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Equity Method - the IASB project Cover note

Objective

- 1 The objectives of the session are:
 - (a) To update the EFRAG FR TEG and User Panel member on the current status of the IASB's project on the equity method of accounting;
 - (b) To update the EFRAG FR TEG and User Panel members on the tentative decisions of the IASB on the equity method of accounting;
 - (c) To receive members' input in regard to the discussed potential amendments to equity method of accounting in IAS 28 *Investments in Associates and Joint Ventures* as applied to subsidiaries and joint-ventures.

Background and history of the IASB project

- 2 At its October 2020 meeting, the IASB decided on the objective and approach of the Equity Method research project and moved the project from the research pipeline to its research programme.
- 3 At its October 2022 meeting, the IASB reviewed the progress of its Equity Method research project and decided to retain the project's objective and approach.
- 4 At its April 2023 meeting, the IASB decided to move the Equity Method research project to its standard-setting work plan.
- 5 At its November 2023 meeting, the IASB concluded its technical discussions and made tentative decisions.
- 6 At its February 2024 meeting, the IASB clarified some matters arising from its tentative decisions and proposed amendments to the forthcoming IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*.
- 7 At its March 2024 meeting, the IASB discussed the transitional requirements and due process steps for the prospective exposure draft proposing amendments to IAS 28.
- 8 **The Exposure Draft is expected in September 2024 with 120-day comment period.**

Overview of the IASB's approach

Step 1: Identify application questions

- 9 At its March 2021 meeting and October 2021 meeting, the IASB agreed the process for selecting application questions to be in the scope of the Equity Method project.
- 10 The IASB also agreed the selection of application questions is an iterative process and the project's scope was further discussed and expanded or retained in July 2023 meeting, September 2023 meeting and February 2024 meeting.

Step 2: Identify the principles

- 11 At its June 2021 meeting, the IASB discussed the principles identified as underlying IAS 28; these principles are set out in **Appendix A** to this paper. The objective of identifying the principles is to provide the IASB with a toolbox that can help the IASB to answer the selected application questions.
- 12 Some application questions cannot be answered by the principles identified in IAS 28. The IASB decided it will develop answers to these application questions by analogising to the principles identified and applying the judgment required when developing an accounting policy applying IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Step 3: Apply the principles to the application questions

- 13 The IASB began discussing and developing answers to the application questions in April 2022. At its October 2023 meeting, the IASB concluded its technical discussions and made tentative decisions on application questions in the project's scope, including on investments other than those in associates accounted for using the equity method. At its February 2024, the IASB clarified matters arising from its tentative decisions.

EFRAG activities up to date

- 14 Since the project's objective was to provide clarifications related to the application challenges identified by the IASB, no fundamental overhaul of the model was expected. The project therefore was deemed a low priority project by the EFRAG FRB in September 2023.
- 15 EFRAG will increase its activities in light of the upcoming IASB's Exposure Draft and the related EFRAG's Comment Letter.

Agenda Papers

- 16 In addition to this cover note, the following Agenda papers have been made available:
 - (a) Agenda Paper 05-02 – Equity Method – Issues paper summarising the tentative decisions taken by the IASB up to date

Appendix A - Principles identified as underlying IAS 28

Principles Identified	Paragraph
Classification	
A. Power to participate is an investor's shared power to affect changes in, and to access net assets.	IAS 28.3 <i>Definition</i> IAS 28.5-9 IAS 28.12-14
Boundary of the reporting entity	
B. Application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in an investor's statement of financial position.	IAS 28.3 <i>Definition</i> IAS 28.10-11 IAS 28.35
C. An investor's share of an associate's or joint venture's net assets is part of the reporting entity.	IAS 28.28
Measurement on initial recognition	
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.	IAS 28.30-31B IAS 28.32 IFRS 3.BC25/198
Subsequent measurement	
E. An investor recognises changes in an associate's or joint venture's net assets. An investor recognises the share of changes in net assets that it can currently access.	IAS 28.3 <i>Definition</i> IAS 28.10-13 IAS 28.26 IAS 28.28 IAS 28.30-31B IAS 28.33-36 IAS 28.37
F. An investor's maximum exposure is the gross interest in an associate or joint venture.	IAS 28.14A/29/38-43
G. When an investor has a decrease in its ownership interest in an associate or joint venture and continues to apply the equity method, it reclassifies amounts previously recognised in other comprehensive income.	IAS 28.24-25
Derecognition	
H. An investor: (a) applies IFRS 3 <i>Business Combinations</i> and IFRS 10 <i>Consolidated Financial Statements</i> if it obtains control of an associate or joint venture; (b) applies IFRS 9 <i>Financial Instruments</i> if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and (c) recognises a gain or loss and reclassifies amounts recognised in other comprehensive income on the date that significant influence or joint control is lost.	IAS 28.22-23 IFRS 3.41-42
Unallocated (not being addressed in the project)	
Presentation	IAS 28.15/20-21
Exceptions to the application of the equity method	IAS 28.16-19 IAS 28.27 IAS 28.36A