committee did not reconsider the existing requirements relating to long-term interests when they developed the proposed amendments. Paragraph BC3 of the ED explains their reasons:

[1] Paragraph 32 of IAS 21 requires an entity to initially recognise in other comprehensive income exchange differences arising on a monetary item that forms part of the entity's net investment in a foreign operation. IAS 21 states that an entity's net investment includes what IAS 28 describes as long-term interests.

> In considering the request, the Board and the IFRS Interpretations Committee discussed the accounting for long-term interests applying the existing requirements in IFRS 9 and IAS 28, without reconsidering those requirements. Both bodies noted that the request was narrowly and clearly defined. They concluded that they could respond to the request more efficiently by considering only the question asked. They noted that any reconsideration of the accounting for long-term interests could not be undertaken as a narrow-scope project and would be likely to involve reconsideration of the equity method, a topic which is included in the Board's pipeline of future research projects. Consequently, the focus of both bodies' discussions, and of these proposed amendments, was limited to clarifying the Board's intentions when it issued the existing requirements in IFRS 9 and IAS 28.

23. We continue to think that any reconsideration of the accounting for long-term interests is beyond the scope of this project and would be best addressed as part of a wider project. We think that clarifying the existing requirements in the meantime is a practical way to address the existing diversity in practice.

24. Having said that, we agree with respondents that the Board should consider the accounting for long-term interests as part of its research project on the equity method of accounting.

25. Consequently, we recommend that the Board reaffirm the proposed amendments to IAS 28 to clarify that IFRS 9, including its impairment requirements, applies to long-term interests.

Question 1 for the Board—reconfirm the proposed amendments
Does the Board agree with the staff recommendation to reaffirm the proposed amendments to IAS 28 to clarify that IFRS 9 applies to long-term interests?

Further clarifications, including an illustrative example

Summary of feedback

26. Many respondents suggested that the Board provide further clarifications as to how the requirements in IAS 28 and IFRS 9 apply to long-term interests. They said that without such clarifications, the intended effect of the proposed amendments would be limited. They also said that an example would be helpful to illustrate how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests.

Staff analysis

27. Some respondents agreed with the following observations made by the Board and the Committee and reported in IASB *Update* and IFRIC *Update*. They suggested that including these observations in the final amendments would be helpful in clarifying how an entity applies IAS 28 and IFRS 9 to long-term interests:

    (a) an entity accounts for long-term interests applying IFRS 9, including the impairment requirements in IFRS 9;

    (b) in allocating any losses of the associate or joint venture applying the requirements in paragraph 38 of IAS 28, the entity includes the carrying amount of those long-term interests (determined applying IFRS 9) as part of the net investment to which the losses are allocated;

    (c) the entity then assesses for impairment the net investment in the associate or joint venture, of which long-term interests are a part, by applying the requirements in paragraphs 40 and 41A–43 of IAS 28; and

    (d) if an entity allocates losses or recognises impairment applying steps (b) and (c) above, it ignores those losses or that impairment when it accounts for long-term interests applying IFRS 9 in subsequent periods.[2]

[2] February 2016 IASB *Update*, September 2016 IASB *Update* and May 2016 IFRIC *Update*

28. The requirements in IAS 28, following finalisation of the proposed amendments, would largely clarify the observations in bullets (a), (b) and (c) in paragraph 27 above. Proposed paragraph 14A would clarify bullet (a); bullets (b) and (c) are already clear in paragraphs 38 and 40 of IAS 28, except for the point in bullet (b) that an entity applies the requirements in paragraph 38 of IAS 28 after it applies the requirements in IFRS 9 to long-term interests. Bullet (d) is not directly observable in the requirements in IAS 28.

29. Consequently, we recommend that in the final amendments the Board clarify (a) an entity applies IFRS 9 to long-term interests before it applies the loss allocation and impairment requirements in paragraphs 38 and 40-43 of IAS 28; and (b) in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28.

30. In the following section *Illustrative example*, we recommend that the Board provides educational material that includes an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests. Such educational material could include the observations in paragraph 27 of this paper. Nonetheless, we recommend clarifying these observations within the requirements of IAS 28—without such clarification, we think that some might view the educational material, which is non-authoritative, to be inappropriately interpretive in nature.

Illustrative example

31. When developing the proposed amendments, the Committee and the Board found the example illustrated in Appendix B to this paper helpful when considering the issue. The Committee discussed this example at its meeting in September 2016, and observed that the illustration was consistent with the outcome of applying the relevant requirements in IAS 28 and IFRS 9 (which were clarified in the proposed amendments). Accordingly, we can see that such an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests could be helpful to stakeholders in understanding the amendments. Consequently, we recommend that the Board develop an example that would illustrate the

application of the amendments, and we recommend using the example outlined in Appendix B for this purpose.

32. We think there are two ways that the Board could provide such an example—as an illustrative example accompanying IAS 28 or as separate educational material made available on our website when the amendments are issued. Both of these options would result in non-authoritative material.

33. We recommend developing the example as educational material to be made available on our website, rather than as an illustrative example accompanying IAS 28. We view the example as an illustration mainly of how to apply the equity method to a particular fact pattern, which includes long-term interests, rather than of the main point of the proposed clarification (ie that IFRS 9 applies to long-term interests). We think that such an example, illustrating book-keeping entries for a particular fact pattern, lends itself to being considered educational material. We also note that IAS 28 is not currently accompanied by any illustrative examples. If this example were included as an illustrative example, it would be the only illustrative example accompanying IAS 28.

Question 2 for the Board—further clarifications, including an illustrative example

Does the Board agree with the staff recommendation:

(a) to clarify that an entity applies IFRS 9 to long-term interests before it applies the loss allocation and impairment requirements in paragraphs 38 and 40-43 of IAS 28; and in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28; and

(b) to develop educational material that would include an illustrative example along the lines of the example outlined in Appendix B to this paper?

Effective date

Proposed effective date

34. The Board proposed an effective date of 1 January 2018 for the proposed amendments to align with the effective date of IFRS 9, with earlier application permitted.

35. In setting this proposed effective date, the Board:

    (a) considered that the proposed amendments clarify the applicability of IFRS 9 to long-term interests; and

    (b) noted the benefit for entities in applying the proposed amendments at the same time that they first apply IFRS 9—ie entities applying the amendments at the same time that they first apply IFRS 9 would be able to use the transition requirements in IFRS 9, and incorporate the accounting for long-term interests within their IFRS 9 implementation plans. The transition requirements in IFRS 9 would be unavailable to an entity after it first applies IFRS 9.

Summary of feedback

36. A large number of respondents agreed with the proposed effective date for the reasons described in the Basis for Conclusions (outlined in paragraph 35 of this paper).

37. At the same time, some of those respondents highlighted the importance of finalising the proposed amendments as soon as possible so that preparers have sufficient time to implement the amendments before they become effective in 2018.

38. Some respondents disagreed with the proposed effective date. They were concerned that there would be insufficient time to implement the amendments. In particular, a number of respondents noted that an effective date of 1 January 2018 would be challenging for entities in a jurisdiction with a translation and/or endorsement process for IFRS Standards, as well as for entities that might be required to apply IFRS 9 before its effective date.

39. Consequently, those respondents suggested an effective date of 1 January 2019, with earlier application permitted. Respondents noted that earlier application would still allow preparers to benefit from applying the transition requirements in IFRS 9. One respondent who disagreed further suggested that the Board provide the transition relief in IFRS 9 for those entities that apply the amendments for the first time in 2019 (ie after they first apply IFRS 9).

Staff analysis

40. Because the proposed amendments would simply clarify the existing requirements in IFRS Standards, many entities may have already applied the existing requirements as proposed in the ED or may be unaffected by the proposed amendments. For those entities that have accounted for long-term interests differently from the proposed amendments, the effect of the amendments is that they would apply IFRS 9 for the first time to long-term interests. Because of this, we continue to see benefits in requiring entities to apply the amendments at the same time that they first apply IFRS 9. This would therefore suggest an effective date of 1 January 2018.

41. In saying that, we also understand the concerns raised by some respondents about the short period of time between the expected date of issuing the amendments and an effective date of 1 January 2018. We acknowledge that it might be difficult for entities in some jurisdictions to apply the amendments from 1 January 2018.

42. For this reason, on balance we recommend an effective date of 1 January 2019, with earlier application permitted. If an entity were to decide to apply the amendments early at the same time that it first applies IFRS 9, then it would be able to benefit from applying the transition requirements in IFRS 9.

43. However, if the Board sets an effective date of 1 January 2019, we recommend specific transition requirements for those applying the amendments for the first time after they first apply IFRS 9—see paragraphs 44–52 of this paper for discussion about transition. Accordingly, there are consequences for transition if the effective date is 1 January 2019.

Question 3 for the Board—effective date
Does the Board agree with the staff recommendation to set an effective date of 1 January 2019, with earlier application permitted?

Transition requirements

Proposed transition requirements

44. The Board proposed that an entity, including a first-time adopter, would apply the proposed amendments retrospectively applying IAS 8, except as follows:

    (a) if an entity does not restate comparative information applying IFRS 9, the entity may choose whether to restate comparative information to reflect the application of IAS 39;

    (b) if an insurer applies the temporary exemption from IFRS 9 applying IFRS 4 *Insurance Contracts*, the insurer may choose whether to restate comparative information to reflect the application of IAS 39; and

    (c) if a first-time adopter presents comparative information that does not reflect the application of IFRS 9 applying paragraph E1 of IFRS 1, it is not required to reflect the application of the proposed amendments in that comparative information. This exemption would be unavailable for first-time adopters applying the temporary exemption from IFRS 9 because they could not apply paragraph E1 of IFRS 1.

45. The Board proposed that an entity would be required to restate comparative information to reflect the proposed amendments if the entity restates comparative information applying IFRS 9. Because the Board proposed an effective date of 1 January 2018, an entity would be expected to apply the amendments at the same time that it first applies IFRS 9. In that case, an entity would apply the transition requirements in IFRS 9 when it first applies the amendments.

Summary of feedback

46. There were no significant concerns raised with respect to the proposed transition requirements. Appendix A to this paper summarises some other matters raised relating to the proposed transition requirements, together with our recommendations.

Staff analysis

Transition requirements based on the effective date of 1 January 2018

47. Considering the feedback, if the Board sets an effective date of 1 January 2018, we recommend that the Board reaffirm the proposal to require retrospective application of the amendments applying IAS 8. We also recommend that the Board reaffirm the specific proposed transition requirements, including those for insurers applying the temporary exemption from IFRS 9 and those for first-time adopters.

Transition requirements based on the effective date of 1 January 2019

48. If the Board sets an effective date of 1 January 2019, we considered whether there would be a need to provide specific transition requirements for entities applying the amendments for the first time in 2019, or at any date after they first apply IFRS 9. We concluded that such transition requirements would be required for the following reasons:

   (a) If the amendments did not include any specific transition requirements for such entities, then those entities would apply the amendments retrospectively applying IAS 8—ie unlike an entity that applies the amendments at the same time that it first applies IFRS 9, the transition requirements in IFRS 9 would be unavailable to an entity applying the amendments on, for example, 1 January 2019. That is because an entity applies the transition requirements in IFRS 9 only at the date of initial application of that Standard. It may not be possible for an entity to apply the amendments retrospectively without the use of hindsight, particularly in the context of newly applying the classification and

measurement requirements (including impairment) in IFRS 9 to long-term interests.

(b) In addition, when the Board developed the transition requirements in IFRS 9, it provided specific requirements to address scenarios when it would be impracticable to apply particular requirements retrospectively. For example, an entity is required to perform the business model assessment on the basis of the facts and circumstances that exist at the date of initial application of IFRS 9 (see paragraph 50 of this paper).

49. We think that, similarly, the Board should provide similar transition requirements for the amendments if the Board sets an effective date of 1 January 2019. Although some entities are likely to apply the amendments early so that they are applied at the same time that entities first apply IFRS 9, we would expect such an effective date to result in at least some entities applying the amendments after they first apply IFRS 9.

50. For example, consistent with the transition requirements in IFRS 9, we think that an entity should assess its business model on the basis of the facts and circumstances that exist on the date that it first applies the amendments (for example, 1 January 2019 for an entity applying the amendments from that date). We would also recommend including other transition requirements similar to those in IFRS 9 regarding the classification and measurement of financial assets (including impairment).

No requirement to restate comparative information

51. In addition, we recommend that an entity is not required to restate comparative information to reflect the amendments, and could choose to do so only if it is possible without the use of hindsight. This is consistent with the transition requirements in IFRS 9, and also with the transition requirements in the forthcoming Insurance Contracts Standard related to the redesignation of particular financial assets.

Transition requirements for first-time adopters

52. If the Board sets an effective date of 1 January 2019 and agrees with our recommendations regarding transition for existing IFRS preparers, we will bring a paper to a future Board meeting assessing transition for first-time adopters.

Question 4 for the Board—transition requirements
If the Board decides to set an effective date of 1 January 2018, does the Board agree with the staff recommendation to: (a) reaffirm the proposal to require retrospective application of the amendments applying IAS 8; and (b) reaffirm the specific proposed transition requirements, including those for insurers applying the temporary exemption from IFRS 9 and those for first-timer adopters? If the Board decides to set an effective date of 1 January 2019, does the Board agree with the staff recommendation to: (a) require retrospective application of the amendments applying IAS 8; and (b) provide specific transition requirements similar to those in IFRS 9 regarding the classification and measurement of financial assets, including an option not to restate comparative information?

Next steps

53. Subject to the Board reaching decisions on the topics addressed in this paper, we plan to bring a paper for discussion to a future meeting that would consider the due process requirements for the publication of a narrow-scope amendment. If the Board sets an effective date of 1 January 2019, that paper would also address transition for first-time adopters.

54. The Board published these proposed amendments to IAS 28 as part of the *Annual Improvements 2015-2017 Cycle*. In the light of the urgent nature of these amendments, we suggest that the Board finalise these amendments as a narrow-scope amendment, separately from the other proposed amendments included in the *Annual Improvements 2015-2017 Cycle*. We consider it to be beneficial to

finalise these amendments as soon as possible, even if the Board sets an effective date of 1 January 2019. This is because we think that some entities would wish to apply the amendments at the same time that they first apply IFRS 9.

Appendix A

Analysis of other matters raised by respondents

Issue	Staff analysis and recommendation
Main proposals and additional clarifications	
1. One respondent suggested that, when the Board amended IAS 28 in 2003, the Board's intent was not to require an entity to apply two sets of impairments requirements (those in both IAS 39 and IAS 28) to long-term interests.	There is no evidence in IAS 28, IAS 39, IFRS 9 or the Basis for Conclusions that the Board's intent was anything other than what the requirements in the Standards say. The requirements in paragraph 40 of IAS 28 say that the impairment requirements in IAS 28 apply to long-term interests—ie paragraph 40 of IAS 28 refers to an entity's net investment in the associate or joint venture. In addition, as explained in the Basis for Conclusions on the ED, an entity could not apply the amortised cost accounting model in IFRS 9 without also applying the impairment requirements in IFRS 9.
2. One respondent said although the proposed amendments clarify that the impairment requirements in IAS 28 apply to an entity's net investment in an associate or joint venture, it is not clear whether an entity allocates such impairment losses among components of the net investment.	The Committee discussed this issue at its meeting in September 2016. At that meeting, the Committee tentatively concluded that an entity allocates impairment losses recognised applying IAS 28 among components of an entity's net investment in the same way that the entity allocates its share of losses (ie in the reverse order of seniority). Appendix C to this paper includes an excerpt of the staff analysis in this respect (paragraphs C24–C29). We do not recommend that the Board address this as part of the amendments. We note that the proposed amendments do not create this issue, nor are they directly related to it—this question arises regardless of whether IFRS 9 applies to long-term interests. In addition, we think that an entity should be able to determine whether and how it allocates any impairment losses applying the existing requirements, and note that only one respondent requested this clarification.
Transition requirements	
3. One respondent suggested that the effective date for the amendments to IAS 28 should be the same as for the other amendments included in the ED (ie the amendments to IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs*) because they will be issued at the same time.	We suggest that the Board finalise and issue the amendments to IAS 28 separately from the other amendments proposed in the ED because the amendments to IAS 28 are more urgent than the others. In addition, the proposed amendments to IAS 28 are unrelated to the proposed amendments to IAS 12 and IAS 23. Consequently, we think the effective date does not necessarily need to be the same for all the amendments in the ED.

4. One respondent suggested that the transition requirements should be the same for entities that have already adopted IFRS Standards and first-time adopters. Specifically, the respondent said that although it is clear that the proposed amendments would enable insurers already applying IFRS Standards (and applying the temporary exemption from IFRS 9) to choose whether to restate the comparative information, it is not clear if the same option is provided for insurers who are first-time adopters.	The transition relief provided for first-time adopters in the ED (ie that a first-time adopter is not required to restate comparative information if its first IFRS reporting period begins before 1 January 2019 and it presents comparative information that does not reflect the application of IFRS 9) aligns with the short-term exemption from the restatement of IFRS 9 comparative information in paragraph E1 of IFRS 1. That short-term exemption is unavailable to a first-time adopter that applies the temporary exemption from IFRS 9. Accordingly, we think that the Board should not provide additional requirements for first-time adopters that apply the temporary exemption from IFRS 9, beyond the requirements already included in IFRS 1 for financial instruments.
5. One respondent suggested that the Board clarify that the effective date for insurers applying the temporary exemption from IFRS 9 would be the later of 1 January 2018 and the date of first-time application of IFRS 9.	We disagree. The clarification in the amendments applies equally to IAS 39. Consequently, we think that insurers applying the temporary exemption from IFRS 9 should apply the amendments when the amendments become effective.
Editorial suggestion	
6. A few respondents suggested clarifying in paragraph 14A that the requirements in IFRS 9 applicable to long-term interests include the impairment requirements of IFRS 9.	Paragraph 14A refers to IFRS 9, without exception—we think it is not necessary to explicitly refer to the impairment requirements in IFRS 9 because referring to IFRS 9 means that they are applicable.
Others	
7. One respondent suggested that the Board finalise the proposed amendments to IAS 28 at the same time as it finalises the proposed amendments included in the Exposure Draft *Prepayment Features with Negative Compensation* because both of these proposals relate to IFRS 9.	The proposed amendments addressed in this paper and those relating to prepayment features are both urgent because they relate to the application of IFRS 9. Consequently, we understand the benefits of finalising those proposed amendments at the same time. Nonetheless, we think that the Board should not delay finalising either set of proposed amendments, if the timing of publication of each set of amendments is expected to be more than a few weeks apart.

8. One respondent suggested that the Board clarify whether the amendments would apply to separate financial statements of a parent which has a loan receivable from a subsidiary that, in substance, forms part of the parent's net investment in the subsidiary.	We think that the suggested clarification is not necessary because IAS 27 *Separate Financial Statements* provides an adequate basis to determine whether and when the amendment is applicable within separate financial statements. When a parent chooses to measure its subsidiary using the equity method applying paragraph 10(c) of IAS 27, the parent would account for its long-term interests in the subsidiary applying the requirements in IAS 28, including the amendments. In contrast, if the parent chooses to measure its subsidiary either applying IFRS 9 or at cost, the amendments would not be applicable in those cases.

Appendix B—Example illustrating the accounting for long-term interests[3]

B1. The assumptions used for the example are as follows:

(a) Investor has the following types of interests in Associate:

(i) ordinary shares representing a 40 per cent ownership interest to which Investor applies the equity method (Equity Method investment);

(ii) preference shares that form part of the net investment in Associate and that are measured at fair value through profit or loss applying IFRS 9 (Preference Share); and

(iii) a long-term loan that forms part of the net investment in Associate and that is measured at amortised cost applying IFRS 9 (Loan). The effective interest rate of the Loan is 5 per cent.

(b) For simplicity, throughout the illustrated periods, there has not been any objective evidence that the net investment in Associate is impaired applying IAS 28, nor a significant increase in the credit risk associated with Loan.

(c) The amount of initial investment in the Equity Method investment, Preference Share and Loan are CU200, CU100 and CU100, respectively.

(d) Investor does not have any legal or constructive obligation nor has it made payments on behalf of Associate, as described in paragraph 39 of IAS 28. Consequently, Investor no longer recognises its share of Associate's losses once the carrying amount of its net investment in Associate is reduced to zero.

[3] The illustration included in this Appendix is the same as the example included in Agenda Paper 12A discussed at the September 2016 Board meeting.

(e) The following table shows Associate's net income (loss) for each period and the carrying amount at the end of each period for the Preference Share and Loan applying IFRS 9 (but before applying IAS 28):

Carrying amount of interest / At the end of	Net Income/(Loss) of Associate	Preference Share applying IFRS 9 (fair value)	Loan applying IFRS 9[4] (amortised cost)
Period—1	CU50	CU110	CU90
Period—2	CU(200)	CU90	CU70
Period—3	CU(500)	CU50	CU50
Period—4	CU(150)	CU40	CU50
Period—5	-	CU60	CU60
Period—6	CU500	CU80	CU70
Period—7	CU500	CU110	CU90

B2. Based on these assumptions, Investor make the following journal entries:

<u>At initial recognition</u>

DR. Equity Method investment	CU200	
DR. Preference Share	CU100	
DR. Loan	CU100	
CR. Cash		CU400

To recognise the amounts invested in Associate

Period—1

DR. Preference Share	CU10	
CR. Profit or loss		CU10

To recognise the change in fair value (CU110 − CU100)

DR. Profit or loss	CU10	
CR. Loan loss allowance (Loan)		CU10

To recognise an increase in Loan loss allowance

DR. Equity Method investment	CU20	
CR. Equity method income		CU20

To recognise Investor's share of Associate's profit (CU50 × 40%)

The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of period 1 is CU220, CU110 and CU90, respectively.

[4] These amounts are shown net of the loan loss allowance.

Period—2

DR. Profit or loss	CU20	
CR. Preference Share		CU20

To recognise the change in fair value (CU90 − CU110)

DR. Profit or loss	CU20	
CR. Loan loss allowance (Loan)		CU20

To recognise an increase in Loan loss allowance

DR. Equity method loss	CU80	
CR. Equity Method investment		CU80

To recognise Investor's share of Associate's loss (CU200 × 40%)

The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—2 is CU140, CU90 and CU70, respectively.

Period—3

DR. Profit or loss	CU40	
CR. Preference Share		CU40

To recognise the change in fair value (CU50 − CU90)

DR. Profit or loss	CU20	
CR. Loan loss allowance (Loan)		CU20

To recognise an increase in loan loss allowance

DR. Equity method loss	CU200	
CR. Equity Method investment		CU140
CR. Preference Share		CU50
CR. Loan		CU10

To recognise Investor's share of Associate's loss allocated in reverse order of seniority (CU500 × 40%)

The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—3 is zero, zero and CU40, respectively.

Period—4

DR. Profit or loss	CU10	
CR. Preference Share		CU10

To recognise the change in fair value (CU40 − CU50)

DR. Equity method loss	CU40	
DR. Preference Share	CU10	
CR. Loan		CU40
CR. Equity method profit		CU10

To recognise Investor's share of Associate's loss

Investor recognises and allocates equity method profit of CU10 to Preference Share so that the carrying amount of the interest is not below zero.

Investor limits the allocation of Associate's losses to CU30 because the net investment in Associate has been reduced to zero. Consequently, there is an unrecognised loss of CU30 (CU150 × 40% − CU40 recognised + CU10 reversed).

Each of the carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—4 is zero.

Period—5

DR. Preference Share	CU20	
CR. Profit or loss		CU20
To recognise the change in fair value (CU60 − CU40)		
DR. Loan loss allowance (Loan)	CU10	
CR. Profit or loss		CU10
To recognise a decrease in loan loss allowance		
DR. Equity method loss	CU30	
CR. Preference Share		CU20
CR. Loan loss allowance (Loan)		CU10
To recognise the previously unrecognised share of Associate's losses		

Investor allocates the previously unrecognised share of Associate's losses of CU30 to Preference Share and Loan because those interests have a positive carrying amount to which losses can be allocated.

Each of the carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—5 is zero.

Period—6

DR. Preference Share	CU20	
CR. Profit or loss		CU20
To recognise the change in fair value (CU80 − CU60)		
DR. Loan loss allowance (Loan)	CU10	
CR. Profit or loss		CU10
To recognise a decrease in loan loss allowance		
DR. Equity Method investment	CU80	
DR. Preference Share	CU60	
DR. Loan	CU60	
CR. Equity method income		CU200
To recognise Investor's share of Associate's profit (CU500 × 40%)		

Investor allocates Associate's profit to each interest in the order of seniority. Investor limits the allocation of Associate's profit to the Preference Share and Loan to the amount of equity method losses previously allocated to those interests, which in this case is CU60 for both interests.

The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—6 is CU80, CU80 and CU70, respectively.

Period—7

DR. Preference Share	CU30	
CR. Profit or loss		CU30

To recognise the change in fair value (CU110 − CU80)

DR. Loan loss allowance (Loan)	CU20	
CR. Profit or loss		CU20

To recognise a decrease in loan loss allowance

DR. Equity Method investment	CU200	
CR. Equity method income		CU200

To recognise Investor's share of Associate's profit (CU500 × 40%)

The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of period 6 is CU280, CU110 and CU90, respectively.

Periods—1–7

DR. Cash	CU5	
CR. Interest revenue		CU5

To recognise interest revenue on Loan

Investor ignores the allocation of losses to the Loan for the purpose of measuring interest revenue on the Loan. Consequently, Investor calculates interest revenue for Periods—1–7 using the gross carrying amount of the Loan of CU100 and the effective interest rate of 5 per cent.

B3. The following summarises the balance of, and allocation of losses for, each interest in Associate at the end of and during each period:

	IFRS 9 (Step 1)				IAS 28 allocation (Step 2)										
	Loan			PS		Ordinary Share			PS			Loan			
Period	Gross	Allow-ance	Net	FV	Equity Pick up (maximum)	Beg.	Profit/Loss Allocation	After allocation	Beg.	Loss Allocation	After allocation	Beg.	Loss Allocation	After allocation	Unallocated (unreported losses)
								A			B			C	
1	100	-10	90	110	20	200	20	220	110	0	110	90	0	90	0
2	100	-30	70	90	-80	220	-80	140	90	0	90	70	0	70	0
3	100	-50	50	50	-200	140	-140	0	50	-50	0	50	-10	40	0
4	100	-50	50	40	-60	0	0	0	-10	10	0	40	-40	0	-30
5	100	-40	60	60	0	0	0	0	20	-20	0	10	-10	0	0
6	100	-30	70	80	200	0	80	80	20	60	80	10	60	70	0
7	100	-10	90	110	200	80	200	280	110	0	110	90	0	90	0

	Summary of PL effects					
Period	Loan	PS	IAS 28	Total	Net invest-ment bal.	Change in Net Investment
	D	E	F	G=D+E +F	=A+B+C	H
Beg.					400	
1	-10	10	20	20	420	20
2	-20	-20	-80	-120	300	-120
3	-20	-40	-200	-260	40	-260
4	0	-10	-30	-40	0	-40
5	10	20	-30	0	0	0
6	10	20	200	230	230	230
7	20	30	200	250	480	250

Appendix C—Excerpts from past agenda papers

C1. The following is an excerpt from Agenda Paper 12A discussed at the February 2016 Board meeting.

Clarification of the type of interests included in the net investment in an associate or a joint venture

C2. ...

C3. IAS 28 refers to three types of financial interests in an associate or a joint venture, as follows:

(a) Category 1—investments in the associate or joint venture that an entity accounts for using the equity method (ie those interests to which only IAS 28 applies);

(b) Category 2—financial interests that do not form part of the net investment in the associate or joint venture (ie those interests to which only IFRS 9 applies); and

(c) Category 3—financial interests that form part of the net investment but to which the equity method is not applied (ie what this paper and IAS 28 refers to as long-term interests).

C4. IAS 28 provides little information about the types of interests within each category. Depending on the type of interest, an entity may need to apply more or less judgement in determining within which category the interests are included. For example, for investments in ordinary shares, it is likely to be relatively straight-forward to conclude that the equity method is applied to such investments, and thus that the investment is included in Category 1. Similarly, it is likely to be relatively straight-forward to conclude that trade receivables or loans with fixed repayment terms (such as a 10-year senior bond) are not part of the net investment in the associate or joint venture, and thus that those instruments are included in Category 2. However, determining those interests that are considered to be long-term interests, within Category 3, will often require more judgement.

C5. Paragraph 38 of IAS 28 provides the following as an example of long-term interests:

> an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate or joint venture. Such items may include preference shares and long-term receivables or loans, […]

C6. In some cases judgement will be required to distinguish long-term interests from either Category 1 interests or Category 2 interests, particularly when the instruments have features such as:

(a) no fixed terms and conditions as to the repayment date or the date of interest payments; or

(b) the amount of the financial interests that the entity has in the associate or joint venture is proportional to its ownership share.

C7. Some might hold the view that such interests are, in substance, the same as an equity investment in the associate. For those that hold this view, this type of interest might be included within Category 1, and accounted for using the equity method. Alternatively, some might hold the view that such interests are not an equity investment, and thus the equity method should not apply to such interests because they do not give the investor voting rights and an ownership interest comparable to holding ordinary shares. The conclusion will depend on the particular facts and circumstances.

C8. Because of this, there was a suggestion at the Board meeting in December 2015 that we should consider whether it might be helpful to develop an Interpretation to clarify the types of interests that are included in the net investment in an associate or a joint venture. This suggestion was also made by a few GPF members at its meeting in November 2015.

C9. Although we think that clarity in this respect might be helpful, we note that the submitter of this issue did not ask for this clarity. At this stage, we are not aware of whether this is an issue in practice. In addition, we think that any consideration

of the types of interests to which the equity method should be applied would be better addressed as part of a research project on the equity method of accounting.

C10. The following is an excerpt from Agenda Paper 2 discussed at the May 2016 Committee meeting.

Does the application of both IFRS 9 and IAS 28 to long-term interests lead to double counting of losses?

C11. Some Committee members raised concerns about applying both the impairment requirements in IFRS 9 to long-term interests and the loss allocation and impairment requirements in IAS 28 to the net investment (which includes long-term interests). In particular, concerns were raised that the application of both sets of requirements would lead to the recognition of losses twice on the same asset. This is because some think that losses recognised by applying the expected credit loss impairment requirements in IFRS 9 already reflect future losses to be incurred by an associate. Some Committee members also questioned whether it is appropriate to write down the carrying amount of long-term interests below their measurement applying IFRS 9, particularly if those instruments are measured at fair value. As illustrated in [Period 3 of the example in Appendix B to this paper], applying View B[5], it is possible that the carrying amount of long-term interests is written down below their measurement applying IFRS 9.

C12. In our view, the application of View B does not result in the recognition of losses twice. The IFRS 9 impairment requirements and the loss allocation requirements in IAS 28 have different measurement objectives, which are independent of each other. Applying the IFRS 9 impairment requirements, an entity measures expected cash shortfalls arising from a particular financial instrument. Those requirements focus only on expected cash flows associated with particular financial instruments. In contrast, the IAS 28 allocation of an associate or a joint venture's profit or loss focusses on the results of operations of the associate or

[5] View B is consistent with the proposed amendments and the observations as described in paragraph 27 of this paper.

joint venture during the relevant reporting period. The objective of an investor recognising its proportionate share of the associate or joint venture's profit or loss is not directly to adjust the carrying amount of the net investment to the amount expected to be recovered—instead, it is a means of the investor reflecting its interests in the operations of the associate or joint venture because of its 'special' relationship with the associate or joint venture (ie one of significant influence or joint control). The impairment requirements in IAS 28 could be viewed as having a similar objective to the impairment requirements in IFRS 9—nonetheless, those respective impairment requirements are applied to different units of account. Also, as previously mentioned, we think that, in applying the IAS 28 impairment requirements, it would be rare that an entity would recognise any impairment relating to long-term interests already measured applying IFRS 9.

C13. Furthermore, even if there might be to some extent an overlap in the recognition of losses arising from the IFRS 9 impairment requirements and the loss allocation requirements in IAS 28, it would be very difficult, if not impossible, to separate the effects of losses from different sources and eliminate what might be viewed as 'overlapping' losses. We note that the potential overlap in the recognition of losses is not limited to long-term interests, but can apply equally to an interest in an associate or a joint venture that (a) does not form part of the net investment and (b) is measured at amortised cost applying IFRS 9 (ie a Category 2 interest measured at amortised cost as described in paragraph [C3(b)] of this paper). This is because such an interest is also subject to the expected credit loss impairment requirements in IFRS 9.

C14. Having said that, we acknowledge the concern about the usefulness of the information that arises if the carrying amount of long-term interests is reduced below their measurement applying IFRS 9. Again, using the example in [Appendix B to this paper], some may question whether it is useful to report a carrying amount for the Preference Share interest of CU0 at the end of Period 3 when the fair value of that interest on that date is CU50.

C15. In our view, this concern is directly related to, and a consequence of, the amendment that the Board made to IAS 28 in 2003 regarding the allocation of

losses and impairment. In addition, that same concern could be raised about the investment accounted for using the equity method. In the example in [Appendix B to this paper], the Equity Method investment has a carrying amount of CU0 at the end of Period 3. It may well be the case that, on that date, the 40 per cent interest in the ordinary shares of Associate has a value that is significantly greater than CU0, which is not reflected in the financial statements of Investor.

C16. If the Board were to address these concerns (ie the potential double count of losses and the usefulness of information), then we think that the Board would need to amend IAS 28 so that long-term interests would be within the scope of either IFRS 9 or IAS 28, and not both. However, we think that any such amendment would not be a narrow-scope amendment:

(a) If an amendment were made to IAS 28 so that long-term interests are only within the scope of IFRS 9, it would change the population of interests in an associate or a joint venture to which an entity allocates losses. This would effectively reverse the amendment that the Board made to IAS 28 in 2003.

(b) If an amendment were made to IAS 28 so that long-term interests are only within the scope of IAS 28 (ie if an entity were to apply the equity method to long-term interests), it would change the population of financial instruments to which IFRS 9 applies.

C17. Before proposing either of these amendments, we think that we would need to undertake research to determine whether either of the amendments would actually solve an identified problem, without creating new problems. There would also appear to be strong links between this question and any research work being done on the equity method. Accordingly, we think that any consideration would need to be part of a research project and possibly linked to future research work on the equity method.

Impairment—how does the expected credit loss model in IFRS 9 work for long-term interests with no planned settlement?

C18. Applying View B, long-term interests are subject to all of the requirements in IFRS 9, including its impairment requirements. Some have raised a concern about how to apply such impairment requirements to financial instruments whose settlement is neither planned nor likely to occur in the foreseeable future. We understand that this concern arises because of the possible difficulty in estimating expected cash shortfalls over the expected life of such financial instruments.

C19. Nonetheless, we note that such a concern is not limited to long-term interests. This is because IFRS 9 envisages application of amortised cost accounting, including the impairment requirements in IFRS 9, to financial instruments that are similar in nature to such long-term interests.

C20. Instrument H included in paragraph B4.1.13 of IFRS 9 is a perpetual instrument. That paragraph states that the fact that Instrument H is perpetual does not in itself mean that the contractual cash flows are not solely payments of principal and interest on the principal amount outstanding. In other words, this instrument may pass the condition relating to cash flow characteristics of financial instruments, as described in paragraph 4.1.2(b) of IFRS 9 (‘SPPI test’). Consequently, it may be measured at amortised cost. If that is the case, then it becomes subject to the impairment requirements of IFRS 9.

C21. We see a similarity between long-term interests and perpetual instruments, in that a holder of those instruments does not expect their settlement in the foreseeable future. In our view, the concern about the application of the impairment requirements in IFRS 9 to long-term interests applies equally to perpetual instruments. We think that it is not our objective within the context of this particular issue to consider how to apply the impairment requirements in IFRS 9 to particular types of financial instruments. Consequently, we think that the Committee should not pursue this concern further as part of this issue.

C22. It’s worthwhile noting that, if long-term interests fail the SPPI test, this concern would not arise because those long-term interests would then be measured at fair value through profit or loss.

C23. The following is an excerpt from Agenda Paper 4 discussed at the September 2016 Committee meeting.

Presentation

C24. During previous Committee discussions, a question was raised about how to present long-term interests, in particular when an entity allocates losses to long-term interests and the entity recognises an impairment loss on the net investment in an associate.

C25. Paragraph 54(e) of IAS 1 *Presentation of Financial Statements* requires an entity to include in the statement of financial position a line item presenting the amounts relating to investments accounted for using the equity method. Because we do not consider long-term interests as a type of investment accounted for using the equity method, we understand this requirement to mean that an entity:

(a) presents investments accounted for using the equity method separately from long-term interests; and, thus,

(b) allocates its share of losses and impairment losses between investments accounted for using the equity method and long-term interests.

C26. Paragraph 38 of IAS 28 specifies that an entity allocates its share of losses first to investments accounted for using the equity method and then to long-term interests. However, there are no specific requirements in IAS 28 on how to allocate impairment of the net investment to the different components of the net investment.

C27. Paragraph 42 of IAS 28 says (emphasis added):

> […] An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the *net* investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the *net* investment subsequently increases. […]

C28. These requirements might be read to imply that an entity does *not* allocate impairment losses between investments accounted for using the equity method and long-term interests because of the words 'net' as emphasised above.

C29. However, in our view, these requirements merely highlight that an entity can recognise reversals of impairment losses previously recognised on an investment in an associate, because those losses are not allocated to the underlying assets of the associate, including goodwill, when measuring the investment. Consistently with our understanding as described in paragraph C25 of this paper, we are of the view that an entity allocates impairment losses recognised on the net investment between the investment accounted for using the equity method and long-term interests.