

Changes in an investor's interest in an associate without a change of influence

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 1F
October 2021

Purpose of session

Agenda ref 1F

Purpose


- To obtain feedback from ASAF members on the analysis and accounting for changes in an investor's interest in an associate without a change in significant influence

A grayscale world map is the background, showing continents and oceans. Overlaid on the map are several thick, light gray curved lines that sweep across the frame from the bottom left towards the top right. Additionally, there are several dotted lines that form a grid-like pattern across the map, representing latitude and longitude lines.

Application questions

Investor increases its interest in an associate but *retains significant influence* both before and after the transaction

- How is the increase in the investor's share in the net assets of the associate measured?
- How does investor account for any difference between the consideration paid and the additional share in the net assets of the associate recognised?

A dark gray background featuring a faint world map. Overlaid on the map are several curved, concentric lines and dotted lines, suggesting a globe or a network of connections.

Analysis – Changes in an investor's interest in an associate without a change in significant influence

Alternatives

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| | 1 | 2 | 3 | 4 |
|--|--|--|-------------------------------------|---|
| | Fair value, goodwill | Fair value, profit or loss | Consideration paid | Investor's Book value ¹ |
| Measurement of additional share in the associate's net assets | Share of net fair value of associate's assets and liabilities at acquisition | Share of net fair value of associate's assets and liabilities at acquisition | At fair value of consideration paid | Use investor's book value of existing share of associate's net assets |
| Difference between consideration paid and additional share | Goodwill (or bargain purchase gain) | Profit or loss | No difference | Profit or loss |

1. *Book value* here refers to the carrying amounts of the investee's net assets in the investor's financial statements.

Alternative 1: Share of net fair value of associate's assets and liabilities (difference is goodwill)

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| | | Rationale |
|---|--|--|
| Measurement of additional share in associate's net assets | Share of net fair value of associate's assets and liabilities at acquisition | Principle D: Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets. |
| Difference between consideration paid and additional share | Goodwill (or bargain purchase gain) | Analogise to IAS 28.32: Initial recognition of associate |

Features of Alternative 1:

- Leads to a mixture of fair values at each acquisition date
- Goodwill that exists when an investor acquires an additional interest in an associate can be measured applying the same requirement for recognition of the initial interest in the associate

Alternative 2: Share of net fair value of associate's assets and liabilities (difference is profit or loss)

Agenda ref 1F

| | | Rationale |
|---|--|--|
| Measurement of additional share in associate's net assets | Share of net fair value of associate's assets and liabilities at acquisition | Principle D: Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets. |
| Difference between consideration paid and additional share | Profit or loss | Analogise to IFRS 9 <i>Financial Instruments</i> , initial measurement of financial instruments |

Features of Alternative 2:

- Leads to a mixture of fair values at each acquisition date
- Goodwill is not recognised when there is no change in significant influence. Goodwill recognition occurs when control or significant influence is obtained.
- Arguably inconsistent to analogise to a mix of IAS 28 and IFRS 9

Alternative 3: Fair value of consideration paid

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| | | Rationale |
|---|-------------------------------------|---|
| Measurement of additional share in associate's net assets | At fair value of consideration paid | Analogise to purchases of assets in other standards such as IAS 16 <i>Property, Plant and Equipment</i> and IAS 40 <i>Investment Property</i> |
| Difference between consideration paid and additional share | No difference | - |

Features of Alternative 3:

- Leads to a mixed measurement of the investor's share of the net assets in the associate
- Easy to determine with no difference arising

Alternative 4: Investor's book value

Agenda ref 1F

| | | Rationale |
|---|---|---|
| Measurement of additional share in associate's net assets | Use investor's book value of existing share of associate's net assets | Analogise to BC96 of the Basis for Conclusions on IFRS 10 <i>Consolidated Financial Statements</i> , acquisition of additional share in a subsidiary (ie non-controlling interest) |
| Difference between consideration paid and additional share | Profit or loss | Difference between consideration paid and additional share is profit or loss (<i>Book value measurement is inconsistent with recognition of goodwill, which conceptually is an excess payment over fair value of net assets acquired</i>) |

Features of Alternative 4:

- Inconsistent with identified principles underlying IAS 28 – Principle D
- Considers cost vs. benefits of requiring fair value information
- Simplifies the subsequent accounting

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, representing latitude and longitude.

Questions for ASAF Members

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1. Do ASAF members have questions on the staff analysis in agenda paper 1C?
2. What are ASAF members' views on the alternatives presented in agenda paper 1C and their implications for the accounting for changes in the investor's interest in an associate with no change in significant influence?



Thank you!

For more details about the project, please refer to the [*Equity Method project page*](#) on the IFRS website

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