Staff paper

Agenda reference: 13

IASB® meeting

Date	**March 2024**
Project	**Equity Method**
Topic	**Towards an Exposure Draft—Cover paper**
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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.[1]

2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB):

   (a) to clarify its tentative decision regarding transitional requirements for the proposed amendments to IAS 28, following feedback on how those transitional requirements would be applied.

   (b) with regard to the due process steps for the Exposure Draft of proposed amendments to IAS 28, if it agrees to set a 120-day comment period; for permission to begin the balloting process; and if any IASB member plans to dissent from the proposals.

[1] At its April 2023 meeting, the IASB decided to update the project's objective to reflect the progress made.

Structure of this paper

3. This paper is structured as follows:

   (a) project background (paragraphs 4–13 of this paper);

   (b) papers for this meeting (paragraph 14 of this paper);

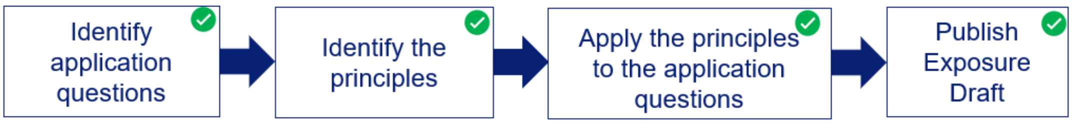
   (c) next steps (paragraph 15 of this paper);

   (d) Appendix A—Principles identified as underlying IAS 28; and

   (e) Appendix B—Summary of the IASB's decisions, including its tentative decisions.

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.[2]

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.[3]

[2] See AP13 of the October 2022 IASB Meeting and the IASB Update October 2022.

[3] See AP13B of the April 2023 IASB Meeting and the IASB Update April 2023.

7. At its November 2023 meeting, the IASB concluded its technical discussions and made tentative decisions on:

   (a) application questions in the project's scope.

   (b) improvements to disclosure requirements to IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

   (c) transitional requirements for the amendments to be proposed to IAS 28.

8. At its February 2024, the IASB:

   (a) clarified matters arising from its tentative decisions.

   (b) proposed amendments to the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures* (the Subsidiaries Standard).

Step 1: Identify application questions

9. At its March 2021 meeting, the IASB agreed the process for selecting application questions to be in the scope of the Equity Method project.[4] 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 Table B2 of Appendix B to this paper.[5]

10. 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:

    (a) 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.

[4] See AP13 of the March 2021 IASB Meeting and the IASB Update March 2021

[5] See AP13 of the October 2021 IASB Meeting and the IASB Update October 2021

(b) September 2023 meeting, the IASB decided to retain the project's scope and not expanding it for three of the application questions that have recurrent themes.

(c) February 2024 meeting, the IASB decided to retain the project's scope and not expanding it for two application questions regarding the cost method in separate financial statements and acquisition-related costs.

Step 2: Identify the principles

11. 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.[6]

12. 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*.

Step 3: Apply the principles to the application questions

13. The IASB began discussing and developing answers to the application questions in April 2022. At its October 2023 meeting, the IASB concluded its technical discussions and made tentative decisions on application questions in the project's scope, including on investments other than those in associates accounted for using the equity method. At its February 2024, the IASB clarified matters arising from its tentative decisions. See Tables B2 and B4 of Appendix B to this paper.

[6] See AP13 of the June 2021 IASB Meeting and the IASB Update June 2021

Papers for this meeting

14. Agenda papers for discussion at this meeting include:

    (a) Agenda Paper 13A *Towards an Exposure Draft—Transitional requirements*. It recommends the IASB:

        (i) to clarify its tentative decision that an investor or a joint venturer would retrospectively apply the requirement to recognise the full gain or loss on all transactions with its associates or joint ventures. An investor or joint venturer would apply the proposed requirement by recognising the remaining portion of the restricted gain or loss. The cumulative effect of that gain or loss would be recognised as an adjustment to the opening balance of retained earnings at the transition date in accordance with IAS 8.

        (ii) to propose that, on initial application of the proposed requirements, if an investor or joint venturer had previously estimated the recoverable amount of an investment in an associate or joint venture at transition date, an investor or joint venturer would reduce the carrying amount to its recoverable amount. An investor or joint venturer would recognise the reduction as an adjustment to the opening balance of retained earnings.

        (iii) to propose that an investor or joint venturer that chooses (or is required) to present more than one period of comparative information may present comparative information for any additional prior periods:

            — adjusted for the effects of the proposed requirements. The transition date would be the beginning of the earliest adjusted comparative period presented; or

            — not adjusted for the effects of the proposed requirements. The investor or joint venturer would identify the comparative information as unadjusted and disclose that comparative information has been prepared on a different basis, explaining that basis.

(iv) to propose an exemption from disclosing the information required by paragraph 28(f) of IAS 8 for the current period and for any additional prior period that the investor or joint venturer presents unadjusted.

(b) Agenda Paper 13B *Towards an Exposure Draft—Due process and permission to begin the balloting process*. It summarises the steps in the *Due Process Handbook* that the IASB has taken in developing the Exposure Draft of proposed amendments to IAS 28 and:

(i) recommends the IASB set a 120-day comment period for the Exposure Draft.

(ii) asks the IASB for permission to begin the balloting process for the Exposure Draft.

(iii) asks if any IASB member plans to dissent from the proposals.

Next steps

15. The staff will prepare the Exposure Draft for balloting.

Appendix A—Principles identified as underlying IAS 28

	Principles Identified	Paragraph
Classification		
A	Power to participate is an investor's shared power to affect changes in, and to access net assets.	IAS 28.3 *Definition* IAS 28.5-9 IAS 28.12–14
Boundary of the reporting entity		
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 *Definition* 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
Measurement on initial recognition		
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
Subsequent measurement		
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 *Definition* IAS 28.10–13 IAS 28.26 IAS 28.28 IAS 28.30–31B IAS 28.33–36 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
Derecognition		
H	An investor: (a) applies IFRS 3 *Business Combinations* and IFRS 10 *Consolidated Financial Statements* if it obtains control of an associate or joint venture; (b) applies IFRS 9 *Financial Instruments* if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and (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.	IAS 28.22–23 IFRS 3.41–42
Unallocated (not being addressed in the project)		
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

Table B1—IASB's decisions

IASB Meeting	Topic	IASB's decisions
October 2020	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.
March 2021	Scope—application questions	2. The IASB discussed the process for selecting application questions to be answered in the project.
June 2021	Approach—principles underlying IAS 28	3. The IASB discussed: • the principles identified as underlying IAS 28; and • how to develop additional principles to guide how an entity applies the equity method in situations to which none of these underlying principles apply.
October 2021	Scope—application questions	4. The IASB received an update on application questions within the project's scope 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 project's scope.
April 2022	Approach—identify principles in IFRS Accounting Standards	6. The IASB reviewed the research findings on changes made to IFRS Accounting Standards arising from the *Conceptual Framework*, Business Combinations and Joint Arrangements projects.

IASB Meeting	Topic	IASB's decisions
October 2022	Objective and approach	7. The IASB received an update on the project and decided to retain the project's objective and approach.
April 2023	Move to standard-setting work plan, work towards exposure draft and update objective	8. The IASB decided: • to move the Equity Method research project to its standard-setting work plan; • to work towards publishing an exposure draft as the next due process step; • to continue to use the expertise of its advisory bodies instead of establishing a consultative group; and • to update the project's objective (see paragraph 1 of this paper).
July 2023	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.
September 2023	Project's scope	10. The IASB decided to retain the project's scope and not expanding it for three of the application questions that have recurrent themes.
February 2024	Project's scope	11. The IASB decided to retain the project's scope and not expanding it for two application questions regarding the cost method in separate financial statements and acquisition-related costs.

Table B2—IASB's tentative decisions on application questions for investments in associates

Application question(s)	IASB Meeting	IASB's tentative decisions
Changes in an investor's interest on obtaining significant influence		
How does an investor determine the initial carrying amount of an investment in an associate?[7]	April 2022 March 2023	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?[8]		
Changes in an investor's interest while retaining significant influence		
How does an investor apply the equity method when purchasing an additional interest in an associate while retaining significant influence?	April 2022 March 2023	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.

[7] 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.

[8] 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
Changes in an investor's interest while retaining significant influence		
	June 2022	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?	September 2022 June 2023 February 2024	5. The IASB tentatively decided that when the investor's ownership interest: • increases and the investor retains significant influence, the investor would recognise that increase as a purchase of an additional interest. • decreases and the investor retains significant influence, the investor would recognise that decrease as a partial disposal. 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. 7. The IASB tentatively decided to amend paragraph 10 of IAS 28 to refer to 'changes in the investor's share of the associate's net assets'.
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.[9]		8. 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?	December 2022	9. 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.

[9] 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
Recognition of losses		
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?	December 2022	10. 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?	December 2022	11. The IASB tentatively decided: (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. (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. (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.
Whether an investor that has reduced its interest in an associate to nil continues eliminating its share of gains arising from a downstream transaction?	March 2023	12. 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
Transactions with (and between) equity accounted investments		
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?	March 2023	13. The IASB tentatively decided: (a) that an investor would recognise the full gain or loss on all transactions with its associate. (b) to propose improvements for the disclosure requirements when an investor recognises the full gain or loss on transactions with its associate.
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?	March 2023	14. 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
Transactions with (and between) equity accounted investments		
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?[10]	March 2023	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.
An investor sells an item of property, plant and equipment to an associate and leases it back: (a) IFRS 16 *Leases* requires to recognise only the amount of gain or loss that relates to the rights transferred; whereas (b) IAS 28 requires to adjust for the investor's portion of gain or loss. Concerns were expressed about possible double counting.[11]	March 2023	16. 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.
Initial recognition of an investment in an associate–Deferred taxes		
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?	April 2023 February 2024	17. 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. 18. The IASB tentatively decided to clarify that if an investor purchases an additional interest in an associate, it would apply the IASB's tentative decisions to deferred taxes.

[10] 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.

[11] 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
Contingent consideration		
How to, initially and subsequently, recognise and measure contingent consideration on obtaining significant influence in an associate applying IAS 28?	June 2023 February 2024	19. The IASB tentatively decided that: (a) on obtaining significant influence 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 (b) for each subsequent reporting period: (i) *for contingent consideration classified as equity*—an investor would account for its subsequent settlement within equity. (ii) *for other contingent consideration*—an investor would measure it at fair value at each reporting date and recognise changes in fair value in profit or loss. 20. The IASB tentatively decided to clarify that if an investor purchases an additional interest in an associate, it would apply the IASB's tentative decisions to contingent consideration arrangements.
Impairment		
Does an investor assess a decline in fair value in relation to the original purchase price or the carrying amount at the reporting date?	July 2023	21. The IASB tentatively decided to propose amendments to IAS 28: (a) to change the term 'cost' to 'carrying amount' in paragraph 41C of IAS 28. (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. (c) to remove the term 'significant or prolonged'.

Table B3—IASB's tentative decisions on improvements to disclosure requirements for investments in associates

Improvements to disclosure requirements	IASB Meeting	IASB's tentative decisions
A reconciliation between the opening and closing carrying amount of an investor's investments in associates.	September 2023	22. The IASB tentatively decided to propose amendments to IFRS 12: (a) to add a disclosure objective requiring an investor to disclose information that enables users of its financial statements to evaluate the changes in the amounts in the financial statements arising from investments in associates; and (b) to meet that new disclosure objective, to require an investor to disclose a reconciliation between the opening and closing carrying amount of its investments in associates.
Other changes in the associate's net assets that change an investor's ownership interest.	September 2023	23. The IASB tentatively decided to propose amendments to IFRS 12 to require an investor to disclose the gain or loss from recognising its share of other changes in its associate's net assets that change its ownership interest, while it retains significant influence.
Transactions with equity-accounted investments	September 2023	24. The IASB tentatively decided to propose amendments to IFRS 12 to require an investor to disclose its gains or losses on transactions to its associates. 25. The IASB tentatively decided not to propose amendments to IFRS 12 to require an investor to disclose the gains or losses on transactions from its associates.

Improvements to disclosure requirements	IASB Meeting	IASB's tentative decisions
Contingent consideration arrangements	September 2023	26. The IASB tentatively decided to propose amendments to IFRS 12 to require an investor that has entered into a contingent consideration arrangement, to disclose: (a) *on obtaining significant influence in an associate*—the amount recognised as part of the cost of the investment, a description of the arrangement and the basis for determining the amount of the payment, and an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the investor shall disclose that fact. (b) *for each subsequent reporting period 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.

Table B4—IASB's tentative decisions for investments other than those in associates accounted for using the equity method

Type of investment	IASB Meeting	IASB's tentative decisions
Investments in subsidiaries in separate financial statements	October 2023 November 2023 February 2024	27. The IASB tentatively decided that its tentative decisions on application questions for investments in associates apply when a parent elects to use the equity method to account for its investments in subsidiaries in separate financial statements. 28. The IASB tentatively decided to propose that a parent that elects to use the equity method to account for its investments in subsidiaries in separate financial statements would disclose the gains or losses from the parent's transactions to its subsidiaries. 29. The IASB tentatively decided to clarify that if a parent entity applies the equity method to its investments in subsidiaries in its separate financial statements, it would apply paragraph 24 of IAS 28 to a step acquisition of a subsidiary.
Investments in joint ventures	October 2023 November 2023	30. The IASB tentatively decided that its tentative decisions on application questions for investments in associates apply to investments in joint ventures. 31. The IASB tentatively decided to propose the same improvements to the disclosure requirements that it has tentatively decided to propose for investments in associates for investments in joint ventures.

Table B5—IASB's tentative decisions on transitional requirements for the amendments to be proposed to IAS 28

Transitional requirements	IASB Meeting	IASB's tentative decisions
Transitional requirements for the amendments to be proposed to IAS 28	November 2023	32. The IASB tentatively decided to propose that an investor or a joint venturer would: (a) retrospectively apply the requirement to recognise the full gain or loss on all transactions with its associates or joint ventures. (b) recognise and measure contingent consideration at fair value at the transition date, and recognise any corresponding adjustment to the carrying amount of its investments in associates or joint ventures. (c) prospectively apply all the other requirements from the transition date.

Table B6—IASB's tentative decisions to propose amending the prospective Subsidiaries Standard

Amendments to disclosure requirements	IASB Meeting	IASB's tentative decisions
Contingent consideration arrangements, under the subheading IFRS 12.	February 2024	33. The IASB tentatively decided to propose amending the prospective Subsidiaries Standard to require that an eligible subsidiary disclose: (a) *on obtaining significant influence in an associate or joint control in a joint venture*—the amount of contingent consideration recognised as part of the cost of the investment; a description of the contingent consideration arrangement; and the basis for determining the amount of the payment. (b) *for each subsequent reporting period until the subsidiary collects or settles the contingent consideration or until it is cancelled or expires*—any changes in the recognised amounts, including any differences arising upon settlement; and the valuation techniques and key model inputs used to measure the contingent consideration.

Amendments to disclosure requirements	IASB Meeting	IASB's tentative decisions
Transactions with equity-accounted investments, under the subheading IFRS 12 and IAS 27, respectively.	February 2024	34. The IASB tentatively decided to propose amending the prospective Subsidiaries Standard to require that an eligible subsidiary disclose gains or losses on downstream transactions: (a) to its associates and joint ventures; and (b) to its subsidiaries if it applies the equity method to its investments in subsidiaries in separate financial statements, as permitted in IAS 27.
A reconciliation between the opening and closing carrying amount of an investor's investments in associates and joint ventures, under the subheading IFRS 12.	February 2024	35. The IASB tentatively decided not to propose amendments to the prospective Subsidiaries Standard to require an eligible subsidiary to disclose a reconciliation between the opening and closing carrying amount of its investments in associates and joint ventures.