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Exposure Draft

Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

Cover note

Objective

- 1 On 19 September 2024, the IASB published the [Exposure Draft Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* \(revised 202x\)](#) (ED). This ED is open for comments until 20 January 2025 (i.e., 120+ days). To guide EFRAG's response to the ED, the objectives of this session are:
 - (a) To agree on EFRAG's due process steps including the draft comment letter (DCL) consultation timeline, outreach activities to be undertaken, and whether or not the EFRAG FRB will approve the DCL and final comment letter (FCL) by written procedure. At the 25 June 2024 EFRAG FRB meeting, the EFRAG Secretariat sought direction on whether the equity method project should be classified as 'significant' which would then preclude the EFRAG FRB's written procedure approval of the DCL and FCL. Prior to that, during the EFRAG FRB's prioritisation of the EFRAG workplan that occurred in September 2023, the equity method was categorised as a low-priority project as it was understood that no fundamental revision to the current IAS 28 requirements would be proposed by the ED and only clarifying amendments to application challenges would be addressed. However, the complexity, breadth and cross-cutting nature of the technical issues addressed by the ED along with an amendment proposed related to the treatment of gains or losses from transactions with associates may now call for this project to be considered by the EFRAG FRB as significant. At the 25 June 2024 meeting, the EFRAG FRB indicated that it could only determine the significance of the project after the issuance of the ED and the EFRAG FRB's review of the issues addressed.
 - (b) To receive the EFRAG FRB and FR TEG members' input on EFRAG's DCL responses to the questions raised in the ED. As laid out in paper 0X-02, the EFRAG Secretariat has gathered some initial albeit limited feedback during the update on the project to EFRAG's working groups and EFRAG FR TEG prior to the issuance of the ED. Thus, a steer from the EFRAG FR TEG and FRB on what ought to be EFRAG's positions is necessary for the drafting of the comment letter. As outlined below, in the next few weeks, the EFRAG Secretariat plans to undertake targeted outreach to gather stakeholder feedback (with a focus on preparers and auditors) on the ED's proposals and this feedback will be incorporated by the EFRAG Secretariat while developing the draft comment letter.

Structure of the paper

- 2 The paper is structured as follows:
 - (a) project background outlining the steps taken by the IASB and highlighting the ED proposals;
 - (b) EFRAG Secretariat's proposed workplan and timeline;
 - (c) EFRAG Secretariat's view on the significance of the project;
 - (d) EFRAG Secretariat's preliminary analysis of questions raised in the ED.

Project Background

- 3 Over the years, the IFRS Interpretations Committee has received numerous requests to clarify various aspects of accounting under the equity method in IAS 28 *Investments in Associates and Joint Ventures*. The IASB has considered these requests and, via an ED has proposed amendments to reduce diversity in practice in the application and to enhance the understandability of IAS 28, improving comparability, and improving information with ED disclosures.
- 4 When deciding the scope of the project, the IASB considered whether to undertake a fundamental review of the equity method or focus on application questions. The IASB decided not to undertake a fundamental review of the equity method, which:
 - (a) would have required the IASB to consider whether the equity method should continue to be used and, if so, for which types of investments in other entities. The IASB noted that in developing the *Conceptual Framework for Financial Reporting (Conceptual Framework)*, it did not consider whether and how the economic entity perspective or the reporting entity concept could affect the use of the equity method.
 - (b) might have resulted in fundamental changes to the equity method. The IASB noted that the equity method is well established and fundamental changes would require significant stakeholder support.
- 5 The IASB decided instead to focus on developing answers to application questions. This approach would, in a shorter time, provide preparers with solutions to long-standing application difficulties, reduce diversity in practice and lead to more comparable and understandable information for users.
- 6 Steps taken by the IASB on this project are presented below:
 - (a) 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.
 - (b) 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.
 - (c) At its April 2023 meeting, the IASB decided to move the Equity Method research project to its standard-setting work plan.
 - (d) At its November 2023 meeting, the IASB concluded its technical discussions and made tentative decisions.
 - (e) 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*.

Equity Method

- (f) 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.
- (g) In its June 2024 meeting, the IASB discussed the sweep issues identified while drafting the ED.

7 The ED proposals are related to:

Change of ownership

- (a) obtaining significant influence or joint control;
- (b) purchasing an additional interest while retaining significant influence;
- (c) partial disposal of ownership while retaining significant influence;
- (d) other changes in ownership (e.g., via associate issuance or redemption of its shares);
- (e) deferred tax effects
- (f) contingent consideration

Other proposals

- (g) recognition of losses: unrecognised losses and purchase of an additional interest; and share of profit and loss and OCI when the associate's losses exceed carrying value;
- (h) transactions with associates and joint ventures;
- (i) impairment indicators;
- (j) improved disclosure requirements for associates;
- (k) separate financial statements;
- (l) transitional requirements; and
- (m) interaction with other IFRS Standards including updated amendments to IFRS 19.

8 Due to the associated complexity, the IASB did not develop proposals for change of ownership arising from equity-settled share-based payments and share warrants.

EFRAG Secretariat proposed workplan

9 Considering the IASB's consultation timeline on the ED, the EFRAG Secretariat suggests the following activities:

October 2024	gather input from FR TEG members on the main topics to be addressed in EFRAG's DCL
	gather input from EFRAG's FIWG and IAWG
	outreach call with a selection of EFRAG's UP members, joint events /outreaches with Business Europe, Accountancy Europe and NSS
Issuance of the DCL	
November – December 2024	gather input on the DCL from EFRAG's UP

	further joint events/outreaches with Accountancy Europe and NSS (timeline to be confirmed)
January 2024	analysis of the feedback obtained via comment letters
Issuance of the FCL	

- 10 Considering currently planned FRB and FR TEG meetings, the EFRAG Secretariat suggests the following timeline for the comment letter:
- (a) EFRAG FR TEG 4 November: input to the DCL and recommendation for approval to FRB;
 - (b) **Additional EFRAG FRB** meeting to be scheduled 5-7 November: approval of the DCL and subsequent publication with a comment period of approximately 58 days until 6 January 2025;
 - (c) **Additional joint EFRAG FRB and FR TEG** meeting to be scheduled for 13-15 January 2025 to present the feedback received and the recommendation and approval of EFRAG's final comment letter.

EFRAG Secretariat's view on the significance of the project

- 11 As noted above, the complexity, breadth and cross-cutting nature of the technical issues addressed by the ED may call for EFRAG FRB to categorise this project as significant. Notably, the ED includes application issues related to initial and subsequent measurement, derecognition, recognition of losses, P&L vs OCI presentation, deferred tax, contingent consideration, impairment, and disclosure. There is a need for a considered review of the interaction and consistency with other Standards (IAS 12, IAS 27, IAS 36, IAS 37, IFRS 3, IFRS 9, IFRS 10, IFRS 11, IFRS 18, and IFRS 19) as well as with the Conceptual Framework for Financial Reporting.
- 12 Among other things, we observe that the unit of account differs depending on the type of transaction undertaken by the reporting entity. For purchases of ownership interest that result in an investor obtaining significant influence, similar to IFRS 3, the prior ownership interest held is measured at fair value. When the investor obtains an additional ownership interest in an associate while retaining significant influence, similar to IFRS 11, the additional ownership interest is treated as a separate unit of account and a layered /accumulation of purchases approach without a need to remeasure the prior ownership interests. And when the investor disposes of an ownership interest in an associate while retaining significant influence, the entire holding in the associate is the unit of account applied when determining the amount to be derecognised and the gain or loss to be recognised. We also recognise that minimising complexity underpins the IASB's decisions to require the application of different units of account for acquiring while retaining significant influence versus obtaining significant influence or partial disposal of ownership interest while retaining significant influence.
- 13 Another notable proposal relates to an amendment made to existing requirements for transactions between a reporting entity and its associates or joint ventures. The existing requirement in IAS 28 is to recognise gains or losses to the extent of unrelated investors' interests in the associate (for instance, an investor with a 25% ownership interest recognises 75% of gains or losses). The proposed amendment changes the current requirement; it eliminates the restriction of gains or losses and requires entities to recognise full gains or losses. The proposed amendment withdraws the amendments to IAS 28 and IFRS 10

issued in 2014, that were indefinitely deferred. So far, the EFRAG Secretariat has only gotten feedback from the IAWG and FIWG and there is a need to get further feedback. Moreover, this amendment underscores the need for a clarification of whether the equity method is a one-line consolidation or a measurement method.

- 14 In sum, in our view, notwithstanding that the more fundamental questions related to the equity method are not being addressed, **the issues raised in the ED are not minor clarifications of existing amendments and this project may need to be considered as significant by the EFRAG FRB.**

Questions to the FRB

- 15 Do you agree with the proposed timeline for EFRAG's draft comment letter and final comment letter? Do you have any suggestions?
- 16 Do you agree that the project should be classified as significant which would then preclude the option of the EFRAG FRB's written procedure approval of the DCL and FCL?
- 17 Do you agree with the proposed outreach activities to be conducted by the EFRAG Secretariat before and after the DCL?

EFRAG Secretariat's preliminary analysis

- 18 EFRAG's Secretariat preliminary analysis of the questions raised in the ED is included within the agenda paper 10-02. This analysis is to be further expanded based on the proposed EFRAG Secretariat activities outlined above.

Questions to the FR TEG

- 19 Do you have any comments and additional points to the EFRAG Secretariat's preliminary analysis and suggested DCL response?

Agenda Papers

- 20 In addition to this cover note, the following Agenda papers are included for this session:

- (a) Agenda Paper 10-02 - Equity Method - Issues paper summarising the questions included in the ED and EFRAG Secretariat's preliminary assessment.

The below papers are for background reading only.

- (b) Agenda Paper 10-03 - Equity Method - Stakeholder Feedback summarising the views expressed so far by EFRAG FR TEG members and EFRAG's working groups.
- (c) Agenda Paper 10-04 - the IASB's Exposure Draft Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202X)
- (d) Agenda paper 10-05 - Snapshot: Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202X)
- (e) Agenda paper 10-06 - Mark-up version of [draft] IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)