

Changes in an investor's interest in an associate without a change of influence

Accounting Standards Advisory Forum meeting

ASAF Agenda Paper 1F
October 2021

Purpose of session

Agenda ref 1F

Purpose


- To obtain feedback from ASAF members on the analysis and accounting for changes in an investor's interest in an associate without a change in significant influence

A grayscale world map is the background for the slide. Overlaid on the map are several thick, light gray curved lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, representing latitude and longitude.

Application questions

Investor increases its interest in an associate but *retains significant influence* both before and after the transaction

- How is the increase in the investor's share in the net assets of the associate measured?
- How does investor account for any difference between the consideration paid and the additional share in the net assets of the associate recognised?

A grayscale world map is the background, with several thick, curved gray lines and dotted lines overlaid on it, suggesting a globe or a network. The text is centered on the right side of the map.

Analysis – Changes in an investor's interest in an associate without a change in significant influence

Alternatives

Agenda ref 1F

	1	2	3	4
	Fair value, goodwill	Fair value, profit or loss	Consideration paid	Investor's Book value ¹
Measurement of additional share in the associate's net assets	Share of net fair value of associate's assets and liabilities at acquisition	Share of net fair value of associate's assets and liabilities at acquisition	At fair value of consideration paid	Use investor's book value of existing share of associate's net assets
Difference between consideration paid and additional share	Goodwill (or bargain purchase gain)	Profit or loss	No difference	Profit or loss

1. *Book value* here refers to the carrying amounts of the investee's net assets in the investor's financial statements.

Alternative 1: Share of net fair value of associate's assets and liabilities (difference is goodwill)

Agenda ref 1F

		Rationale
Measurement of additional share in associate's net assets	Share of net fair value of associate's assets and liabilities at acquisition	Principle D: Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets.
Difference between consideration paid and additional share	Goodwill (or bargain purchase gain)	Analogise to IAS 28.32: Initial recognition of associate

Features of Alternative 1:

- Leads to a mixture of fair values at each acquisition date
- Goodwill that exists when an investor acquires an additional interest in an associate can be measured applying the same requirement for recognition of the initial interest in the associate

Alternative 2: Share of net fair value of associate's assets and liabilities (difference is profit or loss)

Agenda ref 1F

		Rationale
Measurement of additional share in associate's net assets	Share of net fair value of associate's assets and liabilities at acquisition	Principle D: Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets.
Difference between consideration paid and additional share	Profit or loss	Analogise to IFRS 9 <i>Financial Instruments</i> , initial measurement of financial instruments

Features of Alternative 2:

- Leads to a mixture of fair values at each acquisition date
- Goodwill is not recognised when there is no change in significant influence. Goodwill recognition occurs when control or significant influence is obtained.
- Arguably inconsistent to analogise to a mix of IAS 28 and IFRS 9

Alternative 3: Fair value of consideration paid

Agenda ref 1F

		Rationale
Measurement of additional share in associate's net assets	At fair value of consideration paid	Analogise to purchases of assets in other standards such as IAS 16 <i>Property, Plant and Equipment</i> and IAS 40 <i>Investment Property</i>
Difference between consideration paid and additional share	No difference	-

Features of Alternative 3:

- Leads to a mixed measurement of the investor's share of the net assets in the associate
- Easy to determine with no difference arising

Alternative 4: Investor's book value

Agenda ref 1F

		Rationale
Measurement of additional share in associate's net assets	Use investor's book value of existing share of associate's net assets	Analogise to BC96 of the Basis for Conclusions on IFRS 10 <i>Consolidated Financial Statements</i> , acquisition of additional share in a subsidiary (ie non-controlling interest)
Difference between consideration paid and additional share	Profit or loss	Difference between consideration paid and additional share is profit or loss (<i>Book value measurement is inconsistent with recognition of goodwill, which conceptually is an excess payment over fair value of net assets acquired</i>)

Features of Alternative 4:

- Inconsistent with identified principles underlying IAS 28 – Principle D
- Considers cost vs. benefits of requiring fair value information
- Simplifies the subsequent accounting

A grayscale world map is the background for the slide. Overlaid on the map are several thick, curved, light-gray lines that sweep across the continents. Additionally, there are dotted lines forming a grid-like pattern across the map, representing latitude and longitude.

Questions for ASAF Members

Questions for ASAF members

Agenda ref 1F

1. Do ASAF members have questions on the staff analysis in agenda paper 1C?
2. What are ASAF members' views on the alternatives presented in agenda paper 1C and their implications for the accounting for changes in the investor's interest in an associate with no change in significant influence?



Thank you!

For more details about the project, please refer to the [*Equity Method project page*](#) on the IFRS website

Find us online



www.ifrs.org



IFRS Foundation | International Accounting Standards Board



@IFRSFoundation



IFRS Foundation



IFRS Foundation

Join our team: go.ifrs.org/careers