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## IASB® meeting

Date	<b>September 2023</b>
Project	<b>Equity Method</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

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## Introduction and purpose of this meeting

1. The objective of the Equity Method project is:

To develop answers to application questions about the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, using the principles derived from IAS 28 where possible.<sup>1</sup>
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) to discuss:
  - (a) the implications of applying its tentative decisions (for investments in associates) to investments in:
    - (i) subsidiaries in separate financial statements; and
    - (ii) joint ventures;
  - (b) whether to propose amendments to improve the disclosure requirements for investments in associates; and
  - (c) whether to expand the project's scope.

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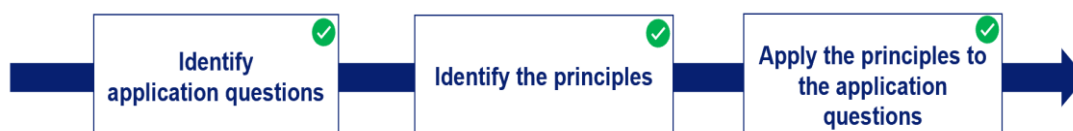
<sup>1</sup> At its April 2023 meeting, the IASB decided to update the project's objective to reflect the progress made, see [IASB Update April 2023](#).

## Structure of this paper

3. This paper is structured as follows:
- (a) project background (paragraphs 4–12 of this paper);
  - (b) papers for this meeting (paragraph 13 of this paper);
  - (c) next steps (paragraph 14 of this paper);
  - (d) Appendix A—Principles identified as underlying IAS 28; and
  - (e) Appendix B—Summary of the IASB’s decisions, including its tentative decisions on application questions discussed.

## Project background

4. At its October 2020 meeting, the IASB decided on the objective and approach of the Equity Method research project and moved the project from the research pipeline to its research programme. The following diagram illustrates the approach that the IASB decided to use to achieve the objective:



5. At its October 2022 meeting, the IASB reviewed the progress of its Equity Method research project and decided to retain the project’s objective and approach.<sup>2</sup>
6. At its April 2023 meeting, the IASB decided to move the Equity Method research project to its standard-setting work plan; work towards publishing an exposure draft as the next due process step; and update the project’s objective to reflect the progress made.<sup>3</sup>
7. At its July 2023 meeting, the IASB concluded its discussions on application questions in the project’s scope for investments in associates.

<sup>2</sup> See [AP13 of the October 2022 IASB Meeting](#) and the [IASB Update October 2022](#)

<sup>3</sup> See [AP13B of the April 2023 IASB Meeting](#) and the [IASB Update April 2023](#).

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**Step 1: Identify application questions**

8. At its March 2021 meeting, the IASB agreed the process for selecting application questions to be in the scope of the Equity Method project.<sup>4</sup> Subsequently, at its October 2021 meeting, the IASB received an update on the application questions within the scope of the project; these application questions are set out in Appendix B to this paper.<sup>5</sup>
9. The IASB also agreed the selection of application questions is an iterative process. As the project progresses, answers could be found to application questions that were not selected or conversely answers found could raise new application questions. As a result, at its July 2023 meeting, the IASB decided to expand the project's scope by adding five application questions that are considered resolved by its tentative decisions made to date.<sup>6</sup>

**Step 2: Identify the principles**

10. At its June 2021 meeting, the IASB discussed the principles identified as underlying IAS 28; these principles are set out in Appendix A to this paper. The objective of identifying the principles is to provide the IASB with a toolbox that can help the IASB to answer the selected application questions.<sup>7</sup>
11. Some application questions cannot be answered by the principles identified in IAS 28. The IASB decided it will develop answers to these application questions by analogising to the principles identified and applying the judgment required when developing an accounting policy applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—that is considering the applicability of the requirements in IFRS Accounting Standards dealing with similar and related issues and the definitions, recognition criteria and measurement concepts in the *Conceptual Framework for Financial Reporting*.

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<sup>4</sup> See [AP13 of the March 2021 IASB Meeting](#) and the [IASB Update March 2021](#)

<sup>5</sup> See [AP13 of the October 2021 IASB Meeting](#) and the [IASB Update October 2021](#)

<sup>6</sup> See [AP13 of the July 2023 IASB Meeting](#) and the [IASB Update July 2023](#)

<sup>7</sup> See [AP13 of the June 2021 IASB Meeting](#) and the [IASB Update June 2021](#)

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**Step 3: Apply the principles to the application questions**

12. The IASB began discussing and developing answers to the application questions in April 2022. At its July 2023 meeting, the IASB concluded its discussions on application questions in the project's scope for investments in associates, see IASB's tentative decisions in Table B2 of Appendix B to this paper. The IASB is discussing any implications of its tentative decisions to other investments accounted for applying the equity method.

**Papers for this meeting**

13. Agenda papers for discussion at this meeting include:
- (a) Agenda Paper 13A *Towards an Exposure Draft—Implications of applying the IASB's tentative decisions to investments in subsidiaries in separate financial statements*—the agenda paper includes:
    - (i) discussion on application of the equity method to investments in subsidiaries in separate financial statements;
    - (ii) summary of informal feedback from outreach with national standard-setters and regional bodies; and
    - (iii) the staff's preliminary analysis on possible ways forward.
  - (b) Agenda Paper 13B *Towards an Exposure Draft—Implications of applying the IASB's tentative decisions to investments in joint ventures*—the agenda paper includes:
    - (i) discussion on application of the equity method to investments in joint ventures; and
    - (ii) the staff's preliminary analysis on whether the IASB's tentative decisions hold for investments in joint ventures.

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- (c) Agenda Paper 13C *Towards an Exposure Draft—Possible improvements to disclosure requirements for investments in associates*—the agenda paper includes the staff analysis on whether to propose amendments to improve the disclosure requirements for investments in associates and recommends the IASB to propose amendments to IFRS 12 *Disclosure of Interests in Other Entities*:
- (i) to require an investor to disclose gains or losses arising from an increase or decrease in its associate’s net assets that changes the investor’s ownership interest if the investor continues applying the equity method and does not exchange consideration with its associate.
  - (ii) to require an investor to disclose, for contingent consideration arrangements:
    - *on obtaining significant influence in an associate*—the amount recognised as of the acquisition date; a description of the arrangement and the basis for determining the amount of the payment; and an estimate of the range of outcome (undiscounted).
    - *for each reporting period after the acquisition date until the investor collects or settles the contingent consideration or it is cancelled or expires*—any changes in the recognised amounts, including any differences arising upon settlement; any changes in the range of outcomes (undiscounted) and the reasons for those changes; and the valuation techniques and key model inputs used to measure the contingent consideration.
  - (iii) to require an investor to disclose gains or losses resulting from transactions with its associates.
  - (iv) to introduce a disclosure objective to disclose information that enables users to evaluate the changes in the amounts in an investor’s financial statements arising from investments in associates.

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- (v) to require an investor to disclose a reconciliation between the opening and closing carrying amount of its investments in associates, to meet the objective in (iv).
  - (d) Agenda Paper 13D *Towards an Exposure Draft—Project scope*—the agenda paper includes the staff analysis on whether to expand the project’s scope for three of the application questions that have recurrent themes and recommends the IASB:
    - (i) to retain the project’s scope.
    - (ii) to ask in the invitation to comment on the exposure draft whether the IASB should seek views in its next agenda consultation on adding to its work plan a project on assessing the rights that currently give an investor access to returns when applying IAS 28.

## Next steps

- 14. At future meetings, the staff plan to ask the IASB to:
  - (a) continue discussion of the implications of applying its tentative decisions to investments other than those in associates accounted for using the equity method;
  - (b) discuss possible improvements to disclosure requirements for investments other than those in associates accounted for using the equity method;
  - (c) decide whether to publish an exposure draft of amendments to IAS 28 or an exposure draft of IAS 28 revised; and
  - (d) discuss transition requirements for the proposals to revise IAS 28.

## Appendix A—Principles identified as underlying IAS 28

Principles Identified		Paragraph
<b>Classification</b>		
A	Power to participate is an investor's shared power to affect changes in, and to access net assets.	IAS 28.3 <i>Definition</i> IAS 28.5-9 IAS 28.12-14
<b>Boundary of the reporting entity</b>		
B	Application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in an investor's statement of financial position.	IAS 28.3 <i>Definition</i> IAS 28.10-11 IAS 28.35
C	An investor's share of an associate's or joint venture's net assets is part of the reporting entity.	IAS 28.28
<b>Measurement on initial recognition</b>		
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.	IAS 28.30-31B IAS 28.32 IFRS 3.BC25/198
<b>Subsequent measurement</b>		
E	An investor recognises changes in an associate's or joint venture's net assets. An investor recognises the share of changes in net assets that it can currently access.	IAS 28.3 <i>Definition</i> IAS 28.10-13 IAS 28.26 IAS 28.28 IAS 28.30-31B IAS 28.33-36 (includes 35) IAS 28.37
F	An investor's maximum exposure is the gross interest in an associate or joint venture.	IAS 28.14A/29/38-43
G	When an investor has a decrease in its ownership interest in an associate or joint venture and continues to apply the equity method, it reclassifies amounts previously recognised in other comprehensive income.	IAS 28.24-25
<b>Derecognition</b>		
H	An investor: <ul style="list-style-type: none"> <li>(a) applies IFRS 3 <i>Business Combinations</i> and IFRS 10 <i>Consolidated Financial Statements</i> if it obtains control of an associate or joint venture;</li> <li>(b) applies IFRS 9 <i>Financial Instruments</i> if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and</li> <li>(c) recognises a gain or loss and reclassifies amounts recognised in other comprehensive income on the date that significant influence or joint control is lost.</li> </ul>	IAS 28.22-23 IFRS 3.41-42
<b>Unallocated (not being addressed in the project)</b>		
Presentation		IAS 28.15/20-21
Exceptions to the application of the equity method		IAS 28.16-19 IAS 28.27 IAS 28.36A

## Appendix B—Summary of the IASB’s decisions, including its tentative decisions on application questions discussed

Table B1—Summary of IASB’s decisions

IASB Meeting	Topic	IASB’s decisions
<a href="#">October 2020</a>	Objective and approach	1. The IASB decided on the objective and approach of the Equity Method project and moved the project from the research pipeline to its research programme.
<a href="#">March 2021</a>	Scope—application questions	2. The IASB discussed the process for selecting application questions to be answered in the project.
<a href="#">June 2021</a>	Approach—principles underlying IAS 28	3. The IASB discussed: <ul style="list-style-type: none"> <li>(a) the principles identified as underlying IAS 28; and</li> <li>(b) how to develop additional principles to guide how an entity applies the equity method in situations to which none of these underlying principles apply.</li> </ul>
<a href="#">October 2021</a>	Scope—application questions	4. The IASB received an update on application questions within the scope of the project that were identified applying the process that the IASB discussed at its March 2021 meeting. 5. The IASB decided the staff should undertake research before considering the application questions within the scope of the project.
<a href="#">April 2022</a>	Approach—identify principles in IFRS Accounting Standards	6. The IASB reviewed the research findings on changes made to IFRS Accounting Standards arising from the <i>Conceptual Framework</i> , Business Combinations and Joint Arrangements projects.



IASB Meeting	Topic	IASB's decisions
<a href="#">October 2022</a>	Objective and approach	7. The IASB received an update on the project and decided to retain the project's objective and approach.
<a href="#">April 2023</a>	Move to standard-setting work plan, work towards exposure draft and update objective	8. The IASB decided: <ul style="list-style-type: none"> <li>(a) to move the Equity Method research project to its standard-setting work plan;</li> <li>(b) to work towards publishing an exposure draft as the next due process step;</li> <li>(c) to continue to use the expertise of its advisory bodies instead of establishing a consultative group; and</li> <li>(d) to update the project's objective (see paragraph 1 of this paper).</li> </ul>
<a href="#">July 2023</a>	Project's scope	9. The IASB decided to expand the project's scope by adding five application questions that are considered resolved by its tentative decisions made to date.

Table B2—Summary of IASB’s tentative decisions on application questions discussed

Application question(s)	IASB Meeting	IASB’s tentative decisions
<b>Changes in an investor’s interest on obtaining significant influence</b>		
How does an investor determine the initial carrying amount of an investment in an associate? <sup>8</sup>	<a href="#">April 2022</a> <a href="#">March 2023</a>	1. In answering the application question(s) on applying the equity method to changes in ownership interests while retaining significant influence, the IASB tentatively decided how an investor measures the cost of an investment on obtaining significant influence. Therefore, the IASB’s tentative decision, at its April 2022 meeting, resolves these application questions.
An investor, with a previously held interest in an entity, acquires an additional interest and obtains significant influence. Does the initial measurement include the original purchase cost of the previously held interest or the carrying amount of that interest applying IFRS 9? <sup>9</sup>		
<b>Changes in an investor’s interest while retaining significant influence</b>		
How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?	<a href="#">April 2022</a> <a href="#">March 2023</a>	2. The IASB tentatively decided that 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.  3. The IASB tentatively decided that an investor purchasing an additional interest in an associate while retaining significant influence would recognise any difference between the cost of the additional interest and its additional share in the net fair value of the associate’s identifiable assets and liabilities either as goodwill, or as a gain from a bargain purchase.

<sup>8</sup> At its [July 2023](#) meeting, the IASB decided to expand the project’s scope by adding this application question that is considered resolved by its tentative decision.

<sup>9</sup> At its [July 2023](#) meeting, the IASB decided to expand the project’s scope by adding this application question that is considered resolved by its tentative decision.

Application question(s)	IASB Meeting	IASB's tentative decisions
<b>Changes in an investor's interest while retaining significant influence</b>		
	<a href="#">June 2022</a>	4. The IASB tentatively decided that an investor purchasing an additional interest in an associate (that is a bargain purchase), while retaining significant influence, would recognise a gain from a bargain purchase in profit or loss.
Whether an investor recognises its share of other changes in an associate's net assets while retaining significant influence, and if so, how is the change presented?	<a href="#">September 2022</a> <a href="#">June 2023</a>	5. The IASB tentatively decided that when the investor's ownership interest: <ul style="list-style-type: none"> <li>(a) increases and the investor retains significant influence, the investor would recognise that increase as a purchase of an additional interest.</li> <li>(b) decreases and the investor retains significant influence, the investor would recognise that decrease as a partial disposal.</li> </ul> 6. The IASB tentatively decided not to develop proposals on how an investor applies the equity method when an associate grants an equity-settled share-based payment or a share warrant.
How does an investor account for the associate's issuance of shares while retaining significant influence? Common transactions include the repurchase or issuance of shares by the associate. <sup>10</sup>		7. In answering the application question(s) on applying the equity method to changes in ownership interests while retaining significant influence, the IASB tentatively decided how an investor accounts for changes in an associate's net assets that change the investor's ownership interest from the issue of equity instruments. Therefore, the IASB's tentative decision, at its September 2022 meeting, resolves this application question.
How does an investor apply the equity method when disposing of an interest in an associate while retaining significant influence?	<a href="#">December 2022</a>	8. The IASB tentatively decided that an investor applying the equity method is measuring a single investment in an associate. Accordingly, in a partial disposal, an investor would be required to measure the portion of the investment in the associate to be derecognised as a proportion of the carrying amount of the investment at the date of the disposal.

<sup>10</sup> At its [July 2023](#) meeting, the IASB decided to expand the project's scope by adding this application question that is considered resolved by its tentative decision.

Application question(s)	IASB Meeting	IASB's tentative decisions
<b>Recognition of losses</b>		
Whether an investor that has reduced its interest in an associate to nil is required to 'catch up' unrecognised losses if it purchases an additional interest in the associate?	<a href="#">December 2022</a>	9. The IASB tentatively decided that an investor applying the equity method that has reduced the carrying amount of its investment in an associate to nil and has therefore stopped recognising its share of an associate's losses would not recognise any unrecognised losses on purchasing an additional interest in the associate.
Whether an investor that has reduced its interest in an associate to nil recognises each component of comprehensive income separately?	<a href="#">December 2022</a>	10. The IASB tentatively decided: <ul style="list-style-type: none"> <li>(a) to clarify that an investor would recognise its share of an associate's comprehensive income until its interest in the associate is reduced to nil.</li> <li>(b) that when an investor has reduced the carrying amount of its investment in an associate to nil the investor would recognise separately its share of each component of the associate's comprehensive income.</li> <li>(c) that if an investor's share of an associate's comprehensive income is a loss that is larger than that carrying amount of its investment in the associate, an investor would recognise in order its share of the associate's profit or loss, and its share of the associate's other comprehensive income.</li> </ul>
Whether an investor that has reduced its interest in an associate to nil continues eliminating its share of gains arising from a downstream transaction?	<a href="#">March 2023</a>	11. The IASB's tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 and IAS 28 resolves this application question.

Application question(s)	IASB Meeting	IASB's tentative decisions
<b>Transactions with (and between) equity accounted investments</b>		
How should an investor recognise gains or losses that arise from the sale of a subsidiary to its associate, applying the requirements in IFRS 10 and IAS 28?	<a href="#">March 2023</a>	12. The IASB tentatively decided: <ul style="list-style-type: none"> <li>(a) that an investor would recognise the full gain or loss on all transactions with its associate.</li> <li>(b) to propose improvements for the disclosure requirements when an investor recognises the full gain or loss on transactions with its associate.</li> </ul>
Whether to recognise the portion of the investor's share of gain that exceeds the carrying amount of its investment in the investee in a downstream transaction?	<a href="#">March 2023</a>	13. The IASB's tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 and IAS 28 resolves these application questions.
Whether the investor's share of gain or loss is eliminated from the carrying amount of the investment in the investee or the acquired asset in an upstream transaction?		
Whether the provision of service and transactions that are not transfer of assets are upstream or downstream transaction?		
Whether the requirement for adjustment of gains or losses in intra-group transactions between subsidiaries should be applied by analogy to transactions between investees that are accounted for applying the equity method?		

Application question(s)	IASB Meeting	IASB's tentative decisions
<b>Transactions with (and between) equity accounted investments</b>		
Does an investor eliminate its portion of gain or loss in a downstream transaction against the transaction gain or loss or the share of the associate's profit or loss? <sup>11</sup>	<a href="#">March 2023</a>	14. The IASB's tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 and IAS 28 resolves this application question.
<p>An investor sells an item of property, plant and equipment to an associate and leases it back:</p> <p>(a) IFRS 16 <i>Leases</i> requires to recognise only the amount of gain or loss that relates to the rights transferred; whereas</p> <p>(b) IAS 28 requires to adjust for the investor's portion of gain or loss.</p> <p>Concerns were expressed about possible double counting.<sup>12</sup></p>	<a href="#">March 2023</a>	15. The IASB's tentative decision, at its March 2023 meeting, on the perceived conflict between IFRS 10 and IAS 28 resolves this application question, resolving any concern about possible double counting.
<b>Initial recognition of an investment in an associate—Deferred taxes</b>		
Does an investor account for a deferred tax asset (or liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value?	<a href="#">April 2023</a>	16. The IASB tentatively decided that an investor would account for, and include in the carrying amount of its investment in an associate, a deferred tax asset (or liability) arising from recognising its share of the associate's net identifiable assets and liabilities at fair value.

<sup>11</sup> At its [July 2023](#) meeting, the IASB decided to expand the project's scope by adding this application question that is considered resolved by its tentative decision.

<sup>12</sup> At its [July 2023](#) meeting, the IASB decided to expand the project's scope by adding this application question that is considered resolved by its tentative decision.

Application question(s)	IASB Meeting	IASB's tentative decisions
<b>Contingent consideration</b>		
How to, initially and subsequently, recognise and measure contingent consideration on acquisition of an investment in an associate applying IAS 28?	<a href="#">June 2023</a>	<p>17. The IASB tentatively decided that:</p> <ul style="list-style-type: none"> <li>(a) on acquisition of an investment in an associate, an investor would recognise contingent consideration as part of the cost of the investment and measure that contingent consideration at fair value; and</li> <li>(b) after the acquisition date: <ul style="list-style-type: none"> <li>(i) <i>for contingent consideration classified as equity</i>—an investor would account for its subsequent settlement within equity.</li> <li>(ii) <i>for other contingent consideration</i>—an investor would measure it at fair value at each reporting date and recognise changes in fair value in profit or loss.</li> </ul> </li> </ul>
<b>Impairment</b>		
Does an investor assess a decline in fair value in relation to the original purchase price or the carrying amount at the reporting date?	<a href="#">July 2023</a>	<p>18. The IASB tentatively decided to propose amendments to IAS 28:</p> <ul style="list-style-type: none"> <li>(a) to change the term 'cost' to 'carrying amount' in paragraph 41C of IAS 28.</li> <li>(b) to add as objective evidence of impairment a purchase price an investor pays for an additional interest in an associate, or a selling price for part of the interest, that is lower than the carrying amount of the investment in the associate at the date of the purchase or sale of that interest.</li> <li>(c) to remove the term 'significant or prolonged'.</li> </ul>