Exposure Draft Equity Method of Accounting, IAS 28 Investments in Associates and Joint Ventures (revised 202x)

Issues Paper

Objective

1 The objective of this paper is to provide the EFRAG FR TEG-CFSS with an update on the recent developments and IASB's tentative discussions on the Equity Method project and to gather their views in preparation for the upcoming ASAF meeting (2 October 2025).

Structure of the paper

(a) Background of the project;

(b) Recent developments and tentative decisions;

(c) Secretariat analysis;

(d) Questions to the EFRAG FR TEG-CFSS members;

(e) Agenda papers.

Background of the project

2 Over the years, the IFRS Interpretations Committee has received numerous requests to clarify various aspects of accounting under the equity method in IAS 28 *Investments in Associates and Joint Ventures.* The IASB considered these requests and undertook a project aimed at reducing the diversity in practice in the application of IAS 28 and to enhance the understandability and comparability of related disclosures.

3 When deciding the scope of the project, the IASB considered whether to undertake a fundamental review of the equity method or focus on application questions. The IASB decided not to undertake a fundamental review of the equity method, which:

(a) would have required the IASB to consider whether the equity method should continue to be used and, if so, for which types of investments in other entities. The

IASB noted that in developing the Conceptual Framework, it did not consider whether and how the economic entity perspective or the reporting entity concept could affect the use of the equity method;

(b) might have resulted in fundamental changes to the equity method. The IASB noted that the equity method is well established and fundamental changes would require significant stakeholder support.

4 The IASB decided instead to focus on developing answers to application questions. This approach would, in a shorter time, provide preparers with solutions to long-standing application difficulties, reduce diversity in practice, and lead to more comparable and understandable information for users.

5 In September 2024, the IASB published the Exposure Draft *Equity Method (Amendments to IAS 28)* (the ED). The ED proposed amendments to IAS 28 to answer application questions about how to apply the equity method of accounting and improvements to the disclosure requirements in IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements to complement the proposed amendments to IAS 28.

6 EFRAG published its draft comment letter in November 2024, followed by its final comment letter (FCL) in January 2025. The comment letter highlighted areas of support as well as concerns raised by European stakeholders. In its comment letter, EFRAG also referred to its previous work on the subject, specifically its Discussion Paper, The Equity Method: A One-line Consolidation or a Measurement Basis?, published in 2014.

Recent developments and tentative decisions

7 The IASB received 109 comment letters on its ED and participated in 32 outreach meetings. Many respondents commented on the project objective and approach. Some respondents called for a fundamental review of the equity method. Despite overall support, mixed feedback/issues were raised for some of the ED's proposals, mainly:

(a) on the treatment of changes in an investor's ownership interest, particularly the cost and benefit of including in the carrying amount of the investment the investor's additional share of the fair value of an investee's net assets, for additional purchases;

(b) separate presentation of the investor's share of profit or loss and share of other comprehensive income, after the carrying amount of the investment has been reduced to nil;

(c) removal of the reference to 'significant or prolonged' decline in fair value, mostly from preparers;

(d) retrospective application of the requirement to recognise gain or loss in full on transactions with associates or joint ventures;

(e) application of the ED's proposals to investments in subsidiaries accounted for using the equity method in separate financial statements, particularly the proposal to recognise gains and losses in full on downstream and upstream transactions.

8 Since the last EFRAG FR TEG-CFSS meeting, the IASB tentatively decided, at its June 2025 meeting, to proceed with the current project's objectives and therefore to **not** undertake a fundamental review on the equity method for the same reasons as the ones considered when deciding the scope of the project (paragraph 3 above).

9 The IASB tentatively decided **not** to consult on a fundamental review of the equity method in the request for information on the Fourth Agenda Consultation (this decision was taken before the changes to the Fourth Agenda Consultation timeline).

10 The IASB is currently redeliberating the proposals after considering the feedback received from constituents. The key questions to be discussed and their expected timing are presented to the right. The IASB tentatively decided to apply a high hurdle when considering addressing additional application questions, based on the following criteria:

(a) an answer can be arrived at promptly with minimal outreach; and

(b) addressing the question will not necessitate re-exposure of the ED proposals.

11 The IASB tentatively approved the redeliberation timeline with the objective of completing the project in 2026.

Topics	Tentative IASB meeting
Measurement of cost of an associate—Question 1 of the Invitation to Comment (ITC)	Q4 2025
Changes in an investor's ownership interest while retaining significant influence—Questions 2A and 2B of the ITC	Q3 2025
Other changes in an investor's ownership interest while retaining significant influence—Question 2C of the ITC	Q4 2025
Recognition of the investor's share of losses—Question 3 of the ITC	Q4 2025
Impairment indicators (decline in fair value)—Question 5 of the ITC	Q4 2025
Transition—Question 9 of the ITC	Q1 2026
Transactions with associates—Question 4 of the ITC	Q1 2026
Disclosures – IFRS 12 *Disclosure of Interests in Other Entities*—Question 7A(b) (Downstream gains or losses) of the ITC	
Investments in subsidiaries to which the equity method is applied in separate Financial Statements—Question 6 of the ITC	Q1 2026
Disclosures – IAS 27—Question 7B (Downstream gains or losses) of the ITC	

12 When analysing the feedback received, the IASB Staff:

(a) considered not just the number of responses, but also other factors, such as whether a response reports the views of a single individual or the views of a broader group;

(b) assessed whether comments appeared to be concentrated (or feedback differs) in (between) specific geographical areas or among particular types of respondents;

(c) have also considered the nature of the comments and whether they are qualitatively significant irrespective of the number of respondents who shared such a view.

Summary of the IASB's Staff proposals for ASAF meeting

13 The IASB is planning to discuss the following two topics at its upcoming ASAF meeting:

(a) measurement of the 'cost of the associate'—acquisition-related costs; and

(b) other changes in an investor's ownership interest – dilution gains and losses.

Measurement of the 'cost of the associate'—acquisition-related costs

14 The IASB's paper on acquisition-related costs will be made available and distributed after the September 2025 IASB meeting if the IASB agrees to add this application question to the scope of the Equity Method project.

15 If the IASB agrees with the staff recommendation to add this application question to the scope of the Equity Method project, the IASB Staff will develop a paper that analyses two alternative answers to the application question for the IASB to consider at its October 2025 meeting:

(a) Alternative 1—Recognising acquisition-related costs in profit and loss as incurred;

(b) Alternative 2—Recognising acquisition-related costs as part of the cost of the associate.

16 At the October 2025 meeting, ASAF members will be asked for their views on the two alternatives, including the rationale for their views.

Other changes in an investor's ownership interest – dilution gains and losses

17 In the ASAF paper (also included as agenda paper 08-03 to this meeting), the IASB Staff outlined the considerations with regard to the accounting for other changes in an investor's ownership interest and specifically accounting for the dilution gains and losses.

18 In the ED, the IASB proposed that an investor:

(a) recognises in profit or loss, gains or losses from disposals of an investor's ownership interest;

(b) applies the same accounting treatment as for disposals to other decreases in ownership interest;

(c) dilution gains or losses for the period be disclosed.

19 The feedback received by the IASB was mixed. Most respondents supported the presentation in the investor's profit or loss, albeit with comments on other aspects of the proposal. However, a few respondents suggested presenting the related gains or losses in the investor's equity, and some respondents raised additional questions (i.e., it is not clear if the proposal applies to an 'indirect' dilution, it is not clear if an investor that partially subscribe to an associate's share issue should recognise separately a purchase and a dilution, or only the net dilution, the proposals do not address how to account for an associate's share-based payment during the vesting period of the granted instruments).

20 In this regard, the IASB Staff is proposing the following possible alternatives:

(a) **No recognition of dilution gains or losses**: reflecting a view that the investor's investment in the associate is not affected by a transaction the investor is not a party to;

(b) **Presentation of dilution gains or losses in equity**: reflecting a view that these gains or losses are not part of the investor's performance, because the investor is not a party to the transaction. It would also reflect a view that the investor's presentation should mirror the presentation in the associate's financial statements;

(c) **Presentation of dilution gains or losses in OCI**: view that these gains or losses are not part of the investor's performance. The IASB may decide in exceptional circumstances to require presentation of income and expenses in OCI when doing so provides more relevant information or a more faithful representation of the entity's financial performance. This alternative would require the IASB to decide if and when the dilution gains and losses are recycled (paragraph 7.19 of the Conceptual Framework).

EFRAG Secretariat analysis

Measurement of the 'cost of the associate'—acquisition-related costs

21 As outlined in EFRAG's FCL, EFRAG's constituents had mixed views on the accounting treatment of the transaction costs, some supporting expensing transaction costs as done under IFRS 3 *Business Combinations* and IFRS 9 *Financial Instruments,* and some supporting capitalisation consistent with the accounting of other assets accounted at cost and in line with the July 2009 IFRIC agenda decision. In its FCL, EFRAG expressed preference for capitalisation of the transaction costs while noting that the IASB should distinguish

between the treatment of transaction costs for the acquisition of a business and the acquisition of an asset.

22 Consistent with the view in the EFRAG FCL, the EFRAG Secretariat supports the proposal for the IASB to include this application question in the scope of the project, and this should be done in a manner that ensures internal consistency of the proposals and underlying principles.

Other changes in an investor's ownership interest – dilution gains and losses

23 As outlined in EFRAG's FCL, EFRAG's constituents raised significant concerns regarding the complexity and cost associated with the ED's proposals related to changes in ownership interest overall (acquisitions and disposals while retaining significant influence) and to other changes resulting in dilution or anti-dilution effects, including indirect changes. Therefore, in its FCL, EFRAG disagreed with the ED's proposal for accounting of other changes in ownership interest.

24 As such, the EFRAG Secretariat considers the first alternative in paragraph 20 a) (i.e. not recognising gains or losses), to be consistent with the EFRAG's position in its FCL but monitors such transactions in order to determine its ownership interest. This alternative also eliminates the question related to the accounting for indirect dilution. In our view, the second and third alternatives in paragraph 20-a do not address the fundamental concerns highlighted by EFRAG's constituents (i.e., the cost and complexity of proposals and partial coverage of related transactions).

Questions for EFRAG FR TEG-CFSS members

25 What is your view on the two alternatives related to the accounting of transaction costs (i.e. expensing or capitalisation)? Please explain

26 Do you agree with the proposal in the Exposure Draft on the presentation of dilution gains or losses?

27 If you do not agree, which of the alternatives proposed by the IASB Staff do you support and why?

28 Do ASAF members think the IASB should clarify how the proposals apply to 'indirect' dilutions?

Agenda papers

29 In addition to this agenda paper, the following IASB agenda papers are provided for the meeting:

(a) Agenda paper 08-02 – AP4, Equity Method Cover Paper, ASAF October meeting

(b) Agenda paper 08-03 – AP4B, Other changes in an investor's ownership interest – Dilution gains and losses, ASAF October meeting