ICAEW
REPRESENTATION 4/25

EXPOSURE DRAFT: EQUITY METHOD OF ACCOUNTING IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (REVISED 202X)

Issued 20 January 2025

ICAEW welcomes the opportunity to comment on the Exposure Draft *Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202X)* published by the International Accounting Standards Board on 19 September 2024, a copy of which is available from this link.

ICAEW supports the International Accounting Standards Board's (IASB) efforts to reduce diversity in practice in equity accounting and address the application questions it has received over recent years. We recognise that the equity method is well established, so we understand the reasons for the decision to focus solely on application issues. We generally agree that the IASB has correctly identified the issues for which application guidance is most needed and are supportive of most of the proposals.

There are certain aspects of the proposals that do give us cause for concern. In particular, we are concerned about potential application issues relating to the proposed requirements where an entity has purchased additional ownership interests in an associate over time. We are also concerned that the rationale for some proposed amendments does not focus sufficiently on issues pertinent to joint ventures. We recommend that, as it finalises the amendments, the IASB reflects on the overall clarity of the accounting requirements and guidance and ensures that the Basis for Conclusions fully reflects the IASB's decision-making process in the context of joint ventures.

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KEY POINTS

BROAD SUPPORT FOR THE PROPOSALS

1. ICAEW welcomes the opportunity to comment on this exposure draft (ED). We support the IASB's efforts to reduce diversity in practice and address the application questions it has received over recent years.
2. We generally agree that the IASB has correctly identified the issues for which application guidance is most needed and are supportive of most of the proposals in the ED. We have concerns related to certain aspects of the ED and have included some suggestions for improvement in our response. However, in our view, the proposals broadly offer direction and clarity on the application of the equity method in various situations where guidance is currently lacking.
3. Although we do not disagree with the focused approach taken by the IASB to address relevant application issues, we have heard from our committee members that the concepts underpinning the equity method are unclear and are aware that some stakeholders question the usefulness of the information that it produces. However, we recognise that the equity method is well established and therefore understand the reasons for the decision to focus solely on application issues.

ASSOCIATES ACCUMULATED IN 'LAYERS' – APPLICATION DIFFICULTIES

4. We are concerned about the practical application of the proposed requirements where an entity has purchased additional ownership interests in an associate over time (ie, purchased a series of 'layers' in the associate). The requirements sometimes view an investment in an associate as a series of layers while at other times, the investment is considered a single unit of account. We believe that this could result in application issues when accounting for changes in ownership interest and recognising an investor's share of losses. See our responses to Questions 2 and 3 for further detail.

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

5. We are broadly supportive of the IASB's proposal to require an investor to recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates. We welcome the simplification for preparers that the amendment represents.
6. While we have heard a range of views on whether this proposal goes beyond the scope of the ED by addressing the concepts and principles underpinning equity accounting, we acknowledge there is a need to address known application issues and inconsistencies between IAS 28 *Investments in Associates and Joint Ventures* and IFRS 10 *Consolidated Financial Statements*. We agree that it will be unsatisfactory to retain the status quo in this respect and understand that if amendments are not made at this opportunity, it may be some time before these issues might be addressed.
7. However, we recommend that the IASB revisits the rationale behind its proposal and assesses carefully whether it is suitable when applied to transactions with a joint venture. Although our preference would be for the application of the equity method to remain the same for both associates and joint ventures, a solution that appears attractive in the context of associates may not be suitable in the context of joint ventures.
8. If, following further assessment, the IASB proceeds with this amendment for both associates and joint ventures, we recommend that the Basis for Conclusions is amended to clarify the IASB's decision-making process in the context of joint ventures. See our response to Question 4 for further detail.

DISCLOSURE OF GAINS OR LOSSES FROM 'DOWNSTREAM' TRANSACTIONS

9. We disagree with the proposed requirement for an investor to disclose gains or losses resulting from 'downstream' transactions.
10. It may be that the IASB believes this disclosure will provide useful information to users of financial statements who would prefer that the entity's share of gains and losses resulting from transactions with its associates and joint ventures continues to be eliminated. However, the proposed disclosure requirement risks undermining the simplifying effect of proposed changes to requirements around transactions with the associate or joint venture. See our response to Question 7 for further detail.

'CATCH-UP' ADJUSTMENT TO CARRYING VALUE

11. We are broadly supportive of proposals not to require a 'catch-up' adjustment for the entity's share of losses not recognised while the investment in the associate was 'underwater' (ie, where the associate has continued to make losses after the investment in the associate has been written down to nil).
12. However, we encourage the IASB to consider whether there are situations in which a catch-up adjustment might be needed to ensure faithful representation of the purchase of an additional ownership interest in an associate. For example, we have considered whether a catch-up adjustment might usefully reflect the substance of a purchase of an additional ownership interest when the consideration paid is not an arm's length amount (such as where the entity has overpaid to provide financial support to the associate). See our response to Question 3 for further detail.

SHARE OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

13. Paragraph 52 of the ED proposes that where an entity has reduced its net investment to nil, in some circumstances it must continue to recognise separately its share of an associate's or joint venture's profit or loss and other comprehensive income (or a portion of that share), retaining a carrying amount in the net investment of nil.
14. We believe that the proposals are unnecessarily complex and could lead to unintended consequences. We recommend that instead, entities should not recognise any gains or losses in profit or loss or other comprehensive income until the investment as a whole returns to an 'above water' position. See our response to Question 3 for further detail.

ANSWERS TO SPECIFIC QUESTIONS

Question 1 – Measurement of cost of an associate

Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence – for example:

a) whether to measure any previously held ownership interest in the associate at fair value; or

b) whether and if so how to recognise and measure contingent consideration.

The IASB is proposing an investor:

a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.

b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:

(i) not remeasure contingent consideration classified as an equity instrument; and

(ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Measurement of cost

15. We agree with the proposed requirements for the measurement of cost of an associate on obtaining significant influence, subject to our comments concerning transaction costs set out in paragraphs 18 – 22.

16. However, we are concerned that preparers might inappropriately apply the proposed definition of the 'cost of the associate or joint venture' when measuring the cost of other forms of investment (for example, when accounting for an investment in an associate at cost in the entity's separate financial statements per IAS 27 *Separate Financial Statements*).

17. We therefore encourage the IASB to clarify that preparers should not draw analogies from the measurement of cost of an associate to other circumstances when the cost of an investment might be measured.

Transaction costs

18. We recommend that the IASB clarifies whether transaction costs should or should not be included in the initial carrying amount of the associate.

19. We note that the ED proposes to define 'cost of the associate or joint venture' using similar language to that used in IFRS 3 *Business Combinations*. However, it is unclear whether the IASB intends for transaction costs to be expensed as incurred (as they are when applying IFRS 3).

20. We are aware that different views exist on whether equity accounting is fundamentally a 'one-line consolidation' or instead a valuation method. While a conceptual debate on this topic is outside the scope of the ED, we are concerned that any ambiguity in the new Standard might lead to diversity in practice relating to transaction costs resulting from differences in opinion on the concepts underpinning equity accounting.

21. Until such time as the conceptual debate is resolved, we believe that transaction costs should be included in the cost of an associate or joint venture. We note that this is the case for other investments such as equity investments within the scope of IFRS 9 *Financial Instruments*.

22. On a practical level, we note that predominant practice (following the International Financial Reporting Interpretations Committee's update of July 2009) is to include in the cost of an associate any directly attributable expenditures necessary to obtain it. Therefore, if the new Standard requires transaction costs to be expensed as incurred, preparers will need to change their accounting policies. The transition costs of applying the new Standard will be increased as a result. We are not convinced that the benefits to users will outweigh these costs (see our response to Question 10 on the expected effects analysis).

Choice of terminology

23. To address the points above both on the definition of 'cost' and on transaction costs, we recommend that the IASB considers defining the 'initial carrying amount' of an associate or joint venture without using the word 'cost' which, as explained above, could be misinterpreted.

Drafting suggestion

24. We understand paragraph 23 of the ED to mean that an entity should undertake a purchase price allocation exercise on initial recognition of an investment in an associate or joint venture. We believe paragraph 23 of the ED could be more clearly worded, and encourage the IASB to reflect on this as it finalises the Standard.

Question 2 – Changes in an investor's ownership interest while retaining significant influence

IAS 28 does not include requirements on how an investor accounts for changes in its ownership interest in an associate, while retaining significant influence, that arise from:

a) the purchase of an additional ownership interest in the associate;

b) the disposal of an ownership interest (partial disposal) in the associate; or

c) other changes in the investor's ownership interest in the associate.

The IASB is proposing to require that an investor:

a) at the date of purchasing an additional ownership interest in an associate:

- ***(i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred;***
- ***(ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and***
- ***(iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss.***

b) at the date of disposing of an ownership interest:

- ***(i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and***
- ***(ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss.***

c) for other changes in its ownership interest in an associate:

- ***(i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'.***
- ***(ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'.***

Paragraphs BC20–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Application complexities

25. We note that on purchasing an additional ownership interest in the associate (ie, an additional ‘layer’), the entity is required to treat the new ‘layer’ separately. This means that fair value adjustments are made, and subsequently accounted for (eg, depreciated), on a layer-by-layer basis. Conversely, the proposed requirements appear to view the investment in the associate as a single unit of account where an entity disposes of an ownership interest while retaining significant influence. We anticipate that this difference may create complexities when applying the Standard, in particular if there is a lack of clarity around when the entity should view the investment in the associate as a single unit of account or as a series of separate layers.

26. As an example of the potential complexities, our understanding is that on disposal of a portion of an investment in an associate, the entity will be required to reduce each layer of the associate proportionately, including making proportionate reductions to any fair value adjustments in each layer. Following the disposal, the entity will revert to viewing each layer as separate to continue accounting for any (now reduced) fair value adjustments for depreciation, amortisation and impairment purposes.

27. Complexities may also arise when recognising an investor’s share of losses. See our response to Question 3 below for further detail.

28. We recommend the IASB ensures that requirements and application guidance relating to an investment in an associate that has accumulated over time are sufficiently well-explained such that diversity in the application of the requirements is avoided.

Clarification of requirements

29. If the IASB retains the proposed requirements in the final Standard, we recommend that paragraph 32 of the ED is extended to clarify how disposals of an ownership interest should be treated where the investor’s interest in the associate comprises several layers. We acknowledge that there is a discussion of this matter in BC33-BC35, but we anticipate that the Standard will be enhanced by the inclusion of more detailed requirements in this respect.

30. To avoid doubt, we recommend that the wording of paragraph 34(b) clarifies that the *post-deemed disposal* share is used when calculating the investor’s or joint venturer’s share of the change in net assets arising from the issue of equity instruments.

Question 3 – Recognition of the investor’s share of losses

Paragraph 38 of IAS 28 requires that if an investor’s share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

a) on purchasing an additional ownership interest, recognises any losses not recognised as a ‘catch up’ adjustment by deducting those losses from the cost of the additional ownership interest; or

b) recognises separately its share of each component of the associate’s comprehensive income.

The IASB is proposing an investor:

a) on purchasing an additional ownership interest, not recognise its share of an associate’s losses that it has not recognised by reducing the carrying amount of the additional ownership interest.

b) recognise and present separately its share of the associate’s profit or loss and its share of the associate’s other comprehensive income.

Paragraphs BC47–BC62 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

'Catch up' adjustment to carrying value

31. We are broadly supportive of proposal not to require a 'catch-up' adjustment for the entity's share of losses not recognised while the investment in the associate was 'underwater' (ie, where the associate has continued to make losses after the investment in the associate has been written down to nil).

32. However, we encourage the IASB to consider whether there are situations in which a catch-up adjustment might be needed to ensure faithful representation of the purchase of an additional ownership interest in an associate. As explained below, we have considered, and heard divergent views on, the situation of the purchase of an additional ownership interest in which an arm's length amount has not been paid (for example, where the entity has overpaid to provide financial support to the associate).

Catch-up adjustment: non-arm's length price

33. Some of our committee members agreed that a catch-up adjustment should not be required under any circumstances (including where a non-arm's length price is paid for the investment in the associate) as the entity does not have an obligation to cover the associate's losses. These members noted that the impairment process means an associate's carrying value should not exceed its recoverable amount, therefore losses will already be recognised as necessary.

34. On the other hand, others commented that where the entity is effectively providing financial support to the associate by paying a premium for an additional ownership interest, a catch-up adjustment might be necessary to ensure faithful representation of the transaction. In this example, it is questionable whether the premium paid should be recognised as an asset. Additionally, the impairment process may not always ensure faithful representation (for example, where the associate is a start-up business that has made losses, but has a high fair value).

Share of profit or loss and other comprehensive income – paragraph 52

35. Paragraph 52 of the ED proposes that where an entity has reduced its net investment to nil, in some circumstances it must continue to recognise separately its share of an associate's or joint venture's profit or loss and other comprehensive income, or a portion thereof, retaining a carrying amount in the net investment of nil.

36. We recommend a more straight-forward approach than that proposed in paragraph 52 of the ED. Specifically, we recommend that entities should not recognise any gains or losses in profit or loss or other comprehensive income until the investment as a whole returns to an 'above water' position.

37. We are concerned that the proposal in paragraph 52 is not conceptually sound and might create unintended complexities.

38. For example, paragraph 52 implies that entities track their share of an associate's or joint venture's profit or loss separately from other comprehensive income. This could create difficulties where an investment in an associate or joint venture is underwater with respect to profits, but is above water with respect to other comprehensive income. It is unclear whether the investment as a whole would be considered to be underwater, or whether the investor can recognise its share of the gains in other comprehensive income.

39. Additionally, it is unclear how the requirements proposed in paragraph 52 would interact with other accounting requirements relating to recycling and impairment.

Associates accumulated over time – complexity of requirements

40. As noted in our response to Question 2 above, we are concerned about the practical difficulties likely to be faced when applying the proposed requirements due to an investment sometimes being viewed as a series of layers while at other times it is treated as a single unit of account. We believe this raises questions relating to the recognition of the investor's share of losses.

41. For example, an entity might hold 25% of an associate that is a long way underwater due to previous losses, then buy an additional 10% when the associate is profitable. In this case, an entity might begin to recognise its share of profits on the profitable 'layer' of the investment in the associate immediately due to viewing the additional purchase of an ownership interest in the associate as a separate layer. This treatment may also reflect the economic rationale behind the entity's additional investment, as the entity may have decided to buy its additional ownership interest *because* the associate had returned to profitability.

42. However, paragraph BC51 clarifies that the entity would only begin to recognise its share of any subsequent profits when its share of those profits – including the share attributable to the additional 10% interest – exceeds the share of the losses not recognised. This clarification seems consistent with the single unit of account approach to associates rather than treating each distinct purchase as a separate layer (see our comments in paragraphs 25 – 28 above). To avoid any application issues, we recommend that the IASB clarifies this requirement in the Standard itself.

43. The question of a catch-up adjustment on purchasing an additional ownership interest in an associate also demonstrates the need for clarity over whether the associate is viewed as a single economic unit or not. Where the associate is viewed as a series of separate layers, it is important that the cost of each layer is known. If introduced, a catch-up adjustment could create practical difficulties in this respect.

Question 4 – Transactions with associates

Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary.

The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.

Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

A welcome simplification when accounting for associates

44. We are supportive of the proposals in the context of accounting for transactions with an associate. We are fairly comfortable with the IASB's rationale for the proposal in this context, and we welcome the simplification for preparers that the amendment represents.

45. We acknowledge that there is a conflict between IAS 28 and IFRS 10 where an investor loses control of a subsidiary in a transaction with an associate. We also note that the current requirements are subject to various other application issues. These include scope – for example whether limited to transactions involving non-monetary assets or also applicable to transactions such as loans and related interest, management charges and derivatives between the investor and investee. Questions also arise as to where to book the unrecognised gain or loss when it is considered realised and is therefore released. All this can lead to diversity in practice.

46. We believe that the proposed amendment will address some of these known application issues and related diversity in practice, as well as the conflict between IAS 28 and IFRS 10. We agree that it will be unsatisfactory to retain the status quo in this respect, and understand that if amendments are not made at this opportunity, it may be some time before these issues might be addressed.

47. Similar to concerns noted in paragraph 20 above, we have heard some concerns that the question of partial gain or loss elimination is central to whether equity accounting is fundamentally a 'one-line consolidation' or instead a valuation method, and that the proposed simplification is inappropriate in the absence of a fundamental review of equity accounting. However, on balance, we agree that standard-setting is necessary, not least because the 2014 amendments to IAS 28 (*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)* were not finalised, meaning the conflict between IAS 28 and IFRS 10 remains.

Further consideration required for joint ventures

48. While we are supportive of the proposal in the context of transactions with an associate, we are concerned that the IASB may not have fully considered the appropriateness of full gain or loss recognition on transactions with joint ventures. We recommend the IASB revisits the rationale behind its proposal and assesses whether it is suitable when applied to transactions with a joint venture.

49. Although our preference is for the same model of equity accounting to apply to both associates and joint ventures, the relationship between an entity and a joint venture is different to the relationship between an entity and an associate, as a joint venturer is able to veto decisions over relevant activities. A solution that appears attractive in the context of associates may not be suitable in the context of joint ventures.

50. A stronger justification for the proposals in the context of a joint venture, focusing specifically on the implications of joint control, is therefore required. If the IASB proceeds with this proposed amendment, we recommend that the IASB extends the Basis for Conclusions to clarify its decision-making process behind the proposal in the context of joint ventures.

51. By way of illustration, we are concerned that the removal of unrealised profit adjustments when applying the equity method to joint ventures will introduce a further difference between the accounting for joint ventures and joint operations. A joint operator will still be required to recognise gains and losses resulting from a transaction with the joint operation only to the extent of the other parties' interests in the joint operation.

52. We note that significant judgement might be required when determining whether a joint arrangement is a joint venture or a joint operation and that any differences in accounting requirements might inappropriately impact entities' accounting judgements in this respect.

Subsidiaries in the separate financial statements

53. It is unclear whether the proposed requirements would also apply where an entity applies the equity method when accounting for a subsidiary in its separate financial statements per IAS 27. We do not believe that the IASB's rationale for the proposal to recognise gains and losses in full would make sense in the context of a subsidiary, which the entity controls.

54. We recommend that the IASB clarifies how transactions between the entity and its subsidiary are accounted for in the separate financial statements when the equity method is used, and that the IASB sets out its rationale in the Basis for Conclusions.

Question 5 – Impairment indicators (decline in fair value)

Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition.

The IASB is proposing:

a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

b) to remove 'significant or prolonged' decline in fair value; and

c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 **Impairment of Assets*****.***

Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

55. We support the proposed amendments.

Question 6 – Investments in subsidiaries to which the equity method is applied in separate financial statements

Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements.

The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

56. Notwithstanding our comments on the measurement of cost of an associate in our response to Question 1 and our comments in paragraphs 53 and 54 above, we do not disagree with the proposal to retain paragraph 10 of IAS 27 unchanged.

57. We have concerns about the suitability of the equity method of accounting and the usefulness of information produced when applying the equity method more generally (see our response to Question 11 below), in particular when applied in an entity's separate financial statements. However, we appreciate that any change to IAS 27 to remove the option to equity account for a subsidiary within the separate financial statements would need to take place as part of a fundamental review of equity accounting, and that this would be beyond the scope of this ED.

Question 7 – Disclosure requirements

The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose:

a) gains or losses from other changes in its ownership interest;

b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures;

c) information about contingent consideration arrangements; and

d) a reconciliation between the opening and closing carrying amount of its investments.

The IASB is also proposing an amendment to IAS 27 to require a parent – if it uses the equity method to account for its investments in subsidiaries in separate financial statements – to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.

Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Disclosure of gains or losses from 'downstream' transactions

58. We disagree with the requirement for an investor to disclose gains or losses resulting from 'downstream' transactions.

59. It may be that the IASB believes this disclosure will provide useful information to users of financial statements who would prefer that the entity's share of gains and losses resulting from transactions with its associates and joint ventures continues to be eliminated. However, the proposed disclosure requirement risks undermining the simplifying effect of the proposed changes to requirements around transactions with the associate or joint venture (see Question 4), and is unlikely to provide useful information as entities will not distinguish between transactions that are still unrealised and those that are not.

60. The proposed disclosure requirement could create practical difficulties for preparers. For example, where the 'downstream' transactions involve the provision of management services from an entity to its associate, the measurement of profit on the transaction is likely to require significant judgement in identifying which costs should be taken into account.

61. We anticipate that an entity's related party transaction disclosures will already contain information about transactions with its associates and joint ventures, including the amount of the transactions and any outstanding balances, reducing the need for such disclosure requirements in IAS 28.

Disclosure of the entity's share of losses not recognised

62. We suggest that in the case of investments in associates that are underwater (ie, where the associate has continued to make losses after the investment in the associate has been written down to nil), it will be useful to require disclosure of the cumulative losses that need to be made good before the investment in associate will be a positive amount on the balance sheet.

Question 8 – Disclosure requirements for eligible subsidiaries

IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards.

As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries.

The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:

a) to disclose information about contingent consideration arrangements; and

b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.

Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).

63. For the reasons mentioned in our response to Question 7 above, we disagree with the requirement to disclose gains or losses resulting from 'downstream' transactions with associates or joint ventures therefore would not support the inclusion of this requirement in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

64. We are content with the remaining proposed amendments to IFRS 19, although, as expressed in our response to the IASB's November 2024 Exposure Draft *Amendments to IFRS 19 Subsidiaries Without Public Accountability: Disclosures*, we have concerns about the proportionality of the requirements of IFRS 19. We encourage the IASB to identify opportunities to further reduce disclosure requirements for eligible subsidiaries through the use of equivalence exemptions, an approach offered in the UK by FRS 101 *Reduced Disclosure Framework*, whereby certain disclosures are not required where there is sufficient information included within the parent's publicly available IFRS consolidated financial statements.

Question 9 – Transition

The IASB is proposing to require an entity:

a) to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures;

b) to apply the requirements on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date— generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments in associates or joint ventures accordingly; and

c) to apply prospectively all the other requirements from the transition date.

The IASB is also proposing relief from restating any additional prior periods presented. Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Retrospective application of the recognition of full gains and losses on transactions with investees

65. If the IASB retains paragraph 53 of the ED (relating to transactions with the associate or joint venture) in the final version of the Standard, entities will be required to recognise the full gain or loss on all transactions with associates or joint ventures retrospectively unless such recognition is impracticable (see BC185). Given there are concerns about the usefulness of information produced using the equity method of accounting (see our response to Question 11 below), we question whether 'impracticable' is the most appropriate threshold.

66. Instead, we recommend that an entity should be required to recognise the full gain or loss on all transactions with associates or joint ventures retrospectively unless doing so would impose undue cost or effort on the entity.

67. We note that unrealised profits eliminated in a reporting period are likely to become realised in a subsequent reporting period. We therefore question whether the benefits to users of changing previously reported figures will outweigh costs to preparers.

68. While we appreciate that entities should already be tracking any transactions with associates and joint ventures, meaning they should have the necessary information available to allow for retrospective application, the costs of applying this requirement retrospectively could sometimes be disproportionately high relative to the usefulness of information produced.

First-time adoption

69. We note that no transition reliefs have been proposed for first-time adopters. While IFRS 1 *First-time Adoption of International Financial Reporting Standards* offers transition reliefs in Appendix C *Exemptions for Business Combinations* (eg, not to restate past acquisitions of associates and joint ventures under IAS 28) and Appendix D *Exemptions from other IFRSs*, we are concerned there is a lack of clarity around these reliefs. For example, it is unclear whether Appendix C applies to acquisitions of an additional 'layer' in an associate as well as the initial acquisition, or whether Appendix C applies if the associate is not a business.

70. Additionally, where a first-time adopter elects to apply IAS 28 retrospectively, we anticipate that the entity will face issues doing so. For example, the entity may not have historic records of past transactions with the associate or joint venture[1], nor the information available to account for past acquisitions of associates and joint ventures under IAS 28.

71. We encourage the IASB to consider the sufficiency of reliefs offered to first-time adopters as it finalises the amendments to the Standard. Where transition reliefs are offered to ongoing

[1] Note that this situation might be relevant even if the option in IFRS 1 Appendix C not to restate past acquisitions of associates or joint ventures is taken.

reporters, we recommend that the IASB considers the relevance of the reliefs to first-time adopters and extends reliefs to first-time adopters as appropriate.

Question 10 – Expected effects of the proposals

Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?

72. Our expectations regarding the expected costs of implementing and applying the proposals are broadly in line with the IASB's.

73. In our response to Question 1, we have recommended that the IASB clarifies whether transaction costs should be included in the initial carrying value of an associate or joint venture, or expensed as incurred. We note that if the IASB clarifies that transaction costs should be expensed as incurred, this is likely to represent a change in accounting policy for many preparers (increasing the cost to preparers of implementing the new Standard), and that this potential cost is omitted from the IASB's analysis of the expected effects of implementing its proposals.

74. As noted in paragraph 58 of our response, we disagree with proposals to require an investor to disclose gains or losses resulting from 'downstream' transactions. We are therefore of the view that any costs associated with implementing this requirement are unnecessary.

75. In our response to Question 9, we note that the costs of retrospective application of paragraph 53 of the ED (relating to transactions with the associate or joint venture) could be disproportionate when compared to the perceived benefits to users. We have therefore recommended that an entity should be required to recognise the full gain or loss on all transactions with associates or joint ventures retrospectively unless doing so would impose undue cost or effort on the entity.

Question 11 – Other comments

Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft?

Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?

Order of requirements

76. We support the re-ordering of the requirements in IAS 28. We agree with the IASB that the re-ordering of the requirements will improve the understandability of this Standard.

Other comments

77. In line with the concerns noted by the IASB in the Basis for Conclusions, we have heard from our committee members that the concepts underpinning the equity method are unclear. Although we recognise that a fundamental review of the equity method of accounting is outside the scope of the ED, we are aware that some stakeholders do not necessarily believe that equity accounting requirements result in useful information.

78. As preparers applying this Standard are following requirements rather than applying underlying principles, we note the importance of clear, and complete, accounting requirements and guidance. We encourage the IASB to reflect on this as it finalises the amendments.