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## Accounting Standards Advisory Forum meeting

Date	March 2023
Project	Equity method
Topic	Project update—IASB’s tentative decisions to date
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# Purpose of this session

- To present the IASB's tentative decisions on:
  - changes in an investor's interest while retaining significant influence; and
  - recognition of losses.

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# Information for ASAF members

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# Questions for ASAF members



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## Questions for ASAF members

### Questions

- Do you have any comments on the IASB's tentative answers to the application questions in slides 9 to 15 and 17 to 21?
- What are your views on potential effects (costs and benefits) of the tentative answers to the application questions?

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# Background information



# Objective and approach of the Equity Method project\*

## Project objective

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

## Project approach



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

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# Changes in an investor's interest while retaining significant influence



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## IASB's tentative decisions\*



**How does an investor apply the equity method to changes in its interest in an associate while retaining significant influence?**



### How does an investor:

- measure the cost of an investment in an associate when obtaining significant influence?
- measure an additional interest in an associate while retaining significant influence?
- measure an additional interest in an associate (that is a bargain) while retaining significant influence?
- recognise partial disposal of an interest in an associate?
- recognise other changes in ownership interest?

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\* The IASB's tentative decisions on the application questions are summarised [here](#).

# Purchase of an additional interest in an associate (1)

## Application question

How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

*Aspect 1—measuring the cost of an investment in an associate when obtaining significant influence*

## Background

IFRS Accounting Standards do not include requirements.

Current practice is to measure the cost of the investment at either:

- fair value on the date of obtaining significant influence; or
- an accumulation of costs, that is costs at the date of acquiring each interest and on obtaining significant influence.

## Tentative decision

An investor would measure **the cost of an investment**—when an investor obtains significant influence—**at the fair value** of the consideration transferred, including the fair value of any previously held interest in the associate.

\* See [Agenda paper 13A](#) of the April 2022 IASB meeting

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## Purchase of an additional interest in an associate (2)

### Application question

How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

*Aspect 2—purchasing an additional interest in an associate while retaining significant influence*

### Tentative decision

An investor would measure the investment in the associate as an **accumulation of purchases**.

The investor would measure its additional share in the associate's net assets at fair value at the date of purchasing the additional interest.

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\* See [Agenda paper 13A](#) of the April 2022 IASB meeting

## Illustrative example

At 1/1/20X1 an investor purchases 20% of an associate for 1,100CU and obtains significant influence. The fair value of the associate's net assets is 4,400CU.

The associate's profit for 20X1 is 700CU; the investor's share is therefore 140CU.

At 1/1/20X2 the investor purchases an additional 10% for 700CU. The fair value of the associate's net assets is 5,400CU.

	Original purchase		31/12/20X1	Additional interest	1/1/20X2
	Initial recognition	Share of profit			
Share of net assets	880	140	1,020	540	1,560
Goodwill	220	-	220	160	380
<b>Total</b>	<b>1,100</b>	<b>140</b>	<b>1,240</b>	<b>700</b>	<b>1,940</b>

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## Purchase of an additional interest in an associate (3)

### Application question

How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?

*Aspect 3—purchasing an additional interest in an associate (that is a bargain) while retaining significant influence*

### Tentative decision

An investor would recognise a **bargain purchase gain** in profit or loss.

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\* See [Agenda paper 13A](#) of the June 2022 IASB meeting

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# Partial disposal of an interest in an associate

## Application question

How does an investor apply the equity method when disposing of an interest in an associate while retaining significant influence?

## Tentative decision

An investor would measure the portion to be derecognised as a proportion of the carrying amount of the investment at the date of disposal.

The difference between the fair value of the consideration received and the portion derecognised would be recognised as a gain or loss in profit or loss.

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\* See [Agenda paper 13A](#) of the December 2022 IASB meeting

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# Other changes in ownership interests

## Application question

Does an investor recognise its share of other changes in an associate's net assets that affect its ownership interest, and if so, how is the change presented?

For instance, an associate may issue or redeem shares that change the investor's ownership interest.

## Tentative decision

The IASB tentatively decided that when an **investor's ownership increases or decreases** the investor would recognise the change as a purchase of an additional interest or a partial disposal.

The investor would therefore recognise gains and losses in profit or loss.

IASB has yet to consider changes arising from associate's share-based payments.

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\* See [Agenda paper 13B](#) of the September 2022 IASB meeting

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# Recognition of losses



## IASB's tentative decisions\*



Does an investor, that has reduced its interest in an associate to nil, 'catch up' unrecognised losses if it purchases an additional interest in the associate?



Does an investor, that has reduced its interest in an associate to nil, recognise each component of comprehensive income separately?



- Do requirements in paragraph 38 of IAS 28 apply to the investor's share of changes in the associate's other comprehensive income?
- What does an investor recognise if the associate reports a loss (or a profit) in profit and loss, and an income (or an expense) in other comprehensive income and the loss exceeding the income?
- What does an investor recognise if its share of an associate's comprehensive income is a loss and exceeds the carrying amount of the investment?

\* The IASB's tentative decisions on the application questions are summarised [here](#).

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## ‘Catch up’ unrecognised losses

### Application question

Does an investor, that has reduced its interest in an associate to nil, ‘catch up’ unrecognised losses if it purchases an additional interest in the associate?

### Tentative decision

The IASB tentatively decided that an investor **would not ‘catch up’ unrecognised losses** on purchasing an additional interest in the associate.

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\* See [Agenda paper 13B](#) of the December 2022 IASB meeting

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# Recognition of losses and components of Comprehensive Income (1)

## Application question

Does an investor, that has reduced its interest in an associate to nil, recognise each component of comprehensive income separately?

*Aspect 1—do requirements in paragraph 38 of IAS 28 apply to the investor’s share of changes in the associate’s other comprehensive income?*

## Tentative decision

An investor would recognise its share of an associate’s comprehensive income until its interest in the associate is reduced to nil.

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\* See [Agenda paper 13C](#) of the December 2022 IASB meeting

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## Recognition of losses and components of Comprehensive Income (2)

### Application question

Does an investor, that has reduced its interest in an associate to nil, recognise each component of comprehensive income separately?

*Aspect 2—what does an investor recognise if the associate reports a loss (or a profit) in profit and loss, and an income (or an expense) in other comprehensive income and the loss exceeding the income?*

### Tentative decision

The IASB tentatively decided an investor **recognises separately** its share of each component of the associate's comprehensive income.

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\* See [Agenda paper 13C](#) of the December 2022 IASB meeting

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# Recognition of losses and components of Comprehensive Income (3)

## Application question

Does an investor, that has reduced its interest in an associate to nil, recognise each component of comprehensive income separately?

*Aspect 3—what does an investor recognise if its share of an associate's comprehensive income is a loss and exceeds the carrying amount of the investment?*

## Tentative decision

An investor would recognise, in order:

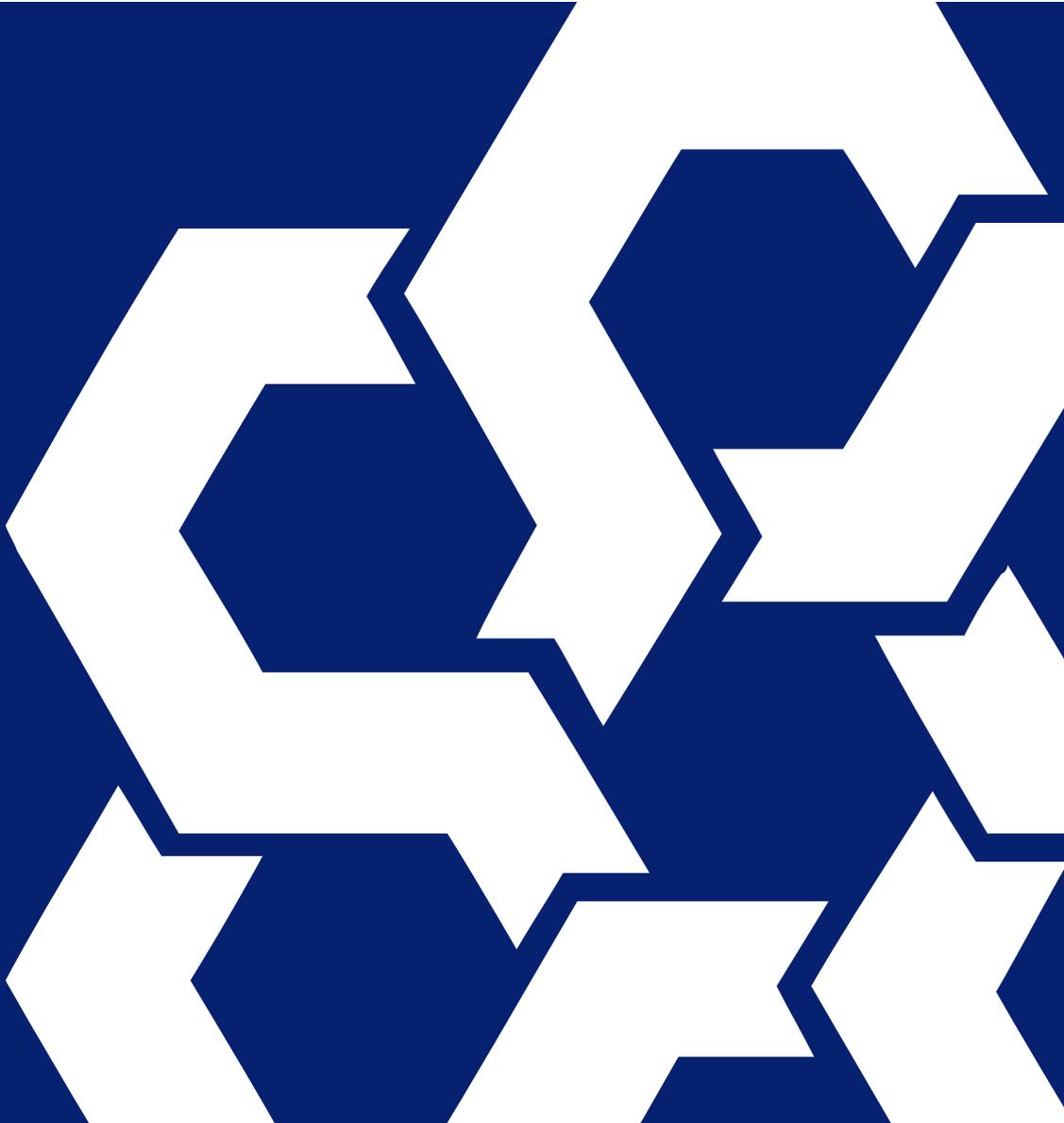
- its share of the associate's profit and loss; and
- its share of the associate's other comprehensive income.

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\* See [Agenda paper 13C](#) of the December 2022 IASB meeting

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Thank you

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