EFRAG
Financial reporting

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

Detailed analysis of comment letters received and outreach feedback

Objective

1 The objective of this agenda paper is to present a detailed summary of the outreach and comment letter feedback on EFRAG's draft comment letter (DCL) response to the IASB Exposure Draft, Equity Method of Accounting, IAS 28 Investments in Associates and Joint Ventures (revised 202x) (the ED).

2 Based on the comments received, the EFRAG Secretariat has developed a revised draft EFRAG final comment letter (agenda papers 03-02 – clean version and 03-03 – mark-up version).

3 A summary of the comment letter feedback and the EFRAG Secretariat's recommendations for the EFRAG's final comment letter positions are included in the cover note (agenda paper 03-01).

Structure of the paper

4 The analysis in this paper includes:

(a) Summary of outreach activities;

(b) Summary of comment letter respondents;

(c) Appendix 1 - detailed analysis of outreach feedback and comment letter responses to EFRAG's DCL; and

(d) Appendix 2 - profile of comment letter respondents to EFRAG's DCL.

Summary of outreach activities

5 EFRAG published its draft comment letter (DCL) on the proposals on 12 November 2024. Thereafter, the EFRAG Secretariat has had meetings to provide an overview and discuss EFRAG's DCL positions. Specifically, the EFRAG Secretariat held meetings with:

(a) EFRAG IAWG on 13 November 2024

(b) EFRAG Academic Panel on 25 November 2024[1]

(c) EFRAG User Panel on 28 November 2024

(d) EFRAG TEG-CFSS on 3 December 2024

(e) several stakeholders (a preparer, EFFAS, and Accountancy Europe) to discuss and clarify some aspects of the ED and EFRAG's DCL.

Summary of comment letter respondents

6 At the time of writing, EFRAG has received 12 comment letters (which can be found here) and four draft comment letters. The final versions of draft comment letters will also be published on the EFRAG website once received. The feedback in the comment letters and draft comment letters was taken into account by the EFRAG Secretariat while developing the draft EFRAG final comment letter (agenda paper 03-02). This feedback is detailed in Appendix 1. Appendix 2 provides a profile of the comment letter respondents to the EFRAG DCL including their country and functional role.

[1] Including an academic research study conducted by a team of researchers commissioned by Instituto de Contabilidad y Auditoría de Cuentas (ICAC) and the Spanish Academic Accounting Association (ASEPUC).

Appendix 1: Detailed analysis of outreach feedback and comment letter responses to EFRAG's DCL

Overall comments on the ED proposals

1 An overview of the ED proposals for which the questions below relate to can be found in the Exposure Draft- Snapshot Document.

EFRAG DCL- tentative positions

2 In its DCL, EFRAG acknowledged that the primary focus of the ED was not to perform a fundamental revision of the equity method but rather to address existing application questions. Further, EFRAG noted that instead of having mutually exclusive underpinnings, depending on the nature of the transaction or event, the equity method can be a hybrid approach encompassing the features of both a consolidation approach and a measurement method.

3 At the same time, EFRAG observed that some of the ED proposals are significant changes to the current practice (i.e., full gain or loss recognition on transactions with associates or joint ventures) and that the simplification principle is only selectively applied towards some of the proposed solutions.

Outreach feedback

4 During the outreach, EFRAG received mixed feedback on the ED and IASB project scope and overall objective. Some stakeholders acknowledged the suitability of the scope of the project and considered that the IASB should only focus on the application questions related to existing requirements of the equity method. Other stakeholders, including a CFSS member that recently provided email comments and respondents who participated in an academic research study, have highlighted the need for a fundamental review of the equity method, including the definition of its nature and purpose. Among other things, there is a question of whether the existence of 'significant influence' justifies or requires a distinct status and differentiated accounting for these investments.

5 Relatedly, some stakeholders (including some users) questioned the need for the equity method in view of the existing fair value measurement or cost measurement basis, which could be alternatives to the equity method. However, a few other stakeholders (including some users) affirmed the usefulness of the equity method particularly for the acquisition of businesses that are integral to a reporting entity's operations. These stakeholders pointed to several limitations of both the fair value (too volatile) and cost (does not get updated for changes in economic circumstances) as measurement bases, and they considered the equity method to be a superior/best alternative to account for 'significant

influence' investments. In the outreach to the User Panel done before EFRAG's DCL was published (see link), users also noted that management is responsible for the invested capital and not for the fair value of a non-controlled investee and therefore the equity method is better suited for this purpose. They emphasised it is the analyst's job to determine the fair value of the investee entities while valuing the reporting entity.

Comment letter feedback

6 Many (eight) respondents considered that the current project was a unique opportunity and the right time to address the fundamental conceptual issues of the equity method. It was noted this would help address practical questions such as the treatment of transaction costs, handling of step acquisitions and the applicability of the one-year measurement period. These respondents called the IASB to consider adding such a project to its agenda.

Question 1 – Measurement of cost of associate or joint venture

Question 1—Measurement of cost of an associate

(Appendix A and paragraphs 13, 22, 26 and 29 of [draft] IAS 28 (revised 202x))

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.

The IASB is proposing an investor:

(a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.

(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 consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

> Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals?
>
> If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative positions

7 Cost definition: EFRAG generally supported the IASB's proposal to measure the cost of an associate or a joint venture at the fair value of the consideration transferred, including previously held ownership interest. EFRAG also noted that the definition of cost proposed in the ED varied from its definition in other IFRS Accounting Standards.

8 Acquisition of a business versus an asset: EFRAG noted that IAS 28 did not explicitly distinguish between the acquisition of a business and the acquisition of an asset. Therefore, stakeholders stated the lack of clarify in how to account for previously held ownership interest if it was related to an asset.

9 Contingent consideration: EFRAG asked for additional guidance on defining and measuring (i.e., 12-month revision window) contingent consideration in the context of acquiring an asset, highlighting that the current definition of contingent consideration was incorporated in IFRS 3 Business Combinations and was specific to the acquisition of a business.

10 Transaction costs: EFRAG noted the lack of guidance with regard to the transaction costs and recommended that the transaction costs should be included in the carrying amount of the investment. EFRAG posed a question to constituents on this aspect.

11 Recognition of goodwill; Offsetting bargain purchase gains against previously recognised goodwill: EFRAG's DCL conveyed mixed views received with regard to the recognition of goodwill or bargain purchase gains, specifically concerns raised by some stakeholders that (a) the recognition of goodwill was not conceptually justified as no control was obtained; (b) the recognition of bargain purchase gain should first be netted to the previously recognised goodwill to better reflect the economics of the underlying investment; and (c) additional guidance was needed to enhance the transparency in case of a bargain purchase gain recognition (i.e., similar to IFRS 3 guidance). EFRAG posed a question to constituents on these aspects.

12 Deferred tax effects: EFRAG's DCL conveyed both the arguments for and against including deferred tax effects in the carrying amount of an investment. EFRAG did not express a position in the DCL and posed a question to constituents on this aspect of the ED proposals.

Outreach feedback

13 The feedback obtained during outreach corroborated EFRAG's DCL positions. Specifically, stakeholders:

(a) highlighted the inconsistency between the definition of cost in the ED versus the definition of cost in other IFRS Accounting Standards;

(b) highlighted the cost and complexity associated with accessing the data necessary to appropriately perform the purchase price allocation and reflect the deferred tax effects in the carrying amount of the investment;

(c) called for the clarification of accounting treatment of the transaction costs and they expressed mixed views on whether to capitalise or expense these costs; and

(d) called for a definition of contingent consideration in the context of obtaining significant influence.

14 Furthermore, some constituents suggested that the IASB enhance the definition of significant influence. They suggested an investor's access to relevant and reliable data about an investee as an additional criterion for assessing if the investor has obtained significant influence.

15 A user panel member and an EFRAG CFSS member agreed with the ED's proposal to not offset bargain purchase gains with previously recognised goodwill. They noted that bargain purchase gains were relatively rare in practice and that the ED proposal was consistent with the layered approach applied for the acquisition of additional ownership interest while retaining significant influence.

Comment letter feedback

General comments

16 Many respondents (seven) welcomed the IASB's proposal to measure the cost of an associate at the fair value of the consideration transferred, including any previously held interests. In respect of the ED's proposals aligning with the principles of IFRS 3, some respondents (including users) highlighted that the equity method's requirements should be developed based on its objectives. Moreover, a user association observed that the fair value of the acquired net assets has limited relevance when acquiring significant influence. This is because the investor might not be able to fully investigate the details of the acquired net assets and the acquisition negotiation often occurs based on other factors.

17 Acquisition of asset versus business: Many respondents questioned how to apply the ED proposals in situations where the acquired ownership interest is an asset and not a business

and the implications for different aspects of the ED proposals (i.e., recognition of goodwill or bargain purchase gains, accounting for the transaction costs, and including deferred tax effects in the carrying amount of the investment).

18 Definition of cost: Some respondents corroborated the concerns raised in EFRAG's DCL regarding the ED's definition of 'cost' being different from its definition in other IFRS Accounting Standards. One respondent, however, noted the definition of 'cost of the associate or joint venture' rather than 'cost' minimises the risk of unintentional consequences on other standards.

Measurement of previously held ownership interest on obtaining significant influence

19 Some stakeholders suggested that the IASB:

(a) clarifies, similarly to the requirement in paragraph 42 of IFRS 3, how to account for any difference between the fair value of the previously held ownership interest and its previous carrying amount. This is because the unit of account used to determine the fair value of any previously (i.e. before obtaining significant influence) held ownership interest can have an impact on the determination of the fair value of this ownership interest (i.e. whether a premium for significant influence should be included in the fair value); and

(b) specifies what is meant under the 'the fair value of any previously held ownership interest'. The absence of this definition could lead to confusion on whether it refers to the fair value already recognised by the investor of its previously held ownership interest or if it refers to a remeasurement of the investor's previously held ownership interest when purchasing an additional ownership interest (obtaining significant influence).

Transaction costs

20 EFRAG's DCL had a question to constituents (EFRAG DCL Question 1.1) seeking views on the treatment of transaction costs (i.e., whether these should be capitalised or expensed). The ED is silent, and Question 1 of the ED did not explicitly ask about this aspect. Similar to EFRAG's DCL, most respondents (14) were concerned about the ED being silent on the treatment of transaction costs. Many respondents noted that the correct accounting treatment of transaction costs would depend on a) whether the equity method is considered as a measurement basis or a consolidation approach, and b) whether the acquisition relates to a business or an asset. Some respondents (four) called for the clarification without stating their preference for the appropriate accounting treatment.

21 Many respondents (five) supported expensing the transaction costs. The following elaborating comments were provided by these respondents:

(a) three respondents noted that transaction costs for investments in equity instruments are expensed under other standards (IFRS 9 Financial Instruments and IFRS 3) and these costs would have been expensed for the investee's shares before attaining significant influence;

(b) two respondents stated the ED's analogy to IFRS 3 would suggest that the same analogy should be applied to the transaction costs regardless of whether the acquisition relates to a business or an asset;

(c) a user organisation respondent noted that users of financial statements expect that the carrying amount at initial recognition refers to the value that the stake is worth at the date of the transaction and capitalising the transaction costs could distort the situation.

22 Many respondents (five) stated that the transaction costs should be capitalised in the carrying amount of the investment. The following elaborating points were made by these respondents:

(a) two respondents considered the equity method to be a cost-based approach adjusted for changes in net assets. Hence, in their view, capitalising transaction costs would be consistent with the treatment accorded to other assets accounted for at cost and with the 2009 IFRIC agenda decision;

(b) two respondents noted that the general definition of cost in other IFRS Accounting Standards would include directly attributable costs (including transaction costs);

(c) one respondent noted that capitalising the transaction costs aligns with the local requirements of certain jurisdictions.

Contingent consideration

23 Many respondents (five) agreed with the ED's proposal. They also agreed with EFRAG's DCL call for clarification on whether contingent consideration can be revised and guidance on the definition of contingent consideration in the context of an investor having significant influence. Other points made by the respondents were as follows:

(a) a few (two) other respondents stated that the subsequent changes in fair value of the contingent consideration should be reflected in the carrying amount of the

investment instead of being accounted for through profit or loss, to better align with the general definition of a cost of an asset;

(b) one respondent noted that it would be helpful to clarify if the fair value changes of the contingent consideration should be reflected in the operating category in the profit or loss statement in accordance with IFRS 18 *Presentation and Disclosure in Financial Statements*.

Recognition of goodwill and bargain purchase gains

24 EFRAG's DCL had a question to constituents (EFRAG DCL Question 1.2) seeking their views on the ED's proposed recognition of goodwill and the proposal to not offset bargain purchase gains with previously recognised goodwill (the ED Question 1 did not explicitly ask about these aspects). A majority of respondents (ten) commented on this aspect of the ED proposals. Of these:

(a) four respondents agreed with EFRAG DCL's view that it was not appropriate to recognise goodwill or bargain purchase gains for an asset acquisition and asked the IASB to clarify this matter. However, two respondents disagreed with EFRAG's DCL. They noted it was generally acceptable practice to also recognise goodwill for asset acquisitions;

(b) one respondent supported the ED's proposal to not offset a bargain purchase gain against previously recognised goodwill. Three respondents were aligned with the EFRAG DCL's suggested offsetting of bargain purchase gains against previously recognised goodwill. One respondent argued that offsetting allows better reflection of the economic value of the investment as goodwill reflects expected future gains. A banking sector organisation further highlighted that certain goodwill has a negative effect on the prudential ratios of banks and allowing offsetting will enable the presentation of more accurate and representative ratios;

(c) some respondents (two) reiterated the comments included in EFRAG's DCL on clarifying the measurement period of contingent consideration. Two other respondents suggested the need to have additional safeguards in case of a bargain purchase gain, similar to IFRS 3 requirements.

Deferred tax effects

25 EFRAG's DCL had a question to constituents (EFRAG DCL Question 1.3) seeking their views on the ED's proposed inclusion of deferred tax effects in the carrying amount of the investment (Question 1 of the ED did not explicitly ask about this aspect). Many

respondents (eight) supported the ED's proposal, albeit some of them had concerns that this approach should be limited to the acquisition of business. One respondent was concerned about the proposal's associated complexity.

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

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

(Paragraphs 30–34 of [draft] IAS 28 (revised 202x))

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.

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'.
>
> Paragraphs BC20–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals?
>
> If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative positions

26 General comments: EFRAG questioned the appropriateness of using a different unit of account for purchasing additional ownership interest versus that used for disposing ownership interest while retaining significant influence.

27 Purchasing additional ownership interest while retaining significant influence: While agreeing with the ED's proposal to not remeasure previously held ownership interest at each purchase of an additional ownership interest, EFRAG expressed significant concerns about the cost and complexity of the proposed measurement of the additional ownership interest. EFRAG suggested that the IASB reassess the cost-benefits balance and consider simplified alternatives. In this regard, EFRAG's DCL suggested two alternatives, namely: **Alternative 1 (modified-PPA)**, where the PPA is done using the fair value of net assets at the time of obtaining significant influence subject to adjustments (for amortisation, impairments of assets) and subject to a suitable time-window restriction; and **Alternative 2 (similar to a cost accumulation approach** - no PPA, goodwill recognition is unnecessary), which would assume that the consideration transferred reflects the fair value of the additional ownership interest acquired. EFRAG's DCL posed a question to constituents seeking their views on these two alternatives and any other alternatives.

28 Disposing ownership interest while retaining significant influence: EFRAG supported the ED's proposals for disposing ownership interests whereby, the investor should derecognise the disposed portion measured as a percentage of the carrying amount and recognise any difference between the consideration received and the disposed portion as a gain or loss in profit or loss. However, EFRAG noted that in some cases a specific identification method may be simpler to apply and may better reflect economic reality.

29 Other changes in ownership interest while retaining significant influence: EFRAG did not support the ED proposals, which state that the investor should account for any ensuing increase of ownership interest as if purchasing additional ownership interest and for any ensuing decrease of ownership interest as if disposing of ownership interest. EFRAG

recommended that, unless a holistic, principle-based approach can be developed for all non-exchange transactions and events, these should be excluded from the amendments due to complexity and potential cost.

Outreach feedback

30 The feedback received during the outreach highlighted the following points:

(a) there is significant complexity and it is costly to do a full-fledged PPA for each additional acquisition, which is consistent with EFRAG's DCL position;

(b) questions were raised about the reliability (due to the limited availability of information/ data about the investee) and relevance of the information derived from the PPA;

(c) stakeholders welcomed the simplification alternative approaches proposed in EFRAG's DCL (Alternative 1-modified PPA and Alternative 2- cost accumulation approach; see paragraph 25 above) but neither of these alternatives had unanimous or unqualified support. Some stakeholders supported Alternative 1 as it would be less burdensome than the ED proposals. Other stakeholders supported Alternative 2 noting that the return on capital invested, which is relevant for users, would be better represented through this approach;

(d) on the criticism side of the ledger, Alternative 1 was deemed to not accurately represent the fair value of the underlying assets and liabilities. Alternative 2 was deemed to be a departure from the current IAS 28 requirements. And some stakeholders noted that it would require there to be a change in the initial measurement of the investment and they also questioned and pointed to challenges in determining the impairment of the investment during subsequent periods;

(e) with regard to other changes of ownership interest, stakeholders raised concerns regarding the cost and complexity to apply the ED requirements for deemed acquisitions and noted that the ED proposals do not address transactions with non-controlling interests within the investee's group.

Comment letter feedback

Purchase of additional ownership interest while retaining significant influence

General comments

31 Most respondents (12) either supported or didn't object to the IASB's proposal to not remeasure previously held ownership interest when purchasing additional ownership interest while retaining significant influence, thus supporting the principle of each

acquisition being a separate unit of account (described as the "layered approach" in EFRAG's commentary).

Concerns and other comments on the ED's version of a layered approach

32 Though supportive of each acquisition being treated as a separate unit of account, a majority of the respondents (nine) expressed significant concerns with the ED's requirement to perform a PPA exercise for each additional acquisition. They considered it to be unduly costly and complex. Below are the elaborating points that were raised:

(a) many respondents (eight) highlighted the difficulties of obtaining all needed information when the investor does not control the investee and /or when the investee is a listed company not being able to provide one investor with more information than any other investor. These difficulties will not only be encountered at initial recognition but throughout the life of the investment (tracking of the deferred taxes and their reversal, items in other comprehensive income and their recycling etc.);

(b) a few respondents (two) noted that the goodwill identified through the PPA is not separately identified in the investor's balance sheet and does not provide any relevant information to the users (two respondents);

(c) one respondent pointed to the application difficulties that would arise as an investor would be required to reset to nil any investee's item of other comprehensive income recognised in its financial statements, when the equity method is applied initially and for any subsequent acquired layer of ownership interests. Such periodic resets would create major practical difficulties and impair the investor's capacity to identify and track those items;

(d) one respondent noted the complexity in the implementation of the requirements in paragraphs 21(b)(ii) and B12-B13 of IFRS 12 *Disclosure of Interests in Other Entities* to disclose summarised financial information on current and non-current assets and liabilities of joint ventures and associates. Applying the layered approach would result in the presentation of amounts of assets and liabilities arising from a compilation of several values and this would result in limited usefulness for users.

33 On the other hand, some respondents (three) were either supportive or not opposed to the layered approach. One respondent noted that the practical difficulties faced when applying the equity method (e.g., difficulties in getting information from an associate) arise from the use of the equity method rather than from the layered approach. Another

respondent suggested that the IASB further explore the prevalence of situations with frequent material changes in investor's ownership interest in an associate, which lead to significant complexity and difficulties in obtaining the necessary data. This could help to determine a proportionate level of complexity and relevance of any proposed solution.

<u>Alternatives to the ED's proposed layered approach</u>

34 As noted above, EFRAG's DCL proposed two alternatives to the layered approach (i.e., Alternative 1- a modified PPA approach, and Alternative 2-a cost accumulation approach). The DCL had a question to constituents (EFRAG DCL Question 2.1) seeking their views on these and any other alternatives. The Table below has a summary of the feedback (and mixed views) expressed on the EFRAG's DCL two alternatives.

Alternative 1 – (Modified PPA approach)- see description in paragraph 25		Alternative 2 (akin to a cost accumulation approach, no PPA)- see description in paragraph 25	
Supporting (4 respondents)	Objecting (6 respondents)	Supporting (4 respondents)	Objecting (6 respondents)
- would be a practical solution to be explored further - would support reusing the PPA performed at obtaining significant influence with adjustments if needed (not more recent PPA) - should be further explored	- would not be suitable if PPA is outdated -subjective and would result in values well away from the actual fair values of net assets - should be already applied based on the materiality considerations - judgement required to update the PPA	- would represent a significant simplification - the notion of goodwill is not relevant for users of financial statements - should be further explored	- not clear how to apply in practice and subsequent measurement is addressed, needs to be further explored - would represent a mix of various approaches if there is a PPA upon gaining significant influence and no PPA upon additional acquisition - should be already applied based on the materiality considerations - little information benefit compared to complexity and cost -Conceptually very difficult to justify -Could result in significant differences between accounting for share acquisitions at the point of obtaining significant influence, and thereafter. Inconsistency will be compounded if an investor obtains control and has to do a PPA

35 The following additional alternatives were proposed:

(a) one respondent suggested an approach whereby goodwill is determined as the difference between the consideration transferred and the current book value of the net assets at the time of the additional purchase. This would avoid the need to additionally determine the fair value of the net assets and would reduce the complexity and costs for preparers as no separate ledgers for the additional layers would have to be maintained;

(b) another respondent suggested an additional alternative based on Alternative 2 whereby it would initially be assumed that the fair value of the net assets acquired in the additional interest corresponds to the consideration transferred by the investor. However, should the investor possess reliable evidence, such as public information, demonstrating that the fair value of any specific asset deviates from the amount paid or there is a contingent or not liability that should be considered, preparers could use this information to prepare a proxy of a PPA. In the respondent's view, this additional alternative provides greater flexibility to accommodate specific circumstances.

Disposing of an ownership interest while retaining significant influence

36 Many respondents (four) commented in support of the ED proposals for the disposal of ownership interests while retaining significant influence. The following points including a disagreement with the specific identification method included in the EFRAG DCL were raised:

(a) one respondent stated that there are situations where the difference in unit of account between the acquisition and disposal of the ownership interest may lead to structuring opportunities and distorted results, for example, when the acquisition of ownership interests and their subsequent disposal occurs within a narrow time window. A similar concern was raised for situations where the ownership interests are held by two or more subsidiaries and one of these subsidiaries disposes of its ownership interest. This respondent argued that in these situations the specific identification would be more appropriate and would be simpler to apply;

(b) one respondent noted that the specific identification method that was suggested in EFRAG's DCL, would potentially reduce comparability between entities, create structuring opportunities, and it would contradict a consolidation view that assumes the group is a single economic entity;

(c) one respondent called for the IASB to clarify how the share of the net assets disposed is determined, making paragraph 32(b) of the ED more explicit. Further, this respondent raised a concern that paragraph BC35(a) on partial disposals suggests that an investment is viewed as a single unit of account, on the basis that it comprises instruments with the same economic rights. Some readers may consider that this argument implicitly suggests that the equity method only applies to equity instruments with the same economic rights, which conversely would exclude other types of equity instruments giving access to different economic rights, e.g.,

preference shares entitling to a remuneration representing a percentage of the preference shares' nominal amount. This argument, while being relevant to justify the single unit of account approach for partial disposals, could also be interpreted as an indicator of the scope of the instruments to which the equity method should be applied. The respondent noted that if this was the IASB's intention, this fact should be clearly stated, and the scope section of the ED should state which instruments are eligible for the equity method of accounting, and which fall within the scope of IFRS 9.

Other changes in ownership interest while retaining significant influence

37 The majority of respondents (eight) commented on the ED proposal for other changes in ownership interest while retaining significant influence. Half of them (four respondents) disagreed with the proposal noting that:

(a) other changes without an exchange transaction do not have the same characteristics as acquisitions and disposals of ownership interest that occur based on an exchange of consideration;

(b) the requirement to perform a separate PPA for each deemed acquisition is overly burdensome and costly;

(c) the ensuing financial information will not be useful to users.

38 The other half of the majority that responded to this ED proposal either supported or did not disagree with the ED proposals. They suggested the following areas need clarification by the IASB:

(a) the IASB should clarify whether the proposals address the situations where an investee's net asset changes as a result of a transaction with non-controlling interests within the investee or share buy-backs;

(b) one respondent observed that the calculation of an investee's net assets is not explicitly addressed in draft IAS 28 (revised 202x). This respondent suggested the calculation of an investor's share of net assets in an investee could be clarified by: (a) relocating footnote (a) of section "Part I: Illustrative presentation of financial statements" in IAS 1 *Presentation of Financial Statements* into draft IAS 28 (revised 202x); and (b) addressing the consequences of an investee issuing an instrument that does not affect the investor's percentage of interest;

(c) the IASB should clarify whether the proposals are applicable only for share capital changes (ordinary shares), and not for issues/redemption of hybrid instruments which, for example, have an impact on dividends but not on voting rights;

(d) the IASB should clarify whether the concept of 'changes in ownership interest' refers to a direct ownership interest in the investee measured as a percentage of voting rights or financial interest only or is meant to capture the broader term 'economic ownership';

(e) the IASB should clarify whether a decrease in relative ownership interest should result in a realisation of any accumulate currency translation adjustment (CTA) and that IFRS 5 Non-current Assets Held for Sale and Discontinued Operations should not apply in such cases, because the application of IFRS 5 would require an actual sale of interests in the investee.

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

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

(Paragraphs 49–52 of [draft] IAS 28 (revised 202x))

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.

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.

Paragraphs BC47–BC62 of the Basis for Conclusions explain the IASB's rationale for

these proposals. Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative positions

39 EFRAG acknowledged that the ED's proposal not to offset losses of previously held ownership interest against the cost of an additional ownership interest acquired is consistent with the layered approach's treatment of each acquisition as a separate unit of account. However, in line with concerns raised in Questions 1 and 2, EFRAG noted that recognising additional goodwill when the net assets of the investee are already negative may distort the faithful representation of the investment's economic reality. Therefore, EFRAG recommended that the IASB prohibit the recognition of additional goodwill when the carrying amount of the investment is nil.

40 EFRAG called for additional clarification of various aspects of the proposal related to the recognition of each component of comprehensive income. Moreover, EFRAG called upon the IASB to develop answers for the order of recognition of profits in profit or loss and in other comprehensive income when an investor resumes recognising its share of the investee's profits.

Comment letter feedback

Losses not recognised and purchase of an additional interest

41 The ED's proposal to not recognise a "catch-up" of unrecognised losses when additional ownership interests in an associate are purchased has generally received support. The majority of respondents (nine) agreed with treating each additional ownership interest as a separate layer, without adjusting for any prior losses.

42 Similar to EFRAG, many respondents (six) considered that recognising goodwill when the carrying value of the investment is nil would not be appropriate because:

(a) it would distort the faithful representation of the investment's economic reality and contradict the prudence principle;

(b) in some situations, the purchase of additional interest is done in order to bailout the investee and provide extra financing. There was a call for the IASB to add explicit guidance requiring the investor to assess whether the additional purchase is a funding arrangement leading to constructive obligation;

(c) the ED proposal's justification is based on the desire to apply a consistent unit of account (by treating each acquisition as a separate unit of account), however, this concept is not consistently applied across the ED and should not take over the considerations related to the faithful representation of the economic reality of the

investment and considerations of limited relevance of goodwill for users of financial statements.

43 Some constituents asked the IASB to clarify:

(a) whether the original and new interests should be tracked separately, and how they should be accounted for going forward;

(b) how the composition of the associate's carrying amount should be seen in the case net assets are negative. Would the carrying amount of the associate be seen in total as goodwill, or will the goodwill be higher and offset by the negative asset value?

(c) one respondent did not agree with EFRAG's DCL position deeming the recognition of additional goodwill when the net assets of an investee are already negative to be inappropriate and calling for a prohibition of the recognition of goodwill when the carrying amount of the investment is nil. This respondent noted that it was unclear how EFRAG's proposal would be accounted for. The respondent would prefer to first recognise goodwill and then test it for impairment as the investee's accumulated losses are not indicative of an impairment and all facts and circumstances need to be considered. At the same time, aligned with EFRAG's DCL position, this respondent considered that the purchase of additional ownership interest is fundamentally different from providing additional financing to an investee. For the latter case, in the respondent's view, it would not be appropriate to recognise any additional goodwill.

Recognition of each component of comprehensive income

44 Many respondents (five) commented on the proposals related to the recognition of investor's share of losses. Similar to the EFRAG DCL, they supported the ED's proposals to recognise and present separately the share of the investee's profit or loss and the share of the investee's other comprehensive income.

45 These respondents, however, also asked for clarifications and further examples of how the proposed requirements need to be applied in practice. In particular, it was necessary:

(a) to clarify the application of paragraph 48 of the ED - to clarify 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:

(i) how to apply this requirement in situations where the investor's share in total comprehensive income was a profit that was insufficient to fully offset the investor's prior unrecognised share of losses (i.e. whether (i) the investor

recognises no share of profit or loss and no share of other comprehensive income or (ii) the investor recognises a share of profit or loss and a share of other comprehensive income, which would result in a disconnection between the share of other comprehensive income and the amount of other comprehensive amount generated over the period);

(ii) whether unrecognised losses should be monitored globally, i.e., at the level of total comprehensive income, or differentiated between the amounts arising from profit or loss, and from the various recyclable and non-recyclable components of other comprehensive income.

(b) to clarify the application of paragraph 51 of the ED - paragraph 51 of the ED clarifies the priority of recognition of the investor's share of profit or loss over its share of other comprehensive income, where both are losses. Considering that priority, it would be useful that the IASB provides a practical answer on how components of other comprehensive income should be subsequently recognised:

(i) whether different natures of losses be considered when determining which losses should be recognised (i.e. what is the order of priority between recyclable and non-recyclable components of other comprehensive income or to allocate on a proportionate basis between all components of other comprehensive income);

(ii) whether prior unrecognised losses be considered when determining how to account for the comprehensive income of the period or the history of losses should be simply disregarded. This is applicable for both the situation when the investee incurs losses beyond the investment's carrying amount, but also when the investee becomes profitable again;

(c) to provide further examples in addition to the example in paragraph 52 of the ED illustrating the accounting in the situation where:

(i) the net investment is not reduced to nil;

(ii) the investor's share in total comprehensive income is a loss that exceeds the net investment in the associate;

(iii) the investor's share in profit or loss is a loss and its share of the other comprehensive income is a profit (or vice versa).

46 One respondent was sceptical about the usefulness of requirements of paragraph 52 of the ED requiring an investor to recognise its share of loss to the extent it equals its share of OCI profit, retaining a net investment of zero. The respondent explained that:

(a) in some cases, the share of OCI profit represents a pure exchange rate profit; and

(b) the costs and complexity of applying these requirements seemed to outweigh the benefits, if any, that might be gained from the information.

Question 4 – Transactions with associates

Question 4—Transactions with associates

(Paragraph 53 of [draft] IAS 28 (revised 202x))

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.2 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). 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 to recognise in full the gain or loss on losing control of a subsidiary.

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.

Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this

proposal. Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative positions

47 EFRAG supported[2] the IASB's proposal to recognise in full the gains or losses from transactions with associates and joint ventures, noting, however, that the proposal represented a significant change to the existing requirements in IAS 28. While acknowledging concerns about potential structuring opportunities and earnings management—particularly in transactions with joint ventures—EFRAG noted that these

[2] EFRAG agreed that this approach eliminated inconsistencies between IAS 28 and IFRS 10 and aligned with the treatment of similar transactions under IAS 16 *Property, Plant and Equipment*

concerns could be mitigated through enhanced disclosures. EFRAG recommended that the IASB provide additional guidance or illustrative examples to clarify the treatment of transactions that lack commercial substance, especially in the context of subsidiaries accounted for under the equity method in separate financial statements.

Outreach feedback

48 The results of a multi-stakeholder survey (including preparers, auditors, and academics) conducted by academics from three Spain-based Universities showed strong support for the ED proposal to recognise full gains and losses from all transactions with equity-accounted investments (75% of respondents supported this ED proposal). Those in support considered that full recognition of gains and losses arising on transactions with associates and joint ventures supports the view that the equity method is more akin to a valuation approach rather than a one-line consolidation method.

49 EFRAG CFSS members agreed with the ED proposal, but they also noted concerns regarding restructuring opportunities and earnings management. These concerns were particularly related to transactions with joint venturers.

Comment letter feedback

General comments

50 Similar to EFRAG's DCL, the majority of respondents (10) agreed with the ED proposal as it resolves practical issues, reduces practical complexity, associates and joint ventures are not within the boundaries of a group and improves consistency with IFRS Standards.

51 However, respondents (including a regulator/enforcer and a user organisation) highlighted concerns with possible structuring opportunities and earnings management particularly for transactions with joint ventures in which the joint venturers share joint control and transactions within larger groups where entities in the financial statements of sub-groups are associates of the ultimate (same) parent company.

Concerns

52 Some respondents (four) expressed concerns about the ED proposal. They considered that such a significant change to IAS 28 might go beyond the primary objective of answering application questions about how to apply the equity method. These respondents indicated that such a significant change may call for a more fundamental review of whether the equity method was a measurement approach or a one-line consolidation method as this would help to support the rationale underlying the proposal. One of these respondents highlighted that national regulations are aligned with the current approach of IAS 28, and

hence the proposed change could cause material differences between the consolidated financial statements prepared in accordance with IFRS and those prepared in accordance with local regulations.

Suggested enhancements and alternatives from respondents

53 One respondent recommended that additional disclosure requirements be added to give more insights into gains and losses from arising downstream transactions with associates. Additionally, this respondent also considered upstream and side-stream transactions relevant noting that these transactions are not mentioned in the ED and therefore unclear how they would be impacted by the proposals. This was particularly important for transactions between subsidiaries that are accounted for under the equity method in the separate financial statements. Under current practice not only the results between the parent and its subsidiaries are eliminated but also the results of transactions between its (indirect) subsidiaries.

54 An EU regulator/enforcer, while agreeing with the proposal, expressed concerns with restructuring opportunities and earnings management (in which transactions reflect a deliberately inflated fair value that does not represent the actual price) and urged the IASB to further explore whether and how these concerns could be addressed by high-quality disclosures that provide a high level of transparency regarding the underlying transactions with associates. This respondent considered that if the IASB does not consider it appropriate to require a higher level of transparency than proposed in the ED, it would prefer Alternative 2 described in paragraph BC67 of the ED. That is, to apply the approach used in IFRS 10 first and then overlay this with the approach used in IAS 28 to restrict the gains or losses recognised to the extent of the unrelated investors' interests in an associate.

Question 5 – Impairment indicators (decline in fair value)

Question 5—Impairment indicators (decline in fair value)

(Paragraph 57 of [draft] IAS 28 (revised 202x))

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. 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.

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.

Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for

these proposals. Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative position

55 EFRAG supported the IASB's proposals to amend the impairment indicators in IAS 28. It agreed with replacing 'cost' with 'carrying amount', as this aligned the impairment assessment with IAS 36 and provided more relevant information to users. While EFRAG acknowledged mixed views among stakeholders on removing the 'significant or prolonged' criterion, it supports the removal to alleviate application difficulties and to reduce diversity in practice. EFRAG noted that concerns about increased impairment testing frequency and potential volatility in earnings can be mitigated, as impairment would only occur when the recoverable amount is less than the carrying amount, and testing would occur as frequently as for other assets. EFRAG also agreed with adding guidance that the fair value information can be observed from transactions involving the purchase of additional ownership interests. Finally, EFRAG recommended that IAS 28 should simply reference the impairment requirements in IAS 36 without repeating the impairment indicators, to maintain consistency and avoid redundancy.

Outreach feedback

56 EFRAG CFSS members expressed broad support for the position included in the EFRAG DCL related to impairment indicators as proposed in the ED.

57 They also commented that the ED was not sufficiently clear to what extent recognised impairment losses on investments accounted for using the equity method should be

reversed and on what basis. For instance, in situations when there is an increase in the carrying amount of the investment and the investee distributes dividends which reduce the carrying amount per se, it is not clear to what extent can previously recognised impairment loss be reversed.

Comment letter feedback

58 In general, there was support from respondents for the proposed changes to the impairment indicators in IAS 28 as included in the IASB ED. The proposed changes were seen as significant improvements to the understandability of the IAS 28 standard.

ED proposal to replace 'cost with 'carrying amount'

59 The majority of respondents (nine) supported the proposal to replace 'cost' with 'carrying amount' in paragraph 41C of IAS 28.

ED proposal on observable fair value of investment

60 The majority of respondents supported the proposal to specify that information about the fair value of an investment might be observed from the price paid to purchase additional ownership interest and adding this clarification as part of the objective evidence within the IAS 28 requirements. One respondent further suggested that the change in wording in IAS 28.57(h) should refer to "a decline in the value", rather than the 'fair value' of a net investment. This would be consistent with the wording in IAS 36.12(a) and would remove the suggestion that an entity needs to determine the fair value of the investment in accordance with IFRS 13 fair value measurement to determine whether there is any indication that the investment may be impaired.

ED proposal to remove 'significant or prolonged' decline in fair value

61 Many respondents (five) supported the removal of the reference to 'significant or prolonged' decline in fair value. In their view, the proposed amendments would resolve some application difficulties and improve the consistency of the application of the impairment requirements without potentially increasing the frequency of impairment testing, as the proposed amendments were generally consistent with the requirements in IAS 36.

62 Some respondents (three) considered that deleting this term would increase the frequency of impairment testing and trigger frequent impairments and impairment reversals which will result in increased volatility and higher costs for preparers. One respondent further commented that the remaining impairment indicators in IAS 36 and paragraph 57 of the ED would lose their relevance if 'significant and prolonged' is deleted. These respondents suggested retaining or at least rephrasing the wording "significant or prolonged decline" so

that a decline in fair value alone is not sufficient to trigger an impairment test. This will reduce the valuation efforts of entities and avoid unnecessary volatility in the carrying amount of investments.

Recommendations to improve the impairment requirements in IAS 28

63 Some respondents provided further suggestions of how the impairment requirements in IAS 28 could be improved:

(a) to replace "might be observed from" in paragraph 57(h) of IAS 28 with "might be derived from" - the price paid to purchase additional ownership interests in an associate is not necessarily a good indicator of the fair value of the investment because when acquiring significant influence over the associate, the investor is reasonably expected to pay a premium that will not be reflected again in the cost of any additional ownership interest;

(b) to move entirely the impairment requirements from IAS 28 to IAS 36 as this would reduce confusion and further improve the structure of the requirements – to make a few targeted amendments to IAS 36 would be a more logical and effective way to improve the interaction between IAS 36 and IAS 28.

Reversal of impairment loss under IAS 28 requirements

64 One respondent raised a concern that there was a lack of clarity on how the requirements for reversing an impairment loss in IAS 36 interact with the requirements in paragraph 58 of the ED. The respondent explained that there could be situations where an investor recognises an impairment of an associate in one period, and the associate recognises an impairment loss of its assets in a later period, therefore, reducing the carrying amount of the net assets of the associate with no change in the investor's recoverable amount for the investment. The respondent suggested that the impairment requirements in IAS 28 should include additional provisions allowing for reversal of the impairment of the associate in such situations as the carrying amount of the investment in the associate would be below its recoverable amount.

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

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

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.

> 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.
>
> Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal?
>
> If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative position

65 EFRAG cautiously supported the IASB's proposal to apply a single equity method across consolidated and separate financial statements. While acknowledging mixed stakeholder views, EFRAG agreed that using the same equity method is consistent with viewing investments in subsidiaries in separate financial statements as assets controlled by the investor, focusing on the performance of the investment.

66 EFRAG noted that concerns about increasing differences between consolidated and separate financial statements due to the proposals should be addressed in a project on IAS 27 *Separate Financial Statements* rather than through amendments to IAS 28. EFRAG also highlighted stakeholders' concerns regarding the treatment of transaction costs and the definition of 'cost' in the context of investments measured at cost in separate financial statements. EFRAG suggested that the IASB clarify whether the definition of 'cost' and the proposals related to contingent consideration, step acquisitions, and loss of control extended to investments in subsidiaries measured at cost in separate financial statements.

67 In its DCL, EFRAG asked constituents' views on the prevalence of the equity method in separate financial statements, whether to recommend that the IASB explore the alternative view proposed by Mr. Cendon and whether a reconciliation between amounts in consolidated and separate financial statements would be beneficial.

Outreach feedback

68 EFRAG User Panel members supported having one definition of the equity method for the consolidated and separate financial statements. They stated that different equity methods might impair the understandability of reported to have one definition of the equity method for the consolidated and separate financial statements.

69 A few EFRAG CFSS members highlighted significant concerns with applying the proposal for full recognition of gains and losses to subsidiaries accounted for under the equity method in the separate financial statements. The concerns were of particular relevance for those

EU jurisdictions that require or permit the use of the equity method in the separate financial statements prepared under IFRS.

Comment letter feedback

General comments

70 The majority of respondents (nine) that commented on this question agreed with the IASB proposals mainly because entities in their jurisdiction were not impacted by the proposal (or significantly impacted). These respondents preferred having a single equity method (consolidated and separate financial statements) as it is easier to understand. They conveyed that the equity method option was either not used or was not widely used in their jurisdictions to account when preparing separate financial statements. These respondents informed that subsidiaries, associates and joint ventures were mainly accounted for at cost in the separate financial statements.

Concerns and observations

71 Some respondents (three) noted concerns (including significant concerns) with the ED proposal.

72 One respondent noted that some listed companies have chosen the equity method for the measurement of subsidiaries in the parent financial statements. However, this respondent informed that further outreach would be needed to determine whether companies consider switching to the cost because they consider that the consolidated financial statements provide sufficient information for users.

73 Another respondent was of the view that the reconciliation between the opening and closing carrying amount of investments accounted for using the equity method required in the proposed new paragraph 23B of IFRS 12 for the consolidated financial statements should also be provided in the separate financial statements as this information would also be useful for users of those financial statements (especially taking into account that the equity method can be applied in the separate financial statements to a larger group of investments than in the consolidated financial statements). This respondent considered that the same applies to the proposed disclosures for contingent consideration arrangements in the proposed new paragraph 91A of IFRS 12.

74 The main concerns were expressed by one respondent who strongly disagreed with the proposal to recognise gains and losses on transactions with subsidiaries measured by applying the equity method without elimination in the separate financial statements. This respondent stressed the following:

(a) subsidiaries are fundamentally different from transactions with associates, Furthermore, from a practical point of view the required information to make eliminations in respect of subsidiaries will be readily available;

(b) full recognition of gains and losses could potentially lead to transactions that do not reflect the economic substance and create the risk of structuring opportunities and earnings management as there is no conflict of interest between shareholders;

(c) having two separate forms of the equity method would not be a concern, as in their view the relationship of an entity with its subsidiary is substantially different than its relationship with an associate (significant influence) or a joint venture (joint control);

(d) distribution of dividends is usually determined based on the separate financial statements;

(e) in conclusion, this respondent stated that additional disclosures will not be sufficient to mitigate this risk and recommended that the IASB prescribe an alternative treatment when applying the equity method for subsidiaries in the separate financial statements. This alternative treatment should eliminate gains and losses as currently required by paragraph 28 of IAS 28.

75 The other two respondents made the following remarks:

(a) one respondent noted that by not introducing a modified version of equity accounting for an investment in a subsidiary, a different performance result (profit or loss and OCI) may be recognised by a parent in its separate financial statements compared with its consolidated financial statements in respect of its subsidiary. This respondent expressed concern about the consequences of these differences for entities that are required by local company law to apply equity accounting to subsidiaries in their separate financial statements. (These consequences include changes to distributable dividends);

(b) another respondent highlighted its concerns regarding the full recognition of gains and losses resulting from all 'upstream' and 'downstream' transactions and noted that these concerns are even stronger with regard to subsidiaries that, unlike associates and joint ventures, are controlled by the parent entity. In response to Question 4, this respondent suggested that some of the proposed disclosures in IFRS 12 for the consolidated financial statements should also be provided in the separate financial statements. For example, the reconciliation between the opening and

closing carrying amount of investments accounted for using the equity method and disclosure for contingent consideration arrangements.

EFRAG questions to constituents

76 Below are the responses to three questions to constituents including in EFRAG's DCL as part of its response to Question 6 of the ED.

EFRAG DCL Question 6.1 - In your jurisdiction, is the equity method for transactions with subsidiaries applied by companies? If so, is it analogised to IFRS 3 and IFRS 10 requirements (e.g., for transaction costs, and the elimination of gains or losses for transactions with subsidiaries)? Are there significant differences between any of the line items in the separate financial statements versus consolidated financial statements?

77 Many respondents (five) answered this question. The following points were made:

(a) one respondent stated that in the Netherlands entities have the option to apply the equity method in the separate financial statements - with mandatory elimination of intra-group results;

(b) one respondent stated that measuring subsidiaries at equity in separate financials statements is of minor practical relevance compared to measuring subsidiaries at cost in separate financials statements;

(c) one respondent stated that while the equity method to measure subsidiaries in the separate financial statements cannot be applied in some of its members' countries (e.g. Spain), it is applied in certain other countries such as Portugal;

(d) one respondent stated that, in its jurisdiction (Spain), the equity method is applied exclusively in the consolidated financial statements. Investments in group companies, joint ventures and associates in the individual financial statements are measured at cost;

(e) one respondent stated that some listed companies have chosen the equity method to measure subsidiaries in the parent company's financial statements. This respondent noted that further outreach would be needed to assess whether entities would be switching to cost measurement because they considered that the consolidated financial statements provided sufficient information to users.

EFRAG DCL Question 6.2 – Do you agree with the suggested clarification of the applicability of the equity method principles towards investments that are measured at cost in separate financial statements?

78 Many respondents (five) answered this question affirmatively:

(a) one respondent stated that the topic was relevant but was outside the scope of the ED;

(b) four respondents agreed with EFRAG's position regarding the need for the IASB to explicitly clarify the definition of "cost" under IAS 27.

79 One respondent was concerned that the ED did not address investments measured at cost in separate financial statements. This respondent noted that in their jurisdiction entities apply IFRS Standards also to separate financial statements and most entities measure investments in subsidiaries, associates and joint ventures at cost in their separate financial statements. It was crucial to clarify how to account for investments measured at cost. This respondent recommended that the IASB should:

(a) clarify that the clarifications made in the ED on contingent consideration apply also when the investment is measured at cost;

(b) clarify how to account for a step acquisitions and loss of control of a subsidiary when the investment is measured at cost, because there is divergence in practice also when investments are measured at cost.

EFRAG DCL Question 6.3 - Do you agree with the suggestion for an option to be allowed and a reconciliation required as stated in paragraphs 132 to 134? If not, please explain why.

80 Many respondents (four) answered this question. The following points were made:

(a) one respondent did not support the options as expressed in the EFRAG DCL. This respondent recommended an alternative treatment when applying the equity method for subsidiaries in the separate financial statements which should require the elimination of gains and losses as currently required by paragraph 28 of IAS 28;

(b) one respondent stated that they would support the addition of the option as proposed in paragraph AV13 of the Basis for Conclusions to allow a parent to apply the equity method for investments in subsidiaries consistently with the procedures used when preparing consolidated financial statements. However, this respondent did not agree with the suggestion to provide a reconciliation as suggested by EFRAG in its DCL. In their view, this would create additional operational efforts and increase the cost to preparers without any benefits for users of the financial statements. Another respondent shared similar views on the suggestion for a reconciliation;

(c) one respondent stated that they did not support having an option as it would increase complexity.

Question 7 – Disclosure requirements

Question 7—Disclosure requirements

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

The IASB is proposing amendments to IFRS 12 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.

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.

Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for

these proposals. Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative. (Paragraphs 20(c), 21(d)–21(e) and 23A–23B of IFRS 12 and paragraph 17A of IAS 27) The IASB is proposing amendments to IFRS 12 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.

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.

Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL - tentative position

81 EFRAG welcomed the IASB's proposed disclosure requirements, particularly the reconciliation between opening and closing carrying amounts of equity-accounted investments, though recommended requiring further disaggregation of information for material investments. EFRAG expressed mixed views from preparers of financial statements with relation to the required reconciliation, some preparers noting that such reconciliations were already widely provided, while others raised concerns about the cost and complexity of the required disclosures.

82 Additionally, EFRAG suggested the IASB provide clarification on several aspects, including the interaction with other requirements of IFRS 12 and the scope of disclosures related to gains or losses from transactions with investees and other changes. EFRAG also recommended including additional disclosure requirements for bargain purchase gains similar to IFRS 3 requirements to enhance transparency.

Outreach feedback

83 No feedback on the specific disclosure proposals was obtained during the outreach. A meeting with users focused on the areas where they had concerns. They aired no concerns and implicitly supported the disclosures. During the outreach to the User Panel done before EFRAG's DCL (see link), users supported the proposed disclosures.

Comment letter feedback

General comments on overall disclosures

84 The majority of respondents (eight) expressed general support for enhancing the disclosure requirements in IFRS 12 for investments accounted for using the equity method. However, one of these respondents considered that the disclosure requirements should only be provided individually for material associates and joint ventures and in aggregate for immaterial associates and joint ventures.

85 Some respondents (three) considered that the required disclosures were difficult to produce and may require considerable effort to collect the information, especially for associates. It was observed that challenges around the proposed disclosures seem to contradict the simplification objective pursued by the project and a certain level of overlap existed with IAS 24 disclosure requirements. These respondents asked for the IASB to

reconsider its proposals and refrain from these additional disclosure and presentation requirements.

Disclosures related to bargain purchase gains

86 Many respondents (five) supported EFRAG's DCL recommendation to include disclosure requirements for bargain purchase gains similar to the related requirements under IFRS 3. One respondent considered that disclosure of the amount and reasons for a bargain purchase gain required by paragraph B64(n) of IFRS 3 in the context of obtaining control, was also useful in a context of significant influence or joint control. Another respondent suggested that entities should also disclose new recognised goodwill amounts or amounts of the bargain purchase gain (which can also result from transactions of associates with third parties, e.g. from buying back own shares).

Gains or losses from other changes in its ownership interest

87 One respondent suggested that changes in ownership interest should be disaggregated into those arising from acquisitions, disposals and other changes in ownership interest.

Gains or losses resulting from 'downstream' transactions

88 Similar to EFRAG in its DCL, many respondents (four) supported the proposals related to disclosures of gains and losses from "downstream" transactions which was important to understand the overall impact of such transactions on the performance of the group. One respondent suggested broadening the scope of the proposed disclosure requirement to also include material upstream and downstream transactions with a one-off (non-recurring) nature. A user organisation also supported this disclosure as it would help users assess the impact of such transactions.

89 However, many other respondents (four) were against and suggested excluding the proposed disclosure of gains or losses resulting from 'downstream' transactions within the ordinary business activity from the proposed amendments to IFRS 12. These respondents explained that requiring such a disclosure would be complex and costly for preparers to provide. In their view, this disclosure requirement also negates the relief provided by recognising in full the gains and losses resulting from all 'upstream' and 'downstream' transactions between an investor and its associates or joint ventures by introducing new requirements to recalculate these gains and losses and disclose them. Respondents further commented that:

(a) IAS 24 already required comprehensive disclosures for these transactions;

(b) entities would need to disclose commercially sensitive information on transfer prices for the transactions between the investor and its associate or joint venture and margins from transactions within their ordinary business activity;

(c) the IASB arguments to require an investor to disclose any gains or losses from ‘downstream’ transactions with its associates and joint ventures in paragraph 144 of the ED were not justified as some of the proposed disclosures may not be relevant to users in all cases. The proposals also go beyond current IAS 24 requirements in terms of related party disclosures;

(d) the notion of "gains and losses" is more difficult to assess for certain types of transactions entered by an investor and an investee, such as lease payments or interest payments. This raised a question as to what is the scope for the disclosures on "downstream" transactions that are relevant for users. It was recommended that the IASB re-examined and limited the scope of disclosures on “downstream” transactions in the light of the needs expressed by users.

Information about contingent consideration arrangements

90 Many respondents (six) supported the proposal to disclose information about contingent consideration arrangements. The proposed disclosure requirements were helpful for users to understand the amount, timing, and uncertainty of future cash flows related to contingent consideration and were aligned with the related requirements for contingent consideration in IFRS 3.

91 One respondent further suggested that Information about contingent consideration arrangements should also be provided for investments accounted for using the equity method in the separate financial statements. This is because the equity method can be applied in the separate financial statements to a larger group of investments than in the consolidated financial statements.

Reconciliation between opening and closing carrying amount of equity investments

92 Many respondents (eight) considered that the reconciliation between the opening and closing carrying amount of investments accounted for using the equity method provided useful information to users of financial statements. It was observed that some companies already include such a disclosure in their group financial statement.

93 A few respondents (three) provided the following additional comments on this proposal:

(a) one respondent commented that the reconciliation between the opening and closing carrying amount of the investments measured using the equity method could be onerous;

(b) two respondents considered that disclosure of the reconciliation between the opening and closing carrying amount of investments accounted for using the equity method required by the ED should be required separately for all associates / joint ventures that are individually material;

(c) one respondent further suggested that reconciliation between the opening and closing carrying amount of equity investments should also be provided for investments accounted for using the equity method in the separate financial statements. This is because the equity method can be applied in the separate financial statements to a larger group of investments than in the consolidated financial statements.

Question 8 – Disclosure requirements for eligible subsidiaries

Question 8—Disclosure requirements for eligible subsidiaries

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

IFRS 19 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. 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.

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.

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.

Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).

EFRAG DCL- tentative position

94 EFRAG noted that the reconciliation between the opening and closing carrying amounts of investments would be valuable for users of financial statements of subsidiaries without public accountability. Moreover, this information was typically available at the subsidiary level. EFRAG received feedback indicating that disclosures about contingent consideration were beneficial for users who relied on subsidiary-level reports for decision-making.

Outreach feedback

95 No feedback was obtained on disclosure requirements for eligible subsidiaries through outreach activities.

Comment letter feedback

96 There was limited feedback on the proposals to reduce disclosure requirements for IFRS 19 *Subsidiaries without Public Accountability* purposes.

97 A few respondents (three) supported the view expressed in the EFRAG DCL on reduced disclosures for eligible subsidiaries. In particular, the reconciliation between the opening and closing carrying amount of the investments would be very relevant for eligible subsidiaries within the scope of IFRS 19.

98 One respondent considered that the challenges around the proposed disclosures are inconsistent with the simplification objective of IFRS 19.

Question 9 – Transition

Question 9—Transition (Paragraphs C3–C10 of [draft] IAS 28 (revised 202x)) 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.

The IASB is also proposing relief from restating any additional prior periods presented. Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

EFRAG DCL- tentative position

99 EFRAG generally agreed with the proposed transition requirements, except for the retrospective application of the requirement to recognise the full gains or losses on transactions with associates and joint ventures. Based on mixed stakeholder feedback, with some concerns about not reflecting gains or losses at the time of realisation, EFRAG recommended that the IASB require the prospective application for recognition of full gains or losses from transactions that occurred prior to the application date, and EFRAG's DCL had a question to constituents in this regard.

100 Additionally, EFRAG called for clarification on whether impairment testing was required or optional when increasing an investment's carrying amount during the transition period, suggesting it should be mandatory to avoid future impairments from past adjustments affecting profit and loss.

Outreach feedback

101 A preparer who reached out to the EFRAG Secretariat had significant concerns with the ED's requirement for the retrospective application for unrecognised gains or losses arising from past transactions with associates and joint venturers. This preparer explained that they had selected the partial gain (loss) accounting policy a few years ago for a significant transaction they undertook which involved a contribution of a subsidiary to a joint venture. The transaction had resulted in a significant gain which had been only partly recognised following the IAS 28 requirements. This preparer noted that it would be difficult to explain to management and investors why they are recognising a significant gain in retained earnings at the transition date and there was a possibility of other consequences including tax issues.

Comment letter feedback

102 Respondents provided mixed views on the proposed transition requirements.

103 The majority of respondents (nine) disagreed with the ED's proposed transition requirement to retrospectively apply the ED's proposal for the recognition of full gains or losses for transactions with associates or joint ventures. These respondents either explicitly

or implicitly agreed with the EFRAG DCL position recommending the prospective application for the restricted (unrecognised) gains or losses from transactions with investees that occurred prior to the application date. EFRAG's DCL had a question to constituents (EFRAG DCL Question 9.1) to get their views on EFRAG's position.

104 A few respondents (two) went further than EFRAG in suggesting changes to the ED's requirements. One respondent recommended that the IASB require the prospective application for all proposals. This respondent considered that it may be difficult to retrospectively apply the ED's requirements for recognising full gains or losses on transactions with associates or joint ventures as well as the requirements for contingent consideration. Another respondent was of the view that the fair value measurement of contingent consideration at the transition date should only cover the unpaid amounts.

105 On the other hand, many respondents (five) agreed with the IASB proposals including the retrospective application for unrecognised gains or losses from transactions with investees and fair value measurement of contingent consideration at the transition date. One respondent disagreed with an option for prospective application of the unrecognised gains and losses as recommended in the EFRAG DCL. Another respondent questioned how unrecognised gains and losses could be accounted for prospectively. This respondent provided an example of an associate with exclusive access to a channel for a 10-year period and 4 years have already passed and there are still 6 years left. In the view of this respondent, the previous amounts should be recorded against equity and the following 6 years in each corresponding period. However, there was uncertainty about how this should be done. This respondent recommended prospective application only when a reliable estimate of the retrospective impact was impracticable/difficult to determine as allowed under IAS *8 Accounting Policies, Changes in Accounting Estimates and Errors*.

106 Some respondents (two) asked for further clarification regarding the following:

(a) one respondent noted that it would be useful for the IASB to specify how the transition relief provided in draft paragraph C3 of Appendix C to apply prospectively the proposals to all transactions other than those specifically described in paragraphs C4-C8 of the ED, applies to investments measured at nil at the transition date, and for which the investor ceased to recognise losses. This respondent noted the diversity in practice on the accounting for unrecognised losses and noted that it would be useful to clarify how amounts of an investor's unrecognised losses determined under its current accounting policy should be treated at the transition date and thereafter:

(i) should the amount of unrecognised losses be reset to nil at the transition date?;

(ii) should that amount continue to be monitored under the current accounting policy, which would result in two accounting policies being applied in parallel?;

(iii) should the amount of unrecognised losses be recalculated retrospectively, and if so, how should it be allocated between profit or loss and the recyclable and non-recyclable components of other comprehensive income? This respondent considered that this issue is key to help preparers in transitioning to the new requirements without undue complexity;

(b) another respondent noted strong disagreement with the lack of a requirement, or even the possibility, to perform an impairment test at the transition date. The proposals as currently drafted could result in arbitrary impacts on initially recognised amounts and profit or loss in the periods after the transition date, depending on whether the investor had estimated the recoverable amount at the transition date. Some entities could be required to inflate their carrying amounts, only to recognise an impairment in the subsequent period (the comparative period), even though the conditions or events that give rise to the lower recoverable amount and consequential impairment stem from earlier periods. The ED also does not address how the requirements in IAS 28.C6 and C8 would apply in situations where the investor has unrecognised losses.

Question 10 – Expected effects of the proposals

Question 10—Expected effects of the proposals
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 DCL- tentative position

107 EFRAG acknowledged that while the proposals would increase comparability and transparency for users, stakeholders expressed significant concerns about the cost and complexity of implementing several key proposals. These included the layered approach for additional ownership interests, accounting for ownership changes without exchange transactions, increased frequency of impairment testing, and new disclosure requirements. EFRAG noted that it would further evaluate the cost-benefit balance based on constituents' feedback and ongoing outreach.

Outreach feedback

108 No feedback was obtained through outreach activities.

Comment letter feedback

109 While some respondents (three) acknowledge the anticipated improvements in the reporting quality through clearer requirements that will reduce diversity in practice and increase comparability and transparency, other several respondents (four) expressed significant concerns about the implementation costs and operational complexity of the amendments.

110 The implementation cost and challenges are expected for all entities and especially for large corporations managing numerous associate transactions. One respondent mentioned that entities anticipate considerable costs related to IT systems and process adaptations needed to comply with the new requirements. The operational complexity is heightened by several aspects of the proposals:

(a) the purchase price allocation requirement for each additional acquisition;

(b) accounting for ownership changes without exchange transactions;

(c) more frequent impairment testing resulting from the removal of the "significant or prolonged" criterion; and

(d) new disclosure requirements.

111 Based on practical experience, some respondents (two) highlighted their concerns regarding the required substantial changes to the existing practices adopted by some entities. For instance:

(a) many entities currently do not perform notional purchase price allocation when acquiring additional interests in associates, which differs from the proposed requirements;

(b) the IASB proposal for the step acquisitions makes significant shift from current practice, where the values assigned to assets and liabilities are generally retained from the first application of the equity method;

(c) also, other entities differentiate their accounting treatment between associates that meet the IFRS 3 business definition and those that do not.

112 One respondent mentioned that the table in BC221 is not very promising as it highlights the overall complexity of everything, while another respondent expressed that the table seems to only show the very positive aspects of the expected effects of the ED proposals.

Question 11 – Other Comments

> **Question 11—Other comments**
>
> Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft?
>
> 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 DCL- tentative position

113 EFRAG recommended expanding and integrating the underlying principles of IAS 28 into the standard's requirements and suggested revising certain definitions to avoid circular references. Additionally, EFRAG highlighted stakeholder concerns about the interaction between IAS 28 and IFRS 18. In light of the implementation of IFRS 18 and considering its transition provisions, many stakeholders, especially entities in the banking and insurance sectors, raised significant concerns related to the interpretation of current provisions of IAS 28.18. In their view, the fair value option should be expanded to reflect the IASB's intention embedded in IFRS 18 transition requirements.

Outreach feedback

114 In light of the implementation of IFRS 18, IAWG members corroborated the issue raised in EFRAG's DCL. 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. Such contracts are generally accounted for under the variable fee approach (VFA).

115 The same question about the application of IAS 28.18 is raised for other types of contracts, for example, Property and Casualty contracts (P&C), accounted for under the general model or the premium allocation approach (PAA). Whereas there will be a direct link between the insurance liability and its servicing asset under the VFA model, there will be no direct link for the contracts accounted for under the general model or PAA. However, the investments in associates or joint ventures will still serve the same purpose – i.e., provide income to the insurance entity so that it can service its insurance liabilities.

116 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.

117 Members noted that because of the current diversity in the interpretation of the requirements of IAS 28.18, it was not always possible to select the fair value option in order

to mitigate the classification mismatch. Otherwise, such a selection will be different from one entity to another based on the interpretation of the IAS 28.18. As such, it will not be possible to obtain the intended outcome of the IFRS 18 transition requirements of mitigating the classification mismatch.

118 EFRAG's stakeholders suggested that the IASB either introduce a general option in IAS 28 allowing an entity to account for the associates and joint ventures at FV through PL or broaden the scope of IAS 28.18 to accommodate all types of investments (VFA and non-VFA contracts for example) which are backing up insurance liabilities.

Comment letter feedback

119 In response to Question 11, some respondents (three) raised views on aspects that are addressed in our analysis and comment letter response to Question 1 (on the need for a fundamental review of the equity method), Questions 4 and 6 (e.g., addressing side stream transactions). Hence, these respondents' feedback is not included/repeated in this part of the comment letter analysis.

120 On the additional points raised by respondents that are not covered in EFRAG's DCL responses to Questions 1-10, some (two) respondents requested clarifications on the presentation of certain types of income and expenses from investments.

121 Furthermore, one respondent highlighted that Paragraph 50 of IFRS 18 allows an entity with a special main business activity to classify in the operating category some income and expenses that would have been classified in the investing or financing category, this option is particularly applies to Banks and insurers and applies also to their investments in associates and joint ventures that an entity elects to measure at fair value through profit and loss in compliance with paragraphs 18 of IAS 28, for this matter, respondent suggests for the IASB to take into consideration this paragraph as it was not revised nor considered as part of the Equity Method project.

122 One respondent welcomed the illustrative examples and suggested additional illustrations for partial disposals; increases in ownership interest; and expanded scenarios for recognising share of losses and profits.

123 One respondent while generally supporting the IASB's proposals, raised concerns about the positioning of paragraph 35 regarding continued application of the equity method when an investment in an associate becomes a joint venture or vice versa. They noted that its current placement under 'other changes in ownership interest' could inappropriately

restrict its scope to deemed acquisitions or disposals, whereas this requirement applies to all cases of changes in ownership interest.

Appendix 2: Profile of respondents

	Name of organisation	Jurisdiction	Type of respondent
CL01	REPSOL	Spain	Preparer
CL02	Accountancy Europe	Europe	Professional organisation
CL03	ANC	France	National Standard Setter
CL04 DRAFT			
CL05	SCRB	Sweden	National Standard Setter
CL06 DRAFT			
CL07	AFRAC	Austria	National Standard Setter
CL08 DRAFT			
CL09	DASB	Netherlands	National Standard Setter
CL10	ALLIANZ	Germany	Preparer
CL11 DRAFT			
CL12	ESBG	Europe	Preparer organisation
CL13	EFFAS	Europe	Professional organisation
CL14	Universidad Complutense de Madrid (UCM)	Spain	Academic
CL15	ICAC	Spain	National Standard Setter
CL16	DASC	Denmark	National Standard Setter