

STAFF PAPER

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Accounting Standards Advisory Forum

Project	Equity method	
Paper topic	Cover paper and project update	
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Purpose of the session

1. The purpose of this session is to:
 - (a) provide an update on the objective and approach of the equity method research project (this paper and Agenda Paper 1A); and
 - (b) seek Accounting Standards Advisory Forum (ASAF) members' views on:
 - (i) application questions that have recurrent themes but are outside the scope of the project (Agenda Paper 1B); and
 - (ii) the alternatives for addressing the application questions on changes in an investor's interest in an associate without change in significant influence (Agenda Paper 1C).
2. The International Accounting Standards Board (Board) has directed the staff to undertake a research project to consider application problems with the equity method in IAS 28 *Investments in Associates and Joint Ventures*. Consequently, the staff is not seeking the advice of ASAF members on the objective or approach of the project.

Structure of this paper

3. This paper sets out:
 - (a) background to the project;
 - (b) objective and approach of the project; and
 - (c) questions for ASAF members.

Background to the project

4. The *IASB Work Plan 2017-2021 Feedback Statement on the 2015 Agenda Consultation*, states:

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*.

5. In September 2019, the Board began the Post-implementation Review of IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*. Subsequently, in October 2020, the Board discussed and decided on the objective and approach of the equity method project and moved the project from the research pipeline to its research programme.

Objective and approach of the project

6. At its October 2020 meeting, the Board decided that the objective of the equity method research project is:

To assess whether application questions with the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, can be addressed in consolidated and

individual financial statements by identifying and explaining principles in IAS 28.

7. The Board decided that, to achieve the objective, it would apply the following approach to the project:
 - (a) identify application questions and decide which of these questions to address (see paragraphs 8–12 of this paper).
 - (b) address the application questions by identifying and explaining the principles in IAS 28. Identifying and explaining these principles would allow the Board to develop new requirements (or application guidance) which will amend the Standard (see paragraphs 13–14 of this paper).

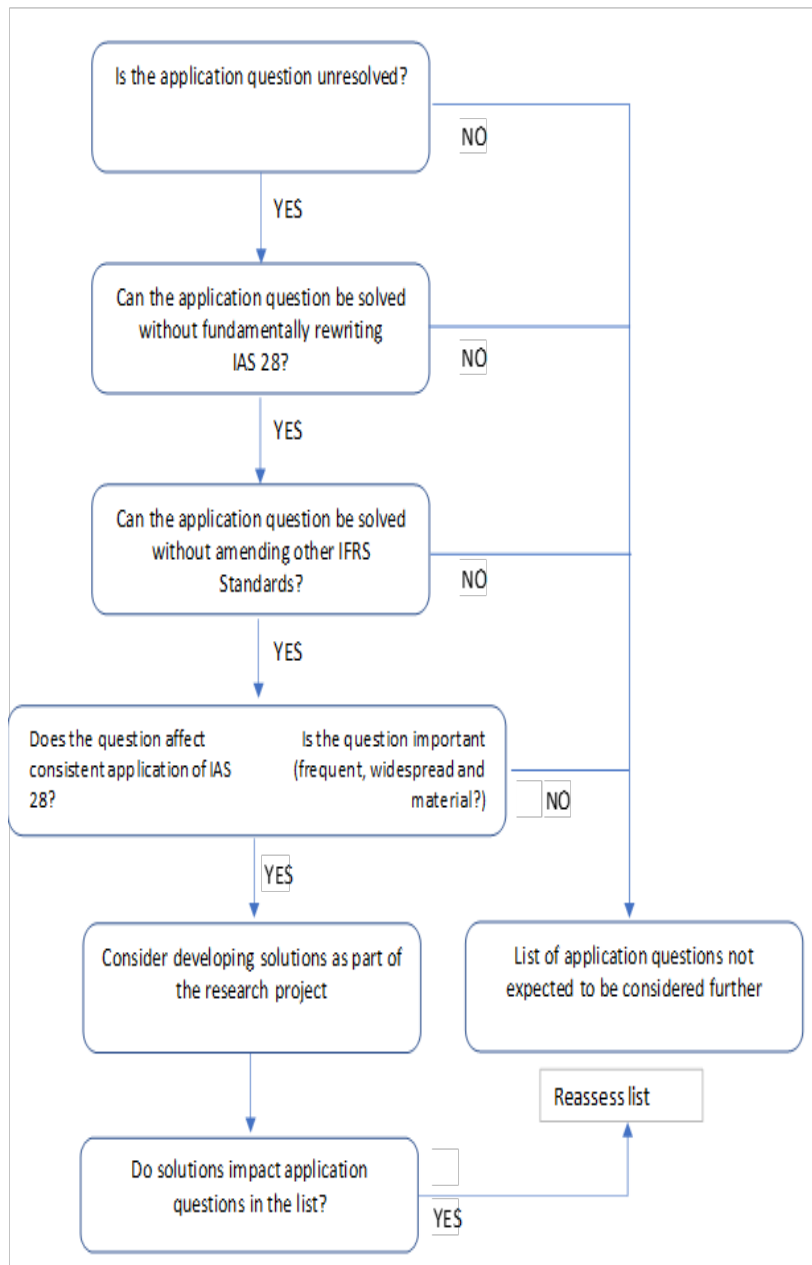
Selecting application questions within the project's scope

8. The staff drafted an initial list of 22 application questions from the following sources:
 - (a) submissions to the IFRS Interpretations Committee;
 - (b) past work of the Board;
 - (c) comments from the Global Preparers Forum at the November 2014 meeting;
and
 - (d) research report published by the Korea Accounting Standards Board in September 2014.
9. The staff sought feedback on the initial list from national standard-setters, accounting firms and regulators and as a result added 49 potential questions to the initial list.
10. Following the Board's direction at the October 2020 meeting, the staff applied the selection process on page 4 of this paper that sets out the criteria used to select which application questions in the initial list should be within the scope of the project. The staff provided an update to the Board, which detailed this process, at the March 2021 Board meeting.
11. In addition, some of the application questions excluded from the scope of the project applying this process had recurrent themes. The staff deemed that the Board should be

made aware of these questions, so that it could consider whether these questions warrant extending the scope of the project. These questions are highlighted in Agenda Paper 1B.

12. The staff considers the selection of application questions to be an iterative process. As the project progresses, it may be that solutions can be found to application questions that have been excluded or conversely solutions found could raise new questions. Therefore, the staff will continue to reassess the application questions included in the scope of the project.

Process for selecting application questions



Identifying and explaining the principles in IAS 28

13. At its June 2021 meeting, the Board discussed the principles identified by the staff as underlying IAS 28. After completing the analysis of the requirements in IAS 28, the staff's view is that there are missing principles. Consequently, the Board also considered how to develop additional principles to guide how an entity applies the equity method in situations when none of the underlying principles apply. The staff paper for the June 2021 meeting is provided for reference (see Agenda Paper 1A). The Board was not asked to make any decisions at that meeting.
14. The objective of identifying principles is to provide the Board with a toolbox to help address the selected application questions. At this stage, the staff anticipates that the principles themselves will be used to develop possible requirements rather than be incorporated in IAS 28 themselves.

Questions for ASAF members**Questions**

What are the ASAF members' views on:

- (a) application questions that have recurrent themes but have been excluded from the project in applying the selection process (Agenda Paper 1B); and
- (b) alternatives identified by the staff and their implications for the accounting for changes in the investor's interest in an associate without a change in significant influence (Agenda Paper 1C)?