

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG 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)

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).
- 2 The objective of this session is for EFRAG FR TEG give input and recommend the EFRAG draft comment letter (DCL) (prepared in response to the ED) for approval to the EFRAG FRB.

Structure of the paper

- 3 The paper is structured as follows:
 - (a) EFRAG Secretariat’s activities conducted to date;
 - (b) Proposed DCL prepared by EFRAG Secretariat;
 - (c) Questions to EFRAG FR TEG members;
 - (d) Next steps;
 - (e) Meeting agenda papers;
 - (f) Appendix - Project Background.

EFRAG Secretariat’s activities

- 4 At the October 2024 joint EFRAG FRB and FR TEG meeting, EFRAG FRB approved the workplan and timeline for the DCL’s and final comment letter’s (FCL) outreach, preparation, approval and issuance. The table below outlines activities performed to date and the planned next steps.

Activities performed to date	
October 2024	EFRAG Secretariat gathered input from FRB and FR TEG members input for drafting DCL
	EFRAG Secretariat gathered input from EFRAG’s FIWG and user panel

Equity Method

	EFRAG Secretariat participated in joint events /outreaches with BusinessEurope, Accountancy Europe and two NSS
	EFRAG Secretariat gathered input from two preparers (large public companies) in two jurisdictions
Planned next steps	
Issuance of the DCL	
November - December 2024	EFRAG Secretariat to gather input from IAWG and Academic Panel
	EFRAG Secretariat to participate further joint events/outreaches with Accountancy Europe and NSS (if considered necessary)
January 2024 (after 6 January 2024)	EFRAG Secretariat to analyse the feedback obtained via comment letters
Issuance of the FCL	

Proposed DCL prepared by EFRAG Secretariat

- 5 The proposed DCL's draft responses to the questions raised in the ED are included within the draft comment letter - agenda paper 05-02.
- 6 The proposed DCL indicates that, overall, stakeholders consider the ED's proposals will help to reduce existing diversity in practice as intended and are a positive step. However, EFRAG Secretariat highlights the need for coherence and a more explicit articulation of the underlying conceptual principles - both clarifying whether the equity method is either a measurement approach or one-line consolidation and specifying the unit of account to consider when applying the equity method.
- 7 Areas where the proposed DCL supports the ED's specific proposals are:
 - (a) Measurement of the cost of an associate or joint venture - general approach;
 - (b) Recognition of full gain or loss for transactions with associates and joint ventures;
 - (c) Proposals related to the application of equity method in separate financial statements;
 - (d) Impairment indicators;
 - (e) Disclosure requirements
- 8 Areas where the proposed DCL raises concerns with regard to the ED's proposals are:
 - (a) Measurement of the cost of an associate or joint venture - transaction costs, recognition of goodwill or bargain purchase gain, deferred taxes;
 - (b) Changes of ownership while retaining significant influence - inconsistent application of the unit of account, cost and complexity of the layered approach, and other changes in ownership interest;

Equity Method

- (c) Recognition of investor's share of losses - recognition of goodwill when purchasing additional interest, clarification of the proposals;
- (d) Transition requirements - we disagree with the required retrospective application requirements for some of the ED's proposals.

Questions to the EFRAG FR TEG

- 9 Do you have any comments on the proposed DCL?
- 10 Do you agree with the questions to constituents in the proposed DCL?
- 11 Subject to reflecting any changes proposed by EFRAG FR TEG, do you recommend the DCL for approval by EFRAG FRB?

Next steps

- 12 EFRAG FRB meeting on 7 November 2024 to approve the DCL.
- 13 Publication of the DCL until 6 January 2025 allowing a 58 - days comment period.
- 14 Additional joint EFRAG FRB and FR TEG meeting to be scheduled in January 2025 for EFRAG FR TEG to recommend and EFRAG FRB to approve the FCL.
- 15 Issuance of FCL on 20 January 2025, which is the IASB deadline.

Agenda Papers

- 16 In addition to this cover note, the following Agenda papers are included for this session:
 - (a) Agenda Paper 05-02 - Equity Method - Draft comment letter
The below papers are for background reading only.
 - (b) Agenda Paper 05-03 - Summary of recent outreaches, recent EFRAG FRB and FR TEG meeting
 - (c) Agenda Paper 05-04 - the IASB's Exposure Draft Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202X)
 - (d) Agenda paper 05-05 - Snapshot: Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202X)
 - (e) Agenda paper 05-06 - Basis for Conclusion of [draft] IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

Appendix - Project Background

- 17 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.
- 18 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.
- 19 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.
- 20 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*.
 - (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.
- 21 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;

Equity Method

- (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.

- 22 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.