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This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FRB and FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

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

Objective

1 The objective of this paper is to provide the EFRAG FR TEG and FRB members with an overview of the questions raised in the Exposure Draft Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202x) ('ED') and the EFRAG Secretariat's related preliminary analysis and views.

2 The EFRAG Secretariat expects the preliminary views in this issues paper will provide a basis for the EFRAG FR TEG and FRB to give further input and guidance on the positions to be expressed by the EFRAG Secretariat while developing EFRAG's draft comment letter response. The preliminary views are informed by the feedback received as summarised in agenda paper 10-03. We, however, note, that for several of the questions addressed in the ED, there has only been limited feedback received so far.

Question 1–Measurement of cost of an associate

(Appendix A and paragraphs 13, 22, 26 and 29 of the ED)

Summary of the proposals

3 Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:

(a) whether to measure any previously held ownership interest in the associate at fair value; or

(b) whether and if so how to recognise and measure contingent consideration.

4 The IASB is proposing an investor:

(a) measure the cost of an associate, on obtaining significant influence, at the fair value, including the fair value of any previously held ownership interest;

(b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:

(i) not remeasure contingent consideration classified as an equity instrument; and

(ii) measure other contingent considerations at fair value at each reporting date and recognise changes in fair value in profit or loss.

(c) Include in the carrying amount of the investment the deferred tax effects.

EFRAG Secretariat's preliminary analysis and views

5 Based on the feedback received during the discussions with the EFRAG FR TEG and the EFRAG working groups, the EFRAG Secretariat did not identify any issues with and therefore supports the proposal of measuring the cost of the ownership interests to obtain significant influence at fair value. This proposal is not perceived as controversial as it is widely applied in practice and is conceptually consistent with accounting for business combinations by an acquirer when obtaining control of acquirees under *IFRS 3 Business Combinations*.

6 Further, measuring the previously held interest at fair value would not be overly costly for entities to apply because before obtaining significant influence, the previously held ownership interest would have been measured at fair value in accordance with *IFRS 9 Financial Instruments*. We also support the proposed initial and subsequent measurement of contingent consideration at fair value as this is similar to the approach applied under IFRS 3. It however remains unclear whether, similar to IFRS 3, a 12-month window to revise the contingent consideration will be or ought to be allowed.

Deferred tax effects

7 Though not explicitly stated as a requirement in Question 1 of the ED, as noted in the BC 85-88, the IASB has decided to propose requiring an investor to include in the carrying amount of its investment the deferred tax effects related to measuring its share of the associate's identifiable assets and liabilities at fair value. As noted in BC 87, the IASB considered that the proposed approach would be consistent with paragraph 26 of IAS 28, which states that the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate. IFRS 3 requires an acquirer to recognise and measure a deferred tax asset or liability arising from the assets acquired and liabilities assumed in a business combination in accordance with IAS 12 Income Taxes. Moreover, the deferred tax effects relate to measuring the associate's identifiable assets and liabilities at fair value at the date of obtaining significant influence (Principle D) and the subsequent reversal of the deferred tax effects relates to recognising the investor's share of changes in the associate's net assets (Principle E).

8 However, although no concerns have been aired by EFRAG's stakeholders, the EFRAG Secretariat is aware of some international stakeholders[1]holding an alternative view and disagreeing with the IASB's proposal for the deferred tax effects treatment. These stakeholders consider the unit of account for an associate to be the investment as a whole (IAS 28.10) and therefore that the deferred tax and IAS 12 ought to only apply on acquisition if the tax base and the cost of investment differ (i.e. as defined by paragraph 5 of IAS 12). As per this view, there should not be any deferred tax recognition arising from the purchase price allocation (PPA) allocation on obtaining significant influence. Moreover, it could be argued that, unlike the assets and liabilities of a subsidiary, which are recognised in an entity's consolidated financial statements, the individual assets and liabilities of an associate are not recognised in the investor's financial statements. Therefore, an entity does not identify temporary differences arising from the fair value adjustments of the associate's assets and liabilities. Of note, the April 2023 IASB staff paper (Paragraphs 12& 28-35 of the IASB staff paper) outlined two alternative views whereby there would be no recognition of deferred tax effects from the fair value adjustments of

[1] Discussions at the 2024 World Standard Setter Forum

the associate's assets and liabilities. One of the alternative views is similar to the alternative view just explained. The second alternative view is that an investor should not recognise the deferred tax exemption because it applies the initial recognition exemption in IAS 12.

9 Hence, this is an area that will need further scrutiny, particularly for consistency with IAS 12.

Question 2–Changes in an investor's ownership interest while retaining significant influence

(Paragraphs 30–34 of the ED)

Summary of the proposals

10 IAS 28 does not include requirements on how an investor accounts for changes in its ownership interest in an associate, **while retaining significant influence**, that arise from:

(a) the purchase of an additional ownership interest in the associate.

(b) the disposal of an ownership interest (partial disposal) in the associate; or

(c) other changes in the investor's ownership interest in the associate.

11 The IASB is proposing to require that an investor:

(a) at the date of purchasing an additional ownership interest in an associate:

(i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred.

(ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and

(iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss.

(b) at the date of disposing of an ownership interest:

(i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and

(ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss.

(c) for other changes in its ownership interest in an associate:

(i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'.

(ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'.

EFRAG Secretariat's preliminary analysis and views

Purchase of additional interest while retaining significant influence

12 From a usefulness of information perspective, a majority of EFRAG's stakeholders have not disagreed with the proposal to only fair value the additional ownership interest acquired while retaining significant influence (i.e., a layered approach). However, some stakeholders have raised concerns about the complexity of the layered approach in cases

where multiple purchases of ownership interests in an associate or joint venture by an investor occurs while retaining significant influence. These stakeholders have noted that the proposed requirements would result in a purchase-price allocation exercise being performed for each additional purchase, making this exercise costly and burdensome for preparers. Other stakeholders have also pointed to the inconsistency in the unit of account applied depending on whether an entity is acquiring or disposing of ownership interests while retaining significant influence.

13 On the other hand, the majority of the stakeholders, both preparers and users, also expressed their disagreement with the alternative approach explored by the IASB which would entail the remeasurement of the carrying amount of previously held interest at fair value when an additional interest is purchased. These stakeholders deemed that such a remeasurement could result in earnings management opportunities (i.e., opportunistic acquisition of additional ownership interest for the purpose of influencing reporting outcomes) and it would also lead to inconsistent and incomparable reporting (i.e., fair value remeasurement of previously held ownership interests only being done by those entities that acquire additional ownership interests). We also note that those who disagree with the layered approach tend to be in favour of eliminating the equity method of accounting entirely and only measuring equity ownership under either IFRS 9 or *IFRS 10 Consolidated Financial Statements*, when having control. Hence on balance, considering that the IASB is not fundamentally reviewing the equity method, the EFRAG Secretariat supports the IASB proposal.

14 As it relates to the proposed recognition of the bargain purchase's gains in the statement of profit or loss, the EFRAG Secretariat notes that the proposals are based on the assumption that each layer is a separate unit of account and there is no 'netting' between goodwill identified at previous acquisition and a bargain purchase gain identified during the next layer of acquisition. We note that, for the same reason (i.e. each layer is a separate unit of account), as described below, the IASB has proposed that the recognition of the share of an associate's losses will not be offset against the carrying amount of an acquired additional ownership interest.

15 However, this approach (i.e. each layer is a separate unit of account) is not consistently applied across the proposals of the ED and this may possibly result in a distorted representation of the economics of the investment. For example, as noted below, the ED specifies that when performing an impairment test, an entity is to consider the carrying amount as a whole and any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the net investment (paragraph 58 of the ED).

16 Moreover, some stakeholders have argued that the economics of the transaction would be better reflected if bargain purchase gains are first netted against the previously recognised goodwill, as that previously recognised goodwill ultimately represents entity's expectations of the future gains.

Disposing of an ownership interest while retaining significant influence

17 EFRAG's stakeholders expressed overall support for the proposals for the accounting for disposals of ownership interest while retaining significant influence. However, as noted above, there is a difference in the unit of account applied for the acquisition of an additional ownership interest accounted for through the layered approach versus the unit of account applied for the disposal of ownership interests while retaining significant influence. For the latter, the entire investment is treated as a single unit of account. This inconsistency in the unit of account may distort the reporting outcomes.

18 The EFRAG Secretariat acknowledges that when taking the decision, the IASB viewed the proposed approach for accounting for disposals of ownership interest to be more understandable and less complex. However, the EFRAG Secretariat also notes that there might be situations where an entity would be able to specifically identify which layer of its

investment it disposes – for example, if different layers were acquired by different legal entities within the group. The EFRAG Secretariat suggests that in cases, where such specific identification is possible, an entity could be allowed to apply specific carrying value as this could more faithfully represent the economic consequences of the disposal. In other words, the differing units of account at acquisition and disposal could distort results. The EFRAG Secretariat suggests exploring, via a question to constituents, the practicability and cost implications of a layered disposal approach that mirrors the layered acquisition approach, and whether such a layered approach should be allowed as an alternative method.

Other changes in ownership interest while retaining significant influence (e.g. associate issuance or redemption of shares)

19 The EFRAG Secretariat has not identified any specific concerns with the proposals based on the limited feedback received. That said, the proposals for changes in ownership via an associate's redemption or issuance of shares are consistent with the proposals for acquiring an additional interest or disposal of an interest while retaining significant influence. Therefore, any concerns related to the additions or disposals expressed above would be applicable to these proposals.

Question 3–Recognition of the investor's share of losses

(Paragraph 49-52 of the ED)

Summary of the proposals

20 Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

(a) on purchasing an additional ownership interest, recognises any losses not recognised as a 'catch up' adjustment by deducting those losses from the cost of the additional ownership interest; or

(b) recognises separately its share of each component of the associate's comprehensive income.

21 The IASB is proposing an investor:

(a) on purchasing an additional ownership interest, not recognise its share of an associate's losses that it has not recognised by reducing the carrying amount of the additional ownership interest.

(b) recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income.

EFRAG Secretariat's preliminary analysis and views

22 *Recognition of losses- purchase of additional interest*: EFRAG Secretariat agrees with the reasoning provided by the IASB in its decision that when an entity purchases an additional ownership interest while having unrecognised losses associated with the previously held interest, those losses are not deducted from the carrying amount of the additional investment. It would be an inconsistent application of unit of account (i.e., under a layered approach the unit of account is the additional purchased ownership interest and it would be inappropriate to apportion losses from previously held ownership interest to the additional interest). Moreover, the losses of an associate are not necessarily an indicator of the impairment[2] of the associate.

[2] The impairment is determined by applying the related impairment requirements in IAS 28 and IAS 36

23 That said, the EFRAG Secretariat suggests that IASB should explicitly state that when an entity purchases an additional ownership interest while having unrecognised losses already incurred, an entity needs to assess if this additional investment represents an implicit funding of the associate or an investment. Funding, in this situation, would be an indication that a constructive obligation has been created and the unrecognised losses need to be recognised in line with the requirement of paragraph 47 of the ED.

24 *Recognition of losses- recognition of each component of comprehensive income*: There has been limited feedback received by the EFRAG Secretariat on the proposals related to separate recognition of a parent's share of each component of the associate's comprehensive income and this will be an area of further outreach to users. That said, the EFRAG Secretariat considers the proposal to be aligned with primacy being accorded to the profit or loss statement as the primary source of information about the entity's performance.

25 However, the EFRAG Secretariat is unconvinced by the IASB's arguments expressed in BC 62 for deciding not to develop proposed answers for other related application questions, such as the order of recognising profits in profit or loss and in other comprehensive income when an investor resumes recognising its share of the associate's profits. The IASB argues that these situations are rare in practice and were not in the application questions. The EFRAG Secretariat considers that the treatment of profit or loss versus OCI is a conceptual question that ought to be addressed via reference to Conceptual Framework-based reasoning and without making this dependent on the pervasiveness of arising situations. Moreover, accounting standard setting should cater for both losses and gains in the recovery of losses and not only provide asymmetrical answers.

Question 4—Transactions with associates

(Paragraph 53 of the ED)

Summary of the proposals

26 Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

27 If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 *Consolidated Financial Statements*.to recognise in full the gain or loss on losing control of a subsidiary.

28 The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.

EFRAG Secretariat's preliminary analysis and views

29 The EFRAG Secretariat notes that this is a far-reaching proposal that amends existing requirements 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). Moreover, the proposal withdraws the 2014 IASB requirements on *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* that was deferred indefinitely. As outlined in the Table below, before arriving at the proposed amendment (Alternative 1), the IASB considered three other alternatives with a more detailed focus on Alternatives 1 and 2. Alternatives 3 and 4 were deemed too complex and stakeholders also had questions on the conceptual rationale for distinguishing by types of transaction (see BC 67 to 69).

Recognition of **full** gains or losses *versus* **restricting** gains or losses	**Sale/contribution of a *business* that is**		**Sale/contribution of an *asset* that is**	
	***housed* in a subsidiary**	***not housed* in a subsidiary**	***housed* in a subsidiary**	***not housed* in a subsidiary**
Alternative 1 *(No elimination)*	Full	Full	Full	Full
Alternative 2 *(Elimination)*	Partial	Partial	Partial	Partial
Alternative 3 *(Mixture)*	It depends on whether a transaction is[4]			
	NOT an output of investor's ordinary activities[5]		an output of investor's ordinary activities	
	Full		Partial	
Alternative 4 *(Reviving 2014 Amendment)*	Full	Full	Partial	Partial
Current practice approach(es)	Policy choice (full/partial)[6]	Unclear[7]	Policy choice (full/partial)[8]	Partial

Source: March 2023 IASB Agenda Paper 13B-Perceived conflict between IFRS 10 and IAS 28

30 Overall, in alignment with several EFRAG stakeholders that have expressed their support for the full gain or loss approach, the EFRAG Secretariat acknowledges and supports the reasons that the IASB opted for Alternative 1 including that the associate is not within the investor/reporting entity's boundary of reporting, it eliminates the perceived conflict between IFRS 10 and IAS 28, and it lessens the complexity and reduces the diversity in practice that was in place due to consideration of different types of transactions before determining the elimination of gains or losses (e.g., whether business or asset or whether housed in or outside subsidiary). EFRAG Secretariat also understands that as articulated in paragraphs BC 72 to 75, the ED's proposal is based on the considerations of users' information needs, preparers' cost constraints and similar requirements in other IFRS Accounting Standards.

31 However, in the EFRAG Secretariat's view, this amendment also underscores the need for the IASB to further clarify whether the equity method is either a one-line consolidation or measurement method. Such a clarification will help provide a proper conceptual basis for the proposals.

Question 5–Impairment indicators (decline in fair value)

(Paragraph 57 of the ED)

Summary of the proposals

32 Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition.

33 The IASB is proposing:

(a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

(b) to remove 'significant or prolonged' decline in fair value; and

(c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

34 The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 *Impairment of Assets*.

EFRAG Secretariat preliminary analysis and views

35 EFRAG Secretariat is supportive of the proposed requirements albeit having only received limited feedback on this proposal. We in particular welcome the removal of the terminology of significant or prolonged decline in fair value.

Question 6–Investments in subsidiaries to which the equity method is applied in separate financial statements

Summary of the proposals

36 Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements.

37 The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

EFRAG Secretariat's preliminary analysis and views

38 Other than a call for consistency in equity-method accounting requirements, limited specific feedback has been received by stakeholders on separate financial statements and there is a need for further feedback on aspects of the proposals in relation to the step acquisition (or loss of control) of a subsidiary.

39 Although the EFRAG Secretariat acknowledges that there are considerations specific to the separate financial statements, we note the benefits of having the same accounting requirements applied in those financial statements in order to reduce the diversity in practice and improve the comparability between various financial statements.

Question 7–Disclosure requirements

(Paragraphs 20(c), 21(d)–21(e) and 23A–23B of IFRS 12 and paragraph 17A of IAS 27)

Summary of the proposals

40 The IASB is proposing amendments to *IFRS 12 Disclosure of Interests in Other Entities* in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose:

(a) gains or losses from other changes in its ownership interest;

(b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures;

(c) information about contingent consideration arrangements; and

(d) a reconciliation between the opening and closing carrying amount of its investments.

41 The IASB is also proposing an amendment to IAS 27 to require a parent–if it uses the equity method to account for its investments in subsidiaries in separate financial statements–to

disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.

EFRAG Secretariat preliminary analysis and views

42 Based on the feedback received from EFRAG's user panel, members are supportive of the proposed disclosure requirement. It was specifically noted that the reconciliation between the opening and closing carrying amount of the equity-accounted-for investments would be very useful to the users of financial statements. However, the level of granularity is to be further considered as this information would be essential for making accurate estimates of the investee's share of profit and loss, dividends distributions and other inflow/outflow, essential for users to estimate accurately the fair value of the associate.

43 Thus, the EFRAG Secretariat suggests the IASB considers the need for further clarification on whether the reconciliation should be disaggregated for each investment, in total for all investments, or only for the most significant investments.

44 The feedback EFRAG received is that some users have called for the fair value disclosure as it provides the most useful information. At the same time, other users raised concerns that the equity method is a cost measurement method and that moving towards more fair value-based measurements could shift the essence of the equity method.

Question 8—Disclosure requirements for eligible subsidiaries

(Paragraphs 88(c), 91A and 240A of IFRS 19)

Summary of the proposals

45 IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards.

46 As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries.

47 The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:

(a) to disclose information about contingent consideration arrangements; and

(b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

48 The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.

EFRAG Secretariat's preliminary analysis and views

49 EFRAG Secretariat notes that the reconciliation table between the opening and the closing carrying amount of the investments would also be relevant for the users of subsidiaries without public accountability.

50 EFRAG Secretariat acknowledges that this information is expected to be available at the subsidiary level especially for subsidiaries applying the equity method, thus alleviating the cost of obtaining this information from the parent entity.

51 EFRAG Secretariat received the feedback that contingent consideration can be beneficial for users who rely on subsidiary-level reports for their decision making.

Question 9–Transition

(Paragraphs C3-C10 of the ED)

Summary of the proposals

52 The IASB is proposing to require an entity:

(a) to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures;

(b) to apply the requirements on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date–generally the beginning of the annual reporting period immediately preceding the date of initial application–and adjusting the carrying amount of its investments in associates or joint ventures; accordingly, and

(c) to apply prospectively all the other requirements from the transition date.

EFRAG Secretariat's preliminary analysis and views

53 EFRAG Secretariat notes that the inconsistency between the IFRS 10 and IAS 28 led to diversity in practice as entities were allowed to make an accounting policy choice based on their specific facts and circumstances (see Table of alternatives outlined under the "Transactions with associates" section).

54 From a limited outreach to some preparers, the EFRAG Secretariat is aware that the requirement to apply the transitional provisions to recognise the full gain or loss retrospectively could create a significant burden on the entities which previously applied partial gain or loss recognition. Further, the EFRAG Secretariat notes that such retrospective application would not always be possible to be applied without hindsight – for example, in cases where an entity applied a net investment hedge for a subsidiary located in a foreign jurisdiction. Moreover, the EFRAG Secretariat notes that IAS 8 allows an entity to apply the accounting requirements prospectively if the retrospective application is impracticable. However, doing so may result in companies being perceived by investors as not complying with the IFRS Accounting requirements.

55 Therefore, the EFRAG Secretariat suggests that based on the above considerations, the IASB should consider allowing the prospective application of recognition of full gain or loss for transactions with associates.

Question 10–Expected effects of the proposals

Summary of the proposals

56 Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?

EFRAG Secretariat's preliminary analysis and views

57 The EFRAG Secretariat will seek input for this question from its constituents.

Question 11–Other comments

58 Do you have any comments on the other proposals in this Exposure Draft, including

59 Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft?

60 Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?

EFRAG Secretariat's preliminary analysis and views

61 Many stakeholders raised their concerns in relation to the interaction of current IAS 28 and IFRS 18 *Presentation and Disclosure in Financial Statements* requirements. Specifically, IFRS 18 requires all entities to classify income and expenses from equity-accounted-for investments within the investing category of the statement of profit or loss. However, upon transition, entities are allowed to reconsider the possibility provided by IAS 28.18 to measure the investment at fair value through profit or loss in accordance with the IFRS 9 Financial Instruments.

62 Stakeholders raised concern that the current provisions of IAS 28.18 are subject to interpretation – for example, the notion of 'similar entities' is not clear and results in diversity in practice. Further, it was noted that the fair value option is provided based on the structure of the parent entity (venture organisation, mutual fund, unit trust…) and not based on the characteristics of the associate entity. As such, the same investment held by a different entity would be accounted for differently.

63 In light of the implementation of IFRS 18, many stakeholders, especially entities in the banking and insurance sectors, raised this issue as a significant matter. Indeed, for the insurance entities, it is a common practice to have equity-accounted-for investments being part of the specific business models which may include a direct link between investments in the equity-accounted-for associates or joint ventures to insurance liabilities forming part of the underwriting result included within the operating profit. Similarly, the banking industry has a practice of establishing joint ventures with entities which provide technical support or other shared services for a pool of banks. EFRAG's stakeholders consider that the fair value option should be possible for these situations regardless of the structure of the entity which holds the investment (venture organisation, mutual fund or similar entities…) as it would better reflect their operating activity considering IFRS 18 requirements.