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IFRS® Standards

Long-term Interests in Associates and Joint Ventures

Amendments to IAS 28

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Long-term Interests in Associates and Joint Ventures

(Amendments to IAS 28)

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Amendments to IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs 14A and 45F–45J are added and paragraph 41 is deleted. Deleted text is struck through.

Equity method

...

- 14A An entity also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 38). An entity applies IFRS 9 to such long-term interests before it applies paragraph 38 and paragraphs 40–43 of this Standard. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

...

Application of the equity method

...

- 41 ~~[Deleted] The entity applies the impairment requirements in IFRS 9 to its other interests in the associate or joint venture that are in the scope of IFRS 9 and that do not constitute part of the net investment.~~

...

Effective date and transition

...

- 45F *Long-term Interests in Associates and Joint Ventures*, issued in October 2017, added paragraph 14A and deleted paragraph 41. An entity shall apply those amendments retrospectively in accordance with IAS 8 for annual reporting periods beginning on or after 1 January 2019, except as specified in paragraphs 45G–45J. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.
- 45G An entity that first applies the amendments in paragraph 45F at the same time it first applies IFRS 9 shall apply the transition requirements in IFRS 9 to the long-term interests described in paragraph 14A.
- 45H An entity that first applies the amendments in paragraph 45F after it first applies IFRS 9 shall apply the transition requirements in IFRS 9 necessary for applying the requirements set out in paragraph 14A to long-term interests. For that purpose, references to the date of initial application in IFRS 9 shall be read

as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

45I When first applying the amendments in paragraph 45F, an entity that applies the temporary exemption from IFRS 9 in accordance with IFRS 4 *Insurance Contracts* is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

45J If an entity does not restate prior periods applying paragraph 45H or paragraph 45I, at the date of initial application of the amendments it shall recognise in the opening retained earnings (or other component of equity, as appropriate) any difference between:

- (a) the previous carrying amount of long-term interests described in paragraph 14A at that date; and
- (b) the carrying amount of those long-term interests at that date.

Approval by the Board of *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28) issued in October 2017

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) was approved for issue by 10 of 14 members of the International Accounting Standards Board (Board). Mr Ochi dissented. His dissenting opinion is set out after the Basis for Conclusions. Messrs Anderson and Lu and Ms Tarca abstained in view of their recent appointments to the Board.

Hans Hoogervorst Chairman

Suzanne Lloyd Vice-Chair

Nick Anderson

Martin Edelmann

Françoise Flores

Amaro Luiz de Oliveira Gomes

Gary Kabureck

Jianqiao Lu

Takatsugu Ochi

Darrel Scott

Thomas Scott

Chungwoo Suh

Ann Tarca

Mary Tokar

Amendments to the Basis for Conclusions on IAS 28 *Investments in Associates and Joint Ventures*

| |
|--|
| Paragraphs BC16A–BC16L and their related headings are added. |
|--|

Equity method

Long-term interests in associates and joint ventures

- BC16A The Board received a submission relating to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture (long-term interests). The submission asked whether long-term interests are within the scope of IFRS 9 and, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.
- BC16B In considering the submission, the Board and the IFRS Interpretations Committee discussed the accounting for long-term interests applying the requirements in IFRS 9 and IAS 28, without reconsidering those requirements. The submission was narrowly and clearly defined, and both bodies concluded they could respond to the submission most efficiently by considering only the submission received. Any reconsideration of the accounting for long-term interests could not be undertaken as a narrow-scope project and would be likely to involve reconsideration of the equity method, a topic included in the Board's pipeline of future research projects. Consequently, the Board limited the amendments to clarifying its intentions when it issued the requirements in IFRS 9 and IAS 28.
- BC16C The Board concluded that with respect to interests in an associate or joint venture, paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only interests to which the equity method is applied. Accordingly, the scope exclusion in that paragraph does not include long-term interests (as described in paragraph 38 of IAS 28). In reaching this conclusion, the Board noted that IAS 28 mentions long-term interests and the net investment, which includes long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. IAS 28 does not specify requirements for other aspects of recognising or measuring long-term interests. Thus, long-term interests are not accounted for in accordance with IAS 28, as envisaged in paragraph 2.1(a) of IFRS 9. The Board also noted that paragraph 14 of IAS 28 states that 'IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method'.
- BC16D The Board clarified in paragraph 14A of IAS 28 that IFRS 9, including its impairment requirements, applies to long-term interests. The Board also deleted paragraph 41 as part of the amendments. That paragraph had merely reiterated requirements in IFRS 9, and had created confusion about the accounting for long-term interests.

- BC16E Respondents to the Board’s Exposure Draft on long-term interests suggested that it further clarify how the requirements in IAS 28 and IFRS 9 apply to long-term interests because, in the respondents’ view, the benefits of the amendments would be limited without such clarifications. Respondents also suggested including an illustrative example.
- BC16F In response, the Board clarified that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests. Thus, when applying IFRS 9, it does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture applying IAS 28.
- BC16G In addition, at the same time it issued the amendments, the Board published an example that illustrates how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests.

Effective date and transition

- BC16H The Board proposed to align the effective date of the amendments with the effective date of IFRS 9—annual reporting periods beginning on or after 1 January 2018. Some respondents said an effective date of 1 January 2018 would not allow sufficient time to implement the amendments. In particular, the respondents mentioned entities in jurisdictions that have a translation or endorsement process for IFRS Standards.
- BC16I In the light of these concerns, the Board set an effective date of annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Board noted that if an entity elects to apply the amendments when it first applies IFRS 9, then it would benefit from applying the transition requirements in IFRS 9 to long-term interests.
- BC16J Considering the effective date of 1 January 2019 and the requirement to apply the amendments retrospectively, the Board also provided transition requirements similar to those in IFRS 9 for entities that apply the amendments after they first apply IFRS 9. This is because retrospective application may not have been possible without the use of hindsight. When the Board developed IFRS 9, it provided transition requirements for scenarios in which it would have been impracticable for an entity to apply particular requirements retrospectively. Consequently, the Board provided similar transition requirements in the amendments to IAS 28 for long-term interests because the effect of the amendments might be that an entity applies IFRS 9 for the first time to those interests. Accordingly, for example, such an entity would assess its business model for such long-term interests based on the facts and circumstances that exist on the date it first applies the amendments (for example, 1 January 2019 for an entity applying the amendments from that date).
- BC16K The Board noted that at the date of initial application of the amendments an entity would be able to use these transition requirements only for long-term interests and not for other financial instruments to which the entity has already applied IFRS 9. Accordingly, for example, an entity is not permitted (or required) to reconsider any of its fair value option elections for financial instruments to which the entity has already applied IFRS 9.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

BC16L The Board also decided to provide relief from restating prior periods for entities electing, in accordance with IFRS 4 *Insurance Contracts*, to apply the temporary exemption from IFRS 9. The Board observed that the effect of the amendments for such entities might be that they apply IAS 39 for the first time to long-term interests.

Dissenting opinion

Dissent of Mr Takatsugu Ochi from *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)

- DO1 Mr Ochi voted against the publication of *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28). The reasons for his dissent are set out below.
- DO2 Mr Ochi believes that interests in an associate or joint venture should be subject to either the requirements in IFRS 9 or the requirements in IAS 28, but not both. Accordingly, he disagrees with amending IAS 28 without also specifying the types of interests in an associate or joint venture that an entity accounts for using the equity method, and the types of interests in such entities that an entity accounts for applying IFRS 9.
- DO3 Mr Ochi notes that the amendments would result in ‘dual application’ of accounting requirements to the same asset, which he thinks is contrary to basic principles of accounting standards. He believes that such dual application of accounting requirements might result in double counting and, therefore, could undermine the quality of financial statements.



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