

## STAFF PAPER

March 2021

## IASB® Meeting

<b>Project</b>	<b>Equity method of accounting</b>		
<b>Paper topic</b>	Project update and next steps		
<b>CONTACT</b>	Filippo Poli	fpoli@ifrs.org	+44 (0)20 7246 6959

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Purpose of the paper**

1. The purpose of this paper is to update the International Accounting Standards Board (Board) on the equity method research project.
2. The Board is not asked to make any decisions. However, the Board is asked for any comments on the process being followed to identify application questions for consideration in the project.

**Background**

3. At its October 2020 meeting, the Board decided that the objective of the equity method research project is:

To assess whether application questions with the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.

4. The Board decided to achieve the objective, it would apply the following approach:
  - (a) identify application questions and decide which of these questions to address; and
  - (b) address the application questions by identifying and explaining the principles in IAS 28. Identifying and explaining these principles would allow the Board to

develop new requirements, (or application guidance) which will amend the Standard.

5. At the October 2020 meeting, the Board asked the staff to report regularly on the project's progress.

### **Structure of this paper**

6. This paper sets out:
- (a) updates on:
    - (i) which application questions to include in the project (paragraphs 7–26);
    - (ii) identifying the principles that underlie IAS 28 (paragraphs 27 –29);
  - (b) next steps (paragraph 30); and
  - (c) question for Board.

### **Which application questions to include in the project**

#### ***Identifying application questions***

7. The staff drafted an initial list of 22 application questions<sup>1</sup> from the following sources:
- (a) submissions to the IFRS Interpretations Committee (the Committee);
  - (b) past work of the Board;
  - (c) comments from the Global Preparers Forum at the November 2014 meeting; and
  - (d) research report published by the Korean Accounting Standards Board in September 2014.

---

<sup>1</sup> IASB October 2020 meeting, [AP13](#)

8. The initial list was provided for illustration purposes and did not imply the Board address all the questions on the list. As noted in paragraph 14 below, some of the application questions on the list have been addressed in standard-setting or through agenda decisions.
9. Following the October 2020 Board meeting, the staff reached out to national standard-setters, accounting firms and regulators to comment on the initial list. In reaching out the staff aim was to validate the questions to be addressed in the project are those relevant to stakeholders.
10. After reviewing the 21 replies received and grouping the questions raised, the staff added 49 potential questions to the initial list.

*Selecting application questions in the scope of the project*

11. Having developed the initial list, the next step is to decide which application questions are within the scope of the project. At its October 2020 meeting, the Board decided the project should address application questions based on:
  - (a) whether the application question could be solved efficiently and effectively without:
    - (i) fundamentally rewriting IAS 28; or
    - (ii) amending other IFRS Standards (except for consequential amendments);
  - (b) whether the application question affects the consistent application of IAS 28; and
  - (c) the importance of the matter, including whether addressing the question would improve the usefulness of financial information.
12. The chart in appendix A of this paper illustrates the process followed for selecting application questions within the scope of the project. The following paragraphs explain how the criteria are being applied.
13. The staff is removing any application question from the list if it fails any of the first 3 criteria. Criteria 4 and 5 are then assessed together to decide whether to remove the question.

*Criterion 1— is the application question unresolved?*

14. Some of the application questions on the list have been addressed in standard-setting or through agenda decisions. To exclude resolved items we introduced an initial criterion— is the application question unresolved?

*Criterion 2— can the application question be solved without fundamentally rewriting IAS 28?*

15. The agreed project objective is to address application questions by identifying and explaining principles of IAS 28. The project objective therefore determines that any application question included in the project should relate to the application of the requirements of IAS 28. Consequently, application questions that do not relate to or question the requirements of IAS 28 are outside the project scope.
16. Criterion 2 will exclude application questions that, for example, ask:
- (a) is the equity method needed?
  - (b) does the equity method provide relevant information?
  - (c) how is significant influence assessed?
  - (d) is the equity method a one-line consolidation or a measurement method?

*Criterion 3— can the application question be solved without amending other IFRS Standards?*

17. The approach decided by the Board is to attempt to solve application questions by identifying and explaining principles that underlie IAS 28. Some of the application questions raised in response to the outreach request arise from the interaction of IAS 28 and other IFRS Standards, for example with IFRS 3 *Business Combinations* or IFRS 10 *Consolidated Financial Statements*.
18. Applying criterion 3 will exclude questions that are not solely within the scope of IAS 28.

*Criterion 4— does the question affect the consistent application of IAS 28?*

19. Applying criterion 4 will assess if there is evidence that entities are applying practices that result in different outcomes with potentially material effects on initial recognition and/or subsequent measurement.
20. Assessing whether different practices are being applied that result in different outcomes is a matter of judgment. The staff is assessing evidence of inconsistent application from reviewing submissions to the Committee, reviewing the accounting firms' manuals and replies to the outreach request.

*Criterion 5—is the application question important?*

21. To apply criterion 5 guidance was sought from the due process guidance on when the Board or the Committee adds a standard-setting project to its work plan. There are two references in the *Due Process Handbook* (DPH) that explain when to add a standard-setting project to the work plan.

(a) Paragraph 5.4 of the DPH states that:

... When deciding whether to a proposed agenda item will address users' needs, the Board considers:

- (a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;
- (b) the importance of the matter to those who use financial reports;
- (c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and
- (d) how pervasive or acute a particular financial reporting issue is likely to be for entities.

(b) Paragraph 5.16 of the DPH states that when:

The Interpretations Committee decides a standard-setting project should be added to the work plan, either by recommending that the Board develop a narrow-scope amendment or by deciding to develop an IFRIC Interpretation when all of the following criteria are met:

- (a) the matter has widespread effect and has, or is expected to have, a material effect on those affected;
- (b) it is necessary to add or change requirements in IFRS Standards to improve financial reporting—that is, the principles and requirements in the Standards do not provide an adequate basis for an entity to determine the required accounting;
- (c) the matter can be resolved efficiently within the confines of the existing Standards and the *Conceptual Framework*; and
- (d) the matter is sufficiently narrow in scope that the Board or the Interpretations Committee can address it in an efficient manner, but not so narrow that it is not cost-effective for the Board or the Interpretations Committee and stakeholders to undertake the due process required to change a Standard.

22. The staff consider criterion 5 (importance) encompasses different elements:

- (a) how frequently the question is encountered—whether the question is recurring and arises in the normal course of an entity’s business, rather than from specific or infrequent events or transactions;
- (b) how widespread the question is—whether the question is found in many jurisdictions or industries, rather than being specific to one jurisdiction, for instance due to local law or regulations; and
- (c) what the potential magnitude of the question is—whether the question could have a material effect on the entity.

23. In applying criterion 5 evidence of the importance of an application question is being obtained from: (i) past activities of the Committee; (ii) the prominence given to the question in the work performed by other organisations; and (iii) how often the same question occurred in the replies to the outreach request. The assessment is qualitative in nature and not expected to involve the collection of extensive data or the use of thresholds.

***Current status of the analysis***

24. Application of the criteria is ongoing, staff is currently reviewing and refining the work. We anticipate discussing the questions with the Board at a future meeting.

25. The staff considers the selection of application questions to be an iterative process. As the project progresses, it may be that solutions can be found to application questions that have been removed or conversely solutions found could raise new questions. The staff will therefore need to assess the effect of any proposed solutions on the questions that have been excluded.
26. In addition, some questions that the staff has removed have recurrent themes. The staff plans to highlight these questions to the Board at a future meeting, so that the Board is aware of them. The Board may then consider whether these questions warrant extending the scope of the project.

### **Identifying and explaining principles of IAS 28**

27. In relation to identifying and explaining principles in IAS 28 the staff has started this work by mapping the requirements of the Standard. IAS 28 was first issued in 1989 and has been subject to several amendments, including revised versions of IAS 28 in December 2003 and May 2011. While the basic mechanics of the equity method have remained unchanged, the revisions have introduced significant changes and added more detailed requirements.
28. In mapping the requirements of IAS 28 the focus is on principles that relate to how to apply the equity method of accounting, including initial recognition and measurement, subsequent measurement, and impairment losses. This is consistent with the project objective to address application questions with the equity method.
29. The principles are intended to help the Board develop solutions to the application questions, prior to deciding if and how to amend the requirements of IAS 28. At this stage, the staff anticipate that the principles will help develop possible requirements rather than form part of IAS 28 itself.

## Next steps

30. At a future meeting, the staff will:
- (a) ask the Board to review the list of application questions; and
  - (b) discuss the identified principles.

## Question for Board members

### Question for Board members

- 1 Do the Board members have comments or questions on how the criteria for selecting the application questions are being applied? (paragraphs 7–23 of this agenda paper)?

## Appendix A – Process for selecting applications questions

