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## IASB<sup>®</sup> meeting

Date	<b>March 2024</b>
Project	<b>Equity Method</b>
Topic	<b>Towards an Exposure Draft—Due process and permission to begin the balloting process</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<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of this paper

1. The purpose of this paper is to:
  - (a) summarise the steps in the [Due Process Handbook](#) that the International Accounting Standards Board (IASB) has taken in developing the Exposure Draft of proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* (the Exposure Draft); and
  - (b) ask the IASB, with regard to the Exposure Draft:
    - (i) if it agrees to set a 120-day comment period;
    - (ii) for permission to begin the balloting process; and
    - (iii) if any IASB member plans to dissent from the proposals.

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## Structure of this paper

2. The paper is structured as follows:
  - (a) project background (paragraphs 3–9 of this paper);
  - (b) summary of due process steps for publication of an Exposure Draft (paragraphs 10–21 of this paper);
  - (c) comment period (paragraphs 22–26 of this paper);
  - (d) confirmation of due process steps, permission to begin the balloting process and intention to dissent (paragraphs 27–28 of this paper);
  - (e) other considerations (paragraphs 29–31 of this paper);
  - (f) questions for the IASB;
  - (g) Appendix A—Due process steps taken in developing the Exposure Draft; and
  - (h) Appendix B—Public meeting with consultative bodies.

## Project background

3. The *Feedback Statement on the 2015 Agenda Consultation* noted that the IASB decided to create a research pipeline of future research projects, which will not start immediately but on which it expects to carry out work before the next agenda consultation. The IASB added to the research pipeline a project on equity method, noting:<sup>1</sup>

A number of queries on equity accounting and its interaction with the accounting for other ways of holding interests in other entities have been raised with the Interpretations Committee. The Board thinks that it will be able to consider this topic most effectively and efficiently after it has assessed feedback from the forthcoming Post-implementation Review of IFRS 11 *Joint Arrangements*.

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<sup>1</sup> In adding a project on the equity method to the research pipeline, the IASB stopped work it had undertaken on a previous project on the equity method.

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4. In October 2020, the IASB decided to move the project on the equity method from the research pipeline to its research programme. In doing so, the IASB defined the project's objective as assessing whether questions on how to apply the equity method could be answered by using principles that underlie IAS 28. To achieve this objective, the project focused on:
    - (a) identifying application questions and deciding which of these questions to answer;
    - (b) identifying the principles that underlie IAS 28; and
    - (c) answering the application questions by applying the principles.
  5. In deciding on the project's objective and approach, the IASB asked to receive regular updates on the project's progress. The IASB has received updates in March 2021 and October 2022.
  6. In April 2023, the IASB also reviewed the progress of the research project, including its work on developing answers to application questions. The IASB decided to move the research project to its standard-setting work plan. The IASB also decided to work towards publishing an exposure draft.
  7. Agenda Paper 13 *Towards an Exposure Draft—Cover paper* of this meeting outlines the IASB's process for selecting application questions in the scope of the project and the principles identified as underlying IAS 28. Furthermore, Appendix B of Agenda Paper 13 summarises the IASB's tentative decisions to date.

### ***Analysis of the expected effects***

8. In developing the proposed amendments, the IASB considered the proposals' likely costs and benefits (collectively referred to as 'effects'). The Exposure Draft will outline an analysis of the expected effects on the proposals.

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9. Broadly, the proposals would:
- (a) eliminate diversity in practice and, therefore, result in more comparable information to users of financial statements (users).
  - (b) provide users with more relevant information via enhanced disclosures that will enable users to better understand the material changes in investments accounted for using the equity method of accounting.
  - (c) reduce costs for preparers of financial statements by providing answers to application questions arising in practice. At present, preparers incur costs to develop their own accounting policies to answer those application questions, including researching accounting policies applied to comparable transactions and engaging in discussions with auditors and regulators.

## Summary of due process steps for publication of an Exposure Draft

### *Due process requirements*

10. Paragraphs 6.4 and 6.5 of the *Due Process Handbook* explain that:
- (a) the development of an exposure draft takes place in public meetings;
  - (b) the technical staff prepare agenda papers containing research and recommendations on the matters to be addressed and considered by the IASB;  
and
  - (c) the IASB also considers suggestions made by consultative groups and accounting standard-setters, as well as suggestions arising from consultation and outreach events with other stakeholders.

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11. Paragraph 6.6 of the *Due Process Handbook* states:

When the Board has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals (see paragraphs 3.76–3.81), the technical staff presents a paper to the Board:

- (a) summarising the steps that the Board has taken in developing the proposals, including a summary of when the Board discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;
- (b) if applicable, reaffirming why the Board has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and
- (c) recommending a comment period for the exposure draft.

12. The requirements in paragraphs 6.6 of the *Due Process Handbook* are addressed in this paper as follows:

- (a) paragraphs 13–21: the due process steps taken during the project, together with Appendix A to this paper, provide further details on the due process steps taken.
- (b) paragraphs 22–26: the recommended comment period.
- (c) paragraphs 27–28: permission to begin the balloting process and whether any IASB member intends to dissent from the proposals in the Exposure Draft.

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***Due process steps taken in the project******IASB meetings***

13. The IASB is required to debate all proposals in public meetings. The IASB began developing answers to the application questions in April 2022. See paragraphs 3–7 of this paper, which outline the project’s scope, approach and objective.
14. Overall, the IASB discussed the project, including its proposals in the Exposure Draft, at 19 public meetings between October 2020 and March 2024. The papers and recordings of these public meetings are available on the IFRS Foundation’s [website](#).

***Reporting to the Due Process Oversight Committee and IFRS Advisory Council***

15. The IASB is required to update the IFRS Advisory Council on its technical programme and major projects as part of its due process (paragraph 3.54 of the *Due Process Handbook*).
16. The Trustees of the IFRS Foundation (Trustees), the Due Process Oversight Committee (DPOC) and the IFRS Advisory Council have received regular updates on the status and progress of the project as part of the discussion of the IASB’s activities.
17. In [June 2023](#), the Trustees and the DPOC were informed about the IASB’s decisions to move the research project to its standard-setting work plan and to continue to use the expertise of its advisory groups instead of establishing a consultative group. The staff think the reasons for not establishing a dedicated consultative group for the project remain valid (see paragraph 60 of [Agenda Paper 13B Moving the research project to the standard-setting work plan](#) to the IASB’s April 2023 meeting).
18. In [November 2023](#), the IFRS Advisory Council was informed about the IASB’s decision to move the Equity Method research project to its standard-setting work plan.

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*Meeting with consultative bodies*

19. Appendix B of this paper provides a list of meetings and topics discussed at meetings of the IASB's consultative bodies. Feedback received at those meetings was reported to, and considered by, the IASB when discussing those topics and informed the IASB tentative decisions.

*Other outreach activities and consultations*

20. In developing its tentative decisions, outreach events and consultation on various matters with stakeholders included, for example:
- (a) discussions with accounting firms and user advisory committees from different jurisdictions on recognising gains or losses resulting from 'upstream' and 'downstream' transactions between an investor and its associate.
  - (b) discussions with national standard-setters and regional bodies from different jurisdictions on applying the IASB's tentative decisions for investments in associates to other types of investments.
  - (c) discussions with accounting firms on the potential dilution of an investor's ownership interest if an associate issues share-based payments or share warrants.
  - (d) discussions with user advisory committees from different jurisdictions on the disclosure requirements that may be needed to provide useful information on the IASB's tentative decisions.
21. Feedback from these discussions was reported to and considered by the IASB when discussing the relevant topics and in developing its tentative decisions.

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## Comment period

22. Paragraph 6.7 of the *Due Process Handbook* states that the IASB normally allows a minimum period of 120 days for comment on an exposure draft. However, if the matter is narrow in scope and urgent, the IASB may set a comment period of no less than 30 days. This is subject to obtaining approval from the DPOC.
23. The staff recommend the IASB publishes an Exposure Draft with a comment period of 120 days. The staff have considered the amendments to be proposed in the Exposure Draft and whether a comment period shorter or longer than 120 days is necessary.
24. The proposed amendments are not of an urgent nature to warrant a comment period shorter than 120 days.
25. In the staff's view, a comment period longer than 120 days is unnecessary because the proposals in the Exposure Draft are focused on answering application questions rather than a fundamental change of the existing requirements.
26. Although proposed amendments will address a number of application questions, for the reasons set out in paragraphs 24–25 of this paper, the staff believe the standard comment period is sufficient to allow stakeholders the opportunity to review and evaluate the proposals and to solicit and consolidate the views in their jurisdiction.

## Confirmation of due process steps, permission to begin the balloting process and intention to dissent

27. This paper demonstrates that the IASB has completed all the steps necessary for the balloting of the Exposure Draft. Consequently, the staff are requesting permission to begin the balloting process.
28. In accordance with paragraph 6.9 of the *Due Process Handbook*, the staff would like to ask if any IASB member intends to dissent from the proposals in the Exposure Draft.



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## Other considerations

### ***Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor or Joint Venture***

29. In September 2014, the IASB issued an amendment to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Sale or Contribution of Assets between an Investor or Joint Venture* (the 2014 amendment). In December 2015, the IASB decided to defer indefinitely the effective date of the 2014 amendment.<sup>2</sup>
30. The IASB's tentative decision that an investor recognises the full gain or loss on all transactions with its associate resolves the issue the 2014 amendment sought to resolve. Therefore, the proposals in the Exposure Draft, when finalised, will replace the 2014 amendment.

### ***How to read the Exposure Draft***

31. As part of the IASB's work on improving the understandability and accessibility of IFRS Accounting Standards, in addition to the proposed amendments to IAS 28, the Exposure Draft will re-order the paragraphs in IAS 28. To help respondents evaluate the proposals in the Exposure Draft:
- (a) unchanged requirements will be shaded-out. Requirements are unchanged if they are only renumbered, or editorial amendments are proposed;
  - (b) new proposed requirements will be underlined;
  - (c) proposals to remove or replace requirements will be struck through; and
  - (d) proposals to amend requirements will be either underlined or struck through.

A table of concordance will be set out in the Exposure Draft.

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<sup>2</sup> See [Effective Date of 2014 Amendment](#) and [2014 Amendment](#) for further details.

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## Questions for the IASB

### Questions for the IASB

1. *Comment period*—does the IASB agree with the staff recommendation to set a 120-day comment period for the Exposure Draft?
2. *Permission to begin the process for balloting the Exposure Draft*—is the IASB satisfied that it has complied with the applicable due process steps and that it should begin the process for balloting the Exposure Draft?
3. *Dissent*—do any IASB members intend to dissent from the proposals in the Exposure Draft?

## Appendix A— Due process steps taken in developing the Exposure Draft

Step	Actions
<p><b>IASB meetings held in public, with papers available for observers. All decisions are made in public sessions.</b></p>	<p>The IASB discussed the project in public; see paragraphs 13–14 of this paper for further details.</p> <p>The <a href="#">project page</a> on the IFRS Foundation website describes the project and is updated after IASB meetings that discuss the project.</p> <p>Agenda papers are posted on the IFRS Foundation website on a timely basis before every meeting, and a summary of each meeting is included in IASB Updates.</p>
<p><b>Consultation with the Trustees of the IFRS Foundation (Trustees) and the IFRS Advisory Council.</b></p>	<p>The Trustees, DPOC and the IFRS Advisory Council have received regular updates on the progress of the project as part of the discussion of the IASB’s activities— For example, the Trustees and DPOC were informed about the IASB’s decision to move the Equity Method research project to its standard-setting work plan in <a href="#">June 2023</a> and the IFRS Advisory Council was informed in <a href="#">November 2023</a>.</p>
<p><b>Analysis of the likely effects of the Exposure Draft or major amendment, for example, initial costs or ongoing associated costs.</b></p>	<p>Paragraph 9 of this paper broadly summarises the likely effects of the proposed amendments. The agenda papers posted on the website for each topic in the project also contain analyses of the likely effects, where relevant. As noted in paragraph 3.81 of the <i>Due Process Handbook</i>, the Exposure Draft will outline an analysis of the expected effects on the proposals (as part of the basis for conclusions).</p>
<p><b>Outreach meetings with stakeholders</b></p>	<p>See paragraph 20 of (and Appendix B of this paper) for further details on discussions and outreach events undertaken with consultative groups and other stakeholders.</p>

Step	Actions
<b>Webcasts and podcasts to provide interested parties with high-level updates or other useful information about specific projects.</b>	<p>Updates about the project were provided in some of the IASB podcasts produced by the IFRS Foundation after each IASB meeting.</p> <p>A webcast was published in May 2023, alongside publishing a monthly summary of IASB’s tentative decisions, <a href="#">IFRS – Equity Method</a>.</p>
<b>Finalising</b>	
<b>Due process steps reviewed by the IASB.</b>	<p>This step will be met by this agenda paper.</p>
<b>The Exposure Draft has an appropriate comment period.</b>	<p>To be discussed by the IASB at this meeting. The staff recommend a comment period of 120 days.</p>
<b>Drafting</b>	
<b>Drafting quality assurance steps are adequate.</b>	<p>The IASB as well as the IFRS Foundation’s translations, taxonomy and editorial teams will review drafts during the balloting process.</p>
<b>External reviewers are used to review drafts for editorial review and the comments collected are considered by the IASB.</b>	<p>The project team plans to ask the International Forum of Accounting Standard-Setters (IFASS) members to perform a fatal flaw review of a draft of the Exposure Draft.</p>
<b>Publication</b>	
<b>Exposure Draft published.</b>	<p>The Exposure Draft will be made available on our website when published.</p>
<b>Press release to announce publication of the Exposure Draft.</b>	<p>A press release will be published on our website to accompany the publication of the Exposure Draft.</p>

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Step	Actions
<b>Publication</b> <b>Snapshot document to explain the rationale and basic concepts included in the Exposure Draft.</b>	A snapshot explaining key proposals of the Exposure Draft will be published.

## Appendix B—Public meetings with consultative bodies

B1. The following table lists the meeting dates and topics discussed with each consultative body.

Accounting Standards Advisory Forum (ASAF)	
October 2021	<p>The session provided an update on the equity method project and asked for ASAF members' views on:</p> <ul style="list-style-type: none"> <li>• how to respond to the application question on changes in an investor's interest in an associate without change in significant influence; and</li> <li>• application questions that have recurrent themes outside the scope of the project.</li> </ul>
December 2022	<p>The session provided an update on the equity method project and asked ASAF members' views on alternatives identified to answer the application question: <i>How should an investor recognise gains and losses that arise from the sale of a subsidiary to its associate applying the requirements of IFRS 10 and IAS 28?</i></p>
March 2023	<p>The session asked ASAF members for their views on the IASB's tentative decisions to date, including on potential effects (costs and benefits).</p>
July 2023	<p>The session asked ASAF members for their views on whether the IASB should publish an exposure draft of amendments to IAS 28 or an exposure draft of IAS 28 revised.</p>

<b>Accounting Standards Advisory Forum (ASAF)</b>	
September 2023	<p>The session asked ASAF members for views on the implications of applying the IASB’s tentative decisions for investments in associates to:</p> <ul style="list-style-type: none"> <li>• investments in subsidiaries in separate financial statements; and</li> <li>• investments in joint ventures.</li> </ul>
<b>Capital Markets Advisory Committee (CMAC)</b>	
March 2023	<p>The session asked CMAC members’ views on:</p> <ul style="list-style-type: none"> <li>• whether gains and losses from transactions between an investor and its associate should be restricted; and</li> <li>• some of the tentative decisions made by the IASB to date.</li> </ul>
October 2023	<p>The session:</p> <ul style="list-style-type: none"> <li>• updated CMAC members on the project;</li> <li>• presented some of the IASB tentative decisions on application questions to members; and</li> <li>• asked CMAC members if the disclosure requirements the IASB tentatively decided to propose will improve information to users.</li> </ul>

<b>Emerging Economies Group (EEG)</b>	
December 2021	<p>The session asked EEG members' views on:</p> <ul style="list-style-type: none"> <li>the interaction of IAS 28 with Business Combinations project completed in 2008 and Consolidation project completed in 2011; and</li> <li>some of the application questions in the scope of the project.</li> </ul>
October 2023	<p>The session:</p> <ul style="list-style-type: none"> <li>provided EEG members with an overview of the IASB's tentative decisions on the project; and</li> <li>asked for views on those tentative decisions, including the potential effects (costs and benefits) arising from those decisions.</li> </ul>
<b>Global Preparers Forum (GPF)</b>	
November 2021	<p>The session updated GPF members on the project and asked members for their views on:</p> <ul style="list-style-type: none"> <li>the importance of the application questions within the scope of the project and their experience with those application questions; and</li> <li>some application questions currently excluded from the scope of the project and their experience with those application questions.</li> </ul>



Global Preparers Forum (GPF)	
November 2022	<p>The session:</p> <ul style="list-style-type: none"> <li>provided GPF members with an update on the Equity Method project; and</li> <li>asked GPF members for their views on alternatives identified to answer the application question: <i>How should an investor recognise gains and losses that arise from the sale of a subsidiary to its associate applying the requirements of IFRS 10 and IAS 28?</i></li> </ul>
November 2023	<p>The session:</p> <ul style="list-style-type: none"> <li>provided GPF members with an overview of the IASB's tentative decisions on the project; and</li> <li>asked for views on those tentative decisions, including the potential effects (costs and benefits) arising from those decisions.</li> </ul>