

Equity Method of Accounting

Exposure Draft

IAS 28 Investments in Associates and
Joint Ventures (revised 202x)

FR TEG-CFSS 03 December 2024



DISCLAIMER

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG-CFSS. 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-CFSS.

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.

SUMMARY

- Summary of the IASB's [Exposure Draft proposals](#)
- EFRAG's [Draft Comment Letter \(DCL\)](#)
- Questions to the EFRAG FR TEG-CFSS members

ABBREVIATIONS AND TERMS USED IN THE PRESENTATION

'P&L' – profit or loss

'OCI' – other comprehensive income

'FV' – fair value

'PPA' – purchase price allocation

'ED' – Exposure Draft Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)

'Significant influence' – includes both significant influence and joint control

'JV' – joint venture



EXPOSURE DRAFT PROPOSALS

CHANGES OF OWNERSHIP INTEREST

WHEN OBTAINING SIGNIFICANT INFLUENCE

- **Cost = FV of the consideration transferred**
- Consideration transferred includes:
 - ✓ FV of previously held ownership interest
 - ✓ Contingent consideration measured at FV
- PPA resulting in:
 - ✓ Goodwill (part of the carrying amount) or
 - ✓ Bargain purchase (P&L)
- **Subsequent measure of contingent consideration:**
 - ✓ FV at each reporting date with changes accounted in P&L, if liability
 - ✓ No revaluation, if equity

WHILE KEEPING SIGNIFICANT INFLUENCE

- **Additional purchase of ownership interest:**
 - ✓ Additional share is added to the carrying amount based on the FV of net assets acquired (layered approach)
- PPA resulting in:
 - ✓ Goodwill (part of the carrying amount) or
 - ✓ Bargain purchase (P&L)
- **Disposal of ownership interest:**
 - ✓ Derecognise proportion of the carrying amount with gain or loss recognised in P&L
- **Other changes**
 - ✓ Treat as deemed purchase or deemed disposal

SHARE OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

ORDER OF RECOGNITION

- The investor or joint venturer would:
 - ✓ Recognise its share of P&L **and then** its share of OCI.
 - ✓ **Recognise separately** its share of P&L and its share of OCI.
 - ✓ If an investment is reduced to nil, recognise separately its share of P&L and its share of OCI **retaining carrying amount of nil.**

WHEN PURCHASING ADDITIONAL INTEREST

- In presence of unrecognised losses, the investor or joint venturer **does not ‘catch-up’** those losses by reducing the carrying amount of the additional ownership interest (treat as separate unit of account).

OTHER PROPOSALS

TRANSACTIONS WITH ASSOCIATES AND JOINT VENTURES

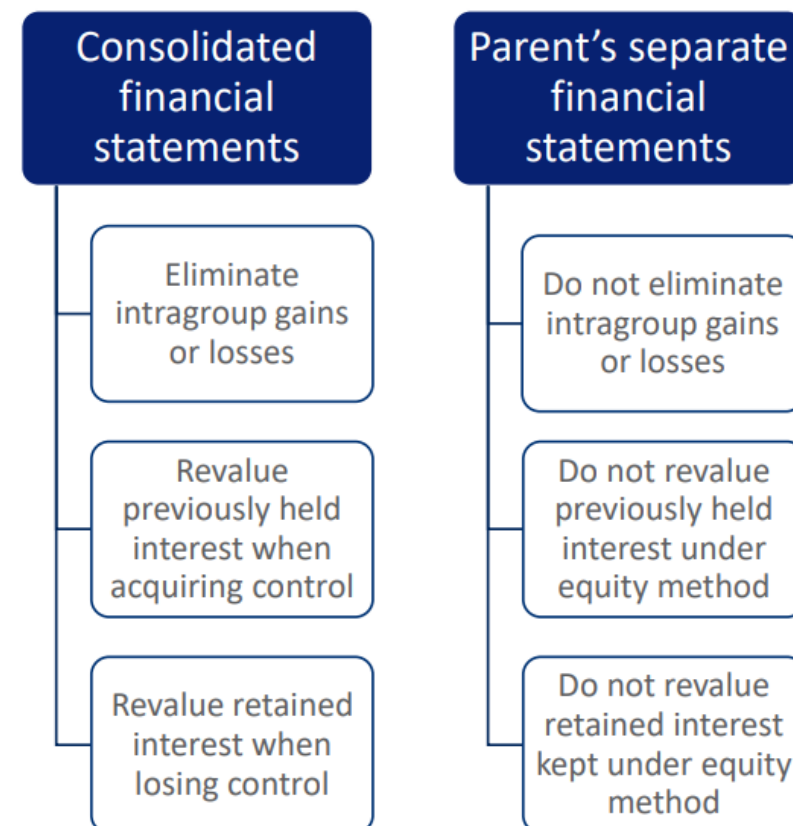
- Recognise in full gains or losses from all transactions with its associates or joint ventures.

IMPAIRMENT INDICATORS

- Replace ‘cost’ by ‘carrying amount’;
- Remove the reference to ‘a significant or prolonged’ decline in the fair value of an investment.

SEPARATE FINANCIAL STATEMENTS

- Apply the same proposals.

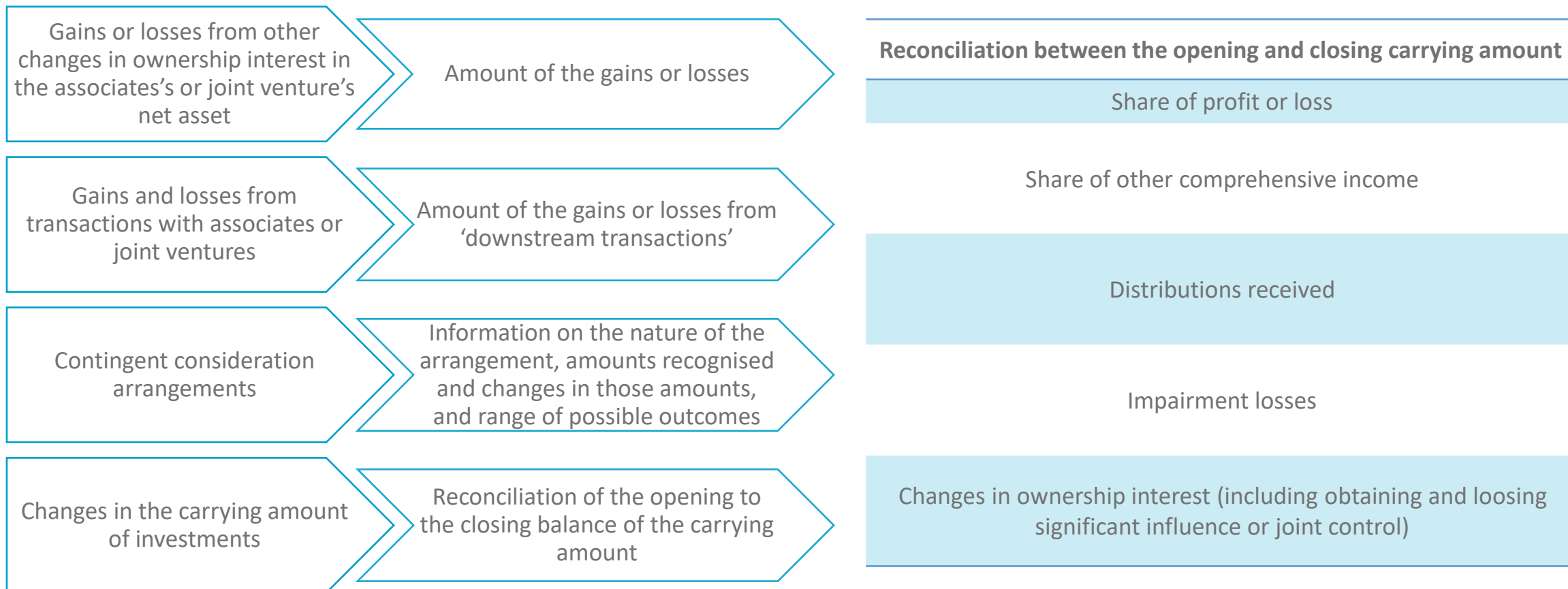


TRANSITION

ED'S PROPOSALS

- Apply the proposals **prospectively, except**, at transition date, recognise:
 - ✓ previously restricted **portion of gains or losses** from transactions with associates or joint ventures
 - ❖ as an adjustment to the carrying amount of the investment and the retained earnings
 - ✓ **contingent consideration** at fair value
 - ❖ as an adjustment to the carrying amount of the investment

DISCLOSURE REQUIREMENTS





EFRAG'S DRAFT COMMENT LETTER

EFRAG'S DRAFT COMMENT LETTER

ED'S PROPOSALS THAT RECEIVED OVERALL SUPPORT FROM STAKEHOLDERS

- **Measurement of the cost of an associate or JV**
 - Reducing diversity in practice
 - Aligning with current practices
- **Full recognition of gains or losses on transactions with an associate or JV**
 - Solving perceived controversy between IAS 28 and IFRS 10
 - Simplification of the requirements
- **Proposed disclosures**
 - Reconciliation between the opening and closing carrying amounts specifically appreciated by users
 - Many preparers already provide this information, aligning with the current practices
- **Impairment indicators**
 - Aligning with IAS 36 requirements
 - Answering application questions

SIMPLIFICATION

**REDUCING
DIVERSITY**

**ANSWERING
APPLICATION
QUESTION**

EFRAG'S DRAFT COMMENT LETTER

ED'S PROPOSALS THAT RAISED CONCERNS

- **Measurement of the cost of an associate or JV**
 - Accounting for transaction costs is not clear, EFRAG's preference is to include them as part of the carrying amount
 - Recognition of goodwill and bargain purchase without offset
 - Deferred taxes included in the carrying amount
- **Changes while retaining significant influence**
 - Layered approach is complex and costly, excessive compared to its benefits
 - Alternative 1 is the use of PPA done at obtaining significant influence
 - Alternative 2 is to consider the consideration transferred as a proxy for fair value of underlying assets and liabilities (no resulting goodwill or bargain purchase gain)
 - Disagreeing with deemed acquisition and deemed disposal

QUESTIONS TO CONSTITUENTS

- ✓ Treatment of transaction costs (carrying amount or expensed as incurred)
- ✓ Treatment of deferred taxes
- ✓ Views on not offsetting goodwill and bargain purchase gains
- ✓ Views on the proposed alternatives for layered approach

EFRAG'S DRAFT COMMENT LETTER

ED'S PROPOSALS THAT RAISED CONCERNS

- **Recognition of share of losses**
 - Clarification requirements on the current proposals
 - Call to address the question related to subsequent recognition of profits
- **Separate financial statements (SFS)**
 - Mixed views – IASB's dissenting opinion
 - Practical benefits of having only one equity method
 - Concerns about meaningfulness of information in SFS if applying current ED proposals on **subsidiaries** (i.e., full gain or loss recognition)
- **Transition requirements**
 - Concern whether retained earnings or carrying amount
 - Concerns about the 'loss' of unrecognised gains or losses versus comparability and simplification of the transition

QUESTIONS TO CONSTITUENTS

- ✓ Prevalence of equity method used in SFS
- ✓ Views on DCL's proposals related to SFS
- ✓ Constituents' views on transition requirements

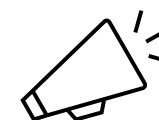
EFRAG'S DRAFT COMMENT LETTER

OTHER QUESTIONS OF THE ED

- Effects analysis (Q10 of the ED) – question to the constituents
- Other matters (Q11 of the ED) – DCL is raising concern gathered from financial institutions related to IAS 28.18 to be reassessed upon transition to IFRS 18 *Presentation and Disclosure in Financial Statements*

CONSULTATION PERIOD

- EFRAG's consultation period on DCL is until 6 January 2025
- Final comment letter is expected to be published by 20 January 2025 (the IASB's deadline for the consultation)



[EFRAG's Draft
Comment Letter](#)

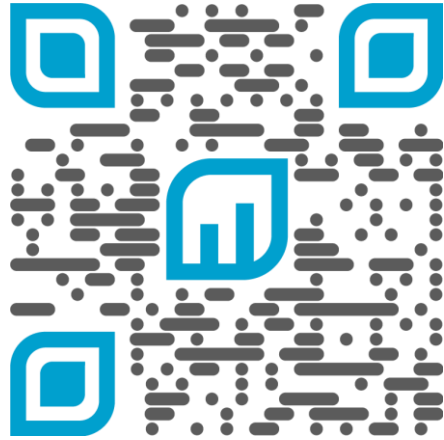


[EFRAG's Equity Method
project page](#)

QUESTIONS TO THE EFRAG FR TEG-CFSS MEMBERS

- At this stage, do you have any comments/additional feedback on the EFRAG DCL?
- Are you planning additional outreach activities in your jurisdiction and what would be the timeline?

Follow us



35 Square de Meeûs, B-1000 Brussels
info@efrag.org - www.efrag.org



EFRAG is co-funded by the European Union through the Single Market Programme in which the EEA-EFTA countries (Norway, Iceland and Liechtenstein), as well as Kosovo participate. Any views and opinions expressed are however those of the presenter only and do not necessarily reflect those of the European Union, the European Commission or of countries that participate in the Single Market Programme. Neither the European Union, the European Commission nor countries participating in the Single market Programme can be held responsible for them.

THANK YOU