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## **Equity Method of Accounting Cover Note**

### **Objective**

- 1 The objective of the session is to obtain views from EFRAG FR TEG and EFRAG CFSS members on the IASB's tentative decisions taken in the IASB's project Equity Method (the Project).
- 2 This is to prepare EFRAG's response at the ASAF meeting that will take place on 27-28 March 2023.
- 3 The tentative decisions of the IASB relate to the following aspects of the equity method:
  - (a) Changes in an investor's interest while retaining significant influence;
  - (b) Recognition of losses.
- 4 The details of the IASB tentative decisions are provided in Appendix to this paper.
- 5 Further details are provided in IASB's Agenda Paper 10.02 – ASAF Paper AP2, prepared for discussion at the coming ASAF meeting in March 2023.

### **Background and history of the IASB Project**

- 6 Following the Feedback Statement to the 2011 Agenda Consultation, the IASB decided to add a project on equity method of accounting to the research programme. The IASB justified its decision using the feedback from constituents what included the criticisms related to application of the equity method, its complexities, and inconsistencies. The research was intended to involve a fundamental assessment of the equity method in terms of usefulness and difficulties for preparers.
- 7 In October 2020, the IASB reconsidered the scope of project and decided that its objective is to:

*Assess whether application questions with the equity method, as set out in IAS 28, can be addressed in consolidated and individual financial statements by identifying and explaining principles in IAS 28.*
- 8 Accordingly, the IASB decided not to fundamentally reconsider IAS 28 guidance. Consequently, some of the application issues would be excluded from the scope of *the Project*.
- 9 Please refer to Appendix 1 and 2 of [November 2022 FR TEG and CFSS meeting agenda paper](#) for the list of principles underlying IAS 28 requirements, identified by the IASB, and a list of issues/questions that satisfied the IASB selection criteria (i.e. whether application questions were not-yet-solved, possible to solve without fundamentally rewriting IAS 28, possible to solve without amending other IFRS Standards, and important - frequent, widespread, material, and affecting consistent application of IAS 28).

### **Past EFRAG discussions on the Project**

- 10 The progress in this IASB project was discussed at the following EFRAG meetings:
- (a) EFRAG TEG and CFSS meeting on 15 September 2021 - application questions that have recurrent themes but are outside the scope of the Project, the alternatives for addressing the application questions on changes in an investor's interest in an associate without change in significant influence, and ASBJ *Perspectives of Equity Method of Accounting* and related ASBJ presentation;
  - (b) EFRAG IAWG meeting on 23 September 2021 - to the areas excluded from the scope of the IASB Research Project *Equity Method of Accounting*, and the principles proposed by the ASBJ *Perspectives of Equity Method of Accounting* related to hybrid approach to the equity method;
  - (c) EFRAG IAWG meeting on 12 May 2022 - three alternatives on applying the equity method to the purchase of an additional interest in an associate without a change in significant influence;
  - (d) EFRAG FR TEG meeting on 29 June 2022 - three alternatives on applying the equity method to the purchase of an additional interest in an associate without a change in significant influence;
  - (e) EFRAG FIWG meeting on 21 June 2022 - three alternatives on applying the equity method to the purchase of an additional interest in an associate without a change in significant influence;
  - (f) EFRAG User Panel meeting on 7 July 2022 - three alternatives on applying the equity method to the purchase of an additional interest in an associate without a change in significant influence;
  - (g) EFRAG FR TEG and CFSS meeting on 30 November 2022 - accounting for transactions between an investor and its associate;

#### **Questions for EFRAG FR TEG and CFSS members**

- 11 Do you have any comments on the IASB's tentative answers to the application questions listed in Appendix?
- 12 What are your views on potential effects (costs and benefits) of the tentative answers to the application questions?

#### **Next steps**

- 13 The IASB is expected to discuss the remaining selected application issues.

#### **Agenda Papers**

- 14 In addition to this cover note, Agenda Paper 10-02 – *ASAF paper AP2 Project Update* – has been provided for the session.



<b>Recognition of losses</b>			
Whether an investor that has reduced its interest in an investee to nil is required to 'catch up' unrecognised losses if it purchases an additional interest in the investee?	6	<p>The IASB tentatively decided that an investor applying the equity method that has reduced the carrying amount of its investment in an associate to zero and has therefore stopped recognising its share of an associate's losses would not recognise any unrecognised losses on purchasing an additional interest in the associate.  <a href="#">(Ref: page 18 of Agenda Paper 10-02)</a></p>	December 2022
Whether an investor that has reduced its interest in an investee to nil recognises each component of comprehensive income separately?	7	<p>The IASB tentatively decided:</p> <ul style="list-style-type: none"> <li>• to clarify that an investor would recognise its share of an associate's comprehensive income until its interest in the associate is reduced to zero.  <a href="#">(Ref: page 19 of Agenda Paper 10-02)</a></li> <li>• that when an investor has reduced the carrying amount of its investment in an associate to zero the investor would recognise separately its share of each component of the associate's comprehensive income.  <a href="#">(Ref: page 20 of Agenda Paper 10-02)</a></li> <li>• if an investor's share of an associate's comprehensive income is a loss that is larger than that carrying amount of its investment in the associate, an investor would recognise in order its share of the associate's profit or loss, and its share of the associate's other comprehensive income.  <a href="#">(Ref: page 21 of Agenda Paper 10-02)</a></li> </ul>	December 2022