

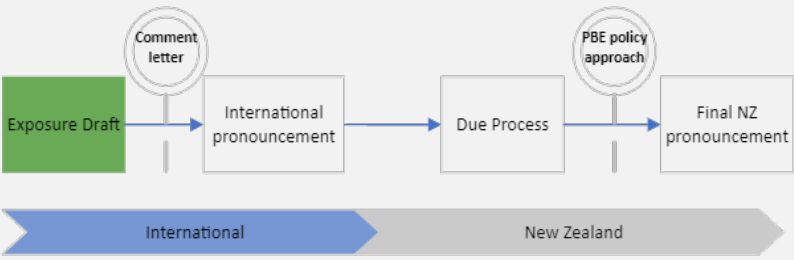
Date: 29 November 2024
To: NZASB Members
From: Tereza Bublikova
Subject: Equity method – Comment letter

COVER SHEET

Project overview

Project purpose	<p><u>IASB perspective:</u> To develop answers to application questions about the equity method, as set out in IAS 28 <i>Investments in Associates and Joint Ventures</i>, using the principles derived from IAS 28 (and other standards) where possible.</p> <p><u>XRB perspective:</u> To consider if the proposals contained in the IASB ED appropriately address issues faced by NZ stakeholders and if there are unintended consequences arising from these proposals.</p>
Cost/benefit considerations	<p>In consulting on the IASB ED, we sought stakeholders’ views on whether the proposed amendments depart from current accounting practices, which in turn could result in additional costs/ benefits to be incurred. This informed our feedback to the IASB.</p>
Project priority	<p>Medium</p> <p>The equity method is used by many New Zealand entities and these proposals could impact on current accounting practices.</p>

Overview of agenda item

Project status	 <p>The diagram illustrates the project status flow. It starts with a green box labeled 'Exposure Draft' on the 'International' phase. An arrow points to a box labeled 'International pronouncement', which is also on the 'International' phase. A second arrow points to a box labeled 'Due Process', which is on the 'New Zealand' phase. A third arrow points to a box labeled 'Final NZ pronouncement', also on the 'New Zealand' phase. Above the 'International pronouncement' box is a circle labeled 'Comment letter'. Above the 'Due Process' box is a circle labeled 'PBE policy approach'.</p>
Board action required	<p>Low complexity</p> <ul style="list-style-type: none"> • PROVIDE FEEDBACK on the draft comment letter. Please send your feedback to tereza.bublikova@xrb.govt.nz • APPROVE the comment letter at the meeting.

Purpose and introduction¹

1. On 19 September 2024, the IASB published [Exposure Draft Equity Method of Accounting \(IASB/ED/2024/7\)](#) proposing amendments to IAS 28. At its October 2024 meeting, the Board agreed to comment on the ED.
2. The purpose of this item is to seek the Board's feedback on the draft comment letter ahead of the NZASB meeting, and to seek the Board's approval of the comment letter at the meeting. The comment letter is due to the IASB by 20 January 2025.

Recommendations

3. We recommend the Board:
 - (a) **PROVIDES FEEDBACK** on the draft comment letter; and
 - (b) **DISCUSS** any relevant matters and **APPROVE** the comment letter at the NZASB meeting on 4 December 2024.

Structure of this memo

4. This memo includes following sections.
 - (a) [Background](#)
 - (b) [Outreach summary](#)
 - (c) [Draft comment letter and next steps](#)

Background

5. On 19 September 2024, the IASB published [IASB/ED/2024/7](#) and the [Accompanying Basis for Conclusions](#). The proposed amendments to IAS 28 add to, and clarify, the requirements on how to apply the equity method – by answering common application questions the IASB has received over several years.
6. The IASB is also proposing new disclosure requirements that will enhance the information companies provide about equity accounted investments. The IASB has also taken this opportunity to reorder the requirements of IAS 28 into a logical and consistent way to help companies with the application of the Standard.
7. The IASB expects the proposed amendments will reduce diversity in practice and provide users of financial statements with more comparable and useful information.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Accounting Standards, IFRIC® Interpretations and IASB® papers).

Outreach summary

8. Our outreach activities in relation to the IASB/ED/2024/7 included the following:
 - (a) Raising awareness of the ED via the XRB's 'Accounting Alert' and Pitopito Kōrero;
 - (b) Discussing the ED with two members of the Technical Reference Group (TRG);
 - (c) Organising roundtables and discussing the ED with Tier 1 preparers; and
 - (d) Attending a roundtable organised by the CPA Australia and CA ANZ (joint roundtable), which mainly included attendees from accounting firms.
9. We have not received any formal submissions on the ED.
10. Our discussions with TRG members, Tier 1 preparers, and comments made by New Zealand attendees at the joint roundtable discussion highlighted that the equity method is commonly used in New Zealand and advice from accounting technical consultants is often sought to ensure the method is interpreted correctly.
11. While Tier 1 entities often have access to appropriate information from associates and joint ventures to apply the method easily, smaller entities often struggle to obtain the relevant information to allow for complete and accurate equity accounting. We also noted diversity in practice which contributes to misunderstanding of the equity method among stakeholders.
12. In general, stakeholders considered the proposals within the ED to be appropriate and expected these changes to make the equity method of accounting easier and less costly for preparers. Views were that the clarification and reordering of requirements in IAS 28 improve the understandability of the Standard and that the proposals could be operationalised by entities relatively easily, however some aspects may be difficult for smaller entities (and PBE entities if this is to be eventually translated into the PBE standards).
13. There was some feedback where aspects of the proposals were unclear and could lead to misinterpretation or could be difficult to apply to certain fact patterns. These concerns have been reflected in our comment letter.
14. At the October 2024 meeting, Board members raised concerns about possible structuring opportunities due to the proposal to recognise the full gains and losses on transactions with an associate/joint venture. We have discussed this risk with TRG members and preparers, and so similar concerns were identified. As such, this has not been included in our draft comment letter.
15. We also note the 2021 [joint submission](#) to the IASB's Third Agenda Consultation by Michael Bradbury, Laura Mehnaz and Tom Scott which recommended a fundamental review of equity accounting. The [XRB submission](#) supported this joint submission.
16. The IASB decided not to undertake a fundamental review on the basis that the equity method is well established, and that fundamental changes would require significant stakeholder support. Our outreach confirmed that entities prefer to retain the equity method of

accounting rather than replace it with alternative methods, such as fair value valuation or proportionate consolidation, due to the simpler and cost-effective requirements.

17. However, we have identified areas that were not addressed by the ED proposals and that continue to pose significant practical challenges. In our draft comment letter, we encouraged the IASB to consider whether a further project on equity accounting should be added to their future work programme.

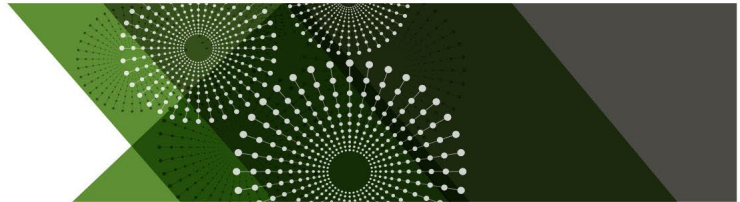
Draft comment letter and next steps

18. The draft comment letter is attached as Agenda Item 6.2.
19. The response date to the IASB by **Monday 20 January 2025** (before the next NZASB meeting in February). We kindly request that Board Members provide their comments on the draft comment letter to Tereza Bublikova.
20. We will endeavour to update the comment letter in response to feedback before the NZASB meeting on 4 December 2024 and will ask the Board to approve the updated letter at the meeting.

Questions for the Board:

Q1. Does the Board have any **FEEDBACK** on the draft comment letter (attached as Agenda Item 6.2)?

Q2. Does the Board **APPROVE** the comment letter for submission to the IASB (subject to changes requested)?



[29 November 2024]

Agenda item 6.2

Mr Andreas Barckow
Chairman of the International Accounting Standards Board
IFRS Foundation
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Submitted to: www.ifrs.org

Dear Andreas

ED/2024/7 Equity Method of Accounting

Thank you for the opportunity to comment on Exposure Draft ED/2024/7 *Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by targeted outreach and consultation with listed for-profit preparers and advisors in New Zealand.

We commend the IASB's efforts to address existing application challenges around the equity method of accounting and to reduce the existing diversity in practice in the application of IAS 28 requirements and enhance the understandability and comparability of reported information.

We agree and support the IASB's proposals, subject to the detailed comments below, and we believe the proposals will help simplify the equity method of accounting and reduce the existing diversity in practice.

However, there are some areas where the proposals could be enhanced or clarified to ensure these are interpreted and applied in the manner intended by the IASB. The key areas we have comments on are:

- **Accounting for changes in ownership interests** – We consider the proposals to be reasonable; however, there are aspects around the accounting for changes in ownership interests while retaining significant influence which could be clarified. We recommend that the IASB consider the wording used to describe other ownership changes to ensure this provides principles for all types of transactions which could occur (such as bonus share issues which may result in increase in ownership interest through the issuance of equity instruments). Additionally, we also recommend that the IASB clarifies how the proposals should be applied to complex ownership changes involving multiple simultaneous transactions.

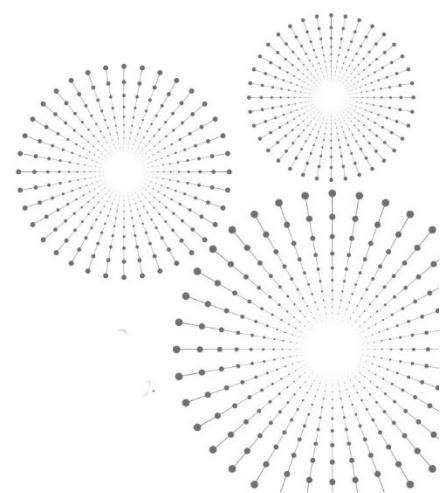


- **Impairment indicators** – The proposed introductory wording around the consideration of impairment indicators include the words “...*shall consider, as a minimum*...”. This would mean preparers and auditors interpret it as requiring positive evidence for each individual listed indicator to appropriately consider it, which would result in significant costs to satisfy these requirements. We recommend this requirement be reworded.
- **Further consideration of other questions on the equity method** – There are still other questions regarding the appropriateness of the equity method of accounting that remain unaddressed by this ED. We recommend that the IASB consider adding a second project on equity accounting to their future work programme to address other conceptual areas which are causing practical problems, such as assessing the concepts of control and significant influence, the costs of fair value measurement compared to the equity method for entities with significant divergence in fair value and net assets, and whether the same equity method principles should apply to all types of associates and joint ventures.

Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Tereza Bublikova (tereza.bublikova@xrb.govt.nz) or me.

Yours sincerely

Carolyn Cordery
Chair – New Zealand Accounting Standards Board



Appendix

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.

Response to Question 1: Measurement of cost of an associate

1. We agree with the proposals, subject to the comments below. We believe the proposed changes in the ED provide appropriate clarity around measuring the cost of an associate or joint venture on obtaining significant influence and consider measuring this at fair value of the consideration transferred (including the fair value of any previously held interest in the associate) to be reasonable.

Recognition of deferred taxes upon acquiring significant influence

2. The proposed amendments (paragraph 32 and Example 1) specifically include the recognition of deferred tax upon the acquisition of the equity accounted investment and when additional interest is acquired after significant influence has been obtained.
3. We note that current practice regarding deferred tax recognition varies when equity investments are initially acquired. The requirements to recognise deferred taxes on acquired interests will result in significant incremental costs for preparers to determine these balances,

particularly for entities investing in unlisted associates or joint ventures, or where there are frequent changes in ownership interests, which may limit the extent of material temporary tax differences.

4. We recommend that the IASB reflect upon whether the costs around the separate identification of deferred taxes would be practical for all entities which use the equity method, particularly entities who having investments in unlisted associates or joint ventures, and whether this information would be beneficial for users of financial statements.

Transaction costs

5. The ED does not specify how an entity should account for the transaction costs incurred in acquiring ownership interests. Given the nature of the equity method, it is unclear whether transaction costs should be included in the fair value of the consideration transferred, in line with the IFRIC July 2009 update around acquisition costs, or whether the principles in paragraph 53 of IFRS 3 *Business Combinations* should be applied by analogy, with those costs expensed in the periods in which they are incurred.
6. We recommend that the IASB explicitly require transaction costs to be expensed in the period in which they are incurred for the purposes of IAS 28. This approach would remove inconsistent judgements by entities regarding what constitutes transaction costs for equity accounted investments, enhance comparability of investments and align with the principles within IFRS 3.

Measurement period of contingent consideration

7. IFRS 3 paragraph 58, permits adjustments to the fair value of contingent consideration during the 12-month measurement period if these adjustments result from additional information obtained by the entity after the acquisition date about facts and circumstances that existed at that date. We recommend that the IASB clarify how such adjustments to contingent consideration should be reflected in the cost of an associate or joint venture, for the purposes of IAS 28.

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.

Response to Question 2: Additional Ownership

8. We agree with the proposals, subject to the comments below. We believe that these proposals would clarify the accounting for changes in ownership interests under the equity method.

Other changes in ownership interests

9. Paragraph 34 of the proposals outline the treatment of other changes in the investor's ownership interest while retaining significant influence, and notes that entities shall apply the principles of acquiring ownership interests (paragraph 30-31) or disposing ownership interests (paragraph 32-33).
- (a) For increases in ownership interest the proposals note "*the fair value of the consideration transferred*" shall be read as "*...the investor's or joint venturer's share of the change in its associate's or joint venture's net assets arising from the associate's or joint venture's redemption of equity instruments*" (paragraph 34(a)).

(b) For decreases in ownership interest the proposals note *“the consideration received”* shall be read as *“...the investor’s or joint venturer’s share of the change in its associate’s or joint venture’s net assets arising from the associate’s or joint venture’s issue of equity instruments”* (paragraph 34(b)).

10. We recommend the IASB consider whether the wording used to describe how *“the fair value of the consideration transferred”* and *“the consideration received”* should be treated for the purposes of other ownership changes provides appropriate principles for all types of transactions which may occur.
11. For example, if an associate or joint venture issued bonus shares to an investor, this may result in increase in ownership interest through the issuance of equity instruments. As currently proposed, paragraph 34(a) would not apply to this transaction, given the specific reference to the redemption of equity instruments. As such, it is not clear which proposals within the ED would cover this transaction.
12. We recommend the wording for both paragraphs 34(a) and 34(b) is clarified to provide more flexibility in their application, such as *“...the investor’s or joint venturer’s share of the change in its associate’s or joint venture’s net assets arising from a transaction resulting in a change in ownership interest”*.

Clarity around multiple changes in ownership

13. We note that the proposals regarding the purchase of additional ownership (paragraph 30), disposing of an ownership interest (paragraph 31) and other changes in ownership interest (paragraph 34) consider each ownership change in isolation. However, there are transactions which involve multiple ownership changes occurring simultaneously. These transactions result in varying changes in ownership that partially offset each other, ultimately leading to a net increase or decrease in ownership (for example, a share issue where an existing investor does not participate to a lower extent than their current ownership proportion).
14. We recommend that the IASB clarify in the Basis for Conclusions, and include an Illustrative Example, to demonstrate how the proposals should be applied to transactions that have multiple impacts on ownership simultaneously. We believe that transactions should be considered together for their overall impact on ownership, which best reflects the economic substance of the transaction and the impact on the entity’s equity accounted investment.
15. We note that accounting for each transaction individually could lead to different accounting outcomes (based on more complex fact patterns), based on the sequence in which the transactions are recognised. We believe the IASB did not intend for the sequencing of transactions to affect the accounting outcomes, and this should be clarified to aid preparers in applying these proposals in practice.

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.

Response to Question 3: Recognition of the investor’s share of losses

16. We agree with the proposals, subject to the comments below. We consider the proposals improves clarity around the recognition of the investor’s share of losses in varying situations.

Consistency of terminology around other comprehensive income

17. The terminology used in paragraphs 45 and 48 refer to “total comprehensive income”, which differs to the terminology used in paragraphs 50 through to 52 around “profit or loss” and “other comprehensive income”. We recommend that the terminology in paragraph 45 and 48 refers to “profit or loss” and “other comprehensive income” separately to reinforce the separate considerations which should be made for each.

Clarification for tracking acquired investment tranches

18. Paragraph 49 of the proposals should be clarified around whether, upon purchasing an additional ownership interest, an investor recognises the ownership interest as one “pool” or should track the individual acquired investment tranches separately. We note this clarification is included in paragraphs BC30–BC35 and BC51 and we recommend this is included in the core text of IAS 28 to ensure these requirements are appropriately interpreted by entities.

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.¹ 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.

Response to Question 4: Transactions with associates/joint ventures

19. We agree with the proposed amendments. The proposals will simplify the accounting for transactions with associates/joint ventures, reduce compliance costs around eliminating gains and losses with associates/joint ventures and reduce diversity in practice.

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*

¹ We note the ED describes the requirement in paragraph 28 of IAS 28 that is currently in effect. The IASB amended that requirement when it issued *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Amendments to IFRS 10 and IAS 28) in 2014, but the effective date of those amendments has been deferred indefinitely.

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.

Response to Question 5: Impairment indicators

20. We agree with the proposals, subject to the comments below. We support the proposal to replace ‘cost’ with ‘carrying amount’ and the removal of ‘significant or prolonged’ decline in fair value in paragraph 41C of IAS 28. We also support the inclusion of clarifications 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.

Requirements around consideration of impairment indicators

21. Paragraph 57 states “*When determining whether there is objective evidence that the net investment in an associate or joint venture might be impaired, an investor or joint venturer shall consider, as a minimum, these indications:*” This has changed from paragraph 41A of the existing IAS 28, which notes considerations should be made of indicators “*...that comes to the attention of the entity ...*”.

22. We note that this wording aligns with the introductory wording used in paragraph 12 of IAS 36 *Impairment of Assets* around considering impairment indicators. However, the inclusion of the words “*...shall consider, as a minimum...*”, would mean preparers and auditors interpret this as needing to obtain positive evidence across each individual listed indicator in IAS 28 to appropriately consider it.

23. This would mean entities go through costly processes to:

- Develop probability of default models, using historical default datasets or comparable companies, to satisfy the requirements of paragraph 57(d) to consider the probability of bankruptcy;
- Perform additional financial analysis and seek reliable credit ratings which may not be available for associates or joint ventures who do not have external borrowings, to satisfy the requirements of paragraph 57(g) to consider the downgrade of credit ratings, and

- Perform a full valuation of associates or joint ventures in line with IFRS 13 *Fair Value Measurement*, to satisfy the requirements of paragraph 57(h) to consider a decline in the fair value of net investment.

24. We propose this requirement be redrafted to ensure that preparers do not incur significant costs to identify impairment indicators for equity accounted investments, before performing a full impairment test. Given the nature of the impairment indicators included in IAS 28 are more comprehensive compared to those in IAS 36, the same introductory wording may not be appropriate.

25. Furthermore, we note the proposals do not contain the impairment indicator noted in paragraph 12(h) of IAS 36 around dividends received from an associate or joint venture, and other IAS 36 indicators which would be relevant to associates or joint ventures. We recommend the inclusion of these impairment indicators into IAS 28 paragraph 57, so that the list within IAS 28 is aligned with the IAS 36 requirements, in the context of equity accounted investments.

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.

Response to Question 6: Separate financial statements

26. We do not have any comments on this question.

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.

Response to Question 7: Disclosure requirements

27. We agree with the proposals, and have not identified any significant concerns with the disclosure requirements proposed in the ED.

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).

Response to Question 8: Eligible subsidiaries

28. We do not have any comment on this question.

Question 9 — Transition (Paragraphs C3–C10 of [draft] IAS 28 (revised 202x))
<p><i>The IASB is proposing to require an entity:</i></p> <p>(a) <i>to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures;</i></p> <p>(b) <i>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</i></p> <p>(c) <i>to apply prospectively all the other requirements from the transition date.</i></p> <p><i>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.</i></p> <p><i>Do you agree with these proposals?</i></p> <p><i>If you disagree, please explain why you disagree and your suggested alternative.</i></p>

Response to Question 9: Transition

29. We agree with the proposals, subject to the comments below.

Supporting guidance regarding transition requirements

30. The proposals include requirements which should be applied retrospectively (paragraph C4), at the time the standard is applied (paragraph C6), and prospectively (paragraph C3). There is a risk that having three different transition requirements within one amending standard means the timing of specific requirements are misunderstood and applied incorrectly.

31. The IASB should develop supporting guidance material, showing a timeline of the requirements and how this will impact the comparative period, the current period and future periods, to make the expected impacts clearer for preparers and stakeholders.

Retrospective application for gains or losses from transactions with associates or joint ventures

32. The proposal requires retrospective application of recognising the full gains and losses from transactions with associates or joint ventures (paragraph C4). This should not be costly for entities who already maintain sufficient information about the remaining balance of the restricted portion of the gain or loss as at the transition date. However, some entities may not have this information available for all their deferred gains and losses, to allow for the

retrospective approach to be performed.

33. We recommend allowing entities an accounting policy choice of a full or modified retrospective application when transitioning to the new requirements. This will allow entities to transition to the new requirements in an efficient way, considering the needs to their users and the information available to them. This would benefit entities that have material historical restricted gains or losses, and where a full retrospective approach may provide better quality information to users understanding of equity investments (akin to the transition requirements used when IFRS 15 *Revenue from contracts with customers* was introduced).

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?

Response to Question 10: Expected effects

34. We disagree with the analysis of the expected effects, as stated in Question 1 around the costs of deferred taxes.
35. We support the proposed change around recognising the gains and losses of upstream and downstream transactions with associates and joint ventures in full as it will bring much needed simplification of the equity method of accounting and address some of the key misconceptions and complexities which are present.

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)?

Response to Question 11: Other comments

36. We have the following other comments:

Clarification in Example 1 Part 1

37. Example 1 Part 1 notes “*In accordance with IFRS 9 Financial Instruments Entity A measures the investment at fair value and ... Entity A recognises the change of CU300 in the fair value of the financial asset in profit or loss*”.

38. We recommend that the IASB amend Example 1 to clarify that in this example “*Entity A measures the investment at fair value through profit and loss in accordance with IFRS 9...*”, to avoid unintentionally implying that all fair value movements for financial assets is recognised in profit or loss under IFRS 9.

Removal of residual paragraphs due to new requirements

39. Paragraph 55 notes “*Many of the procedures that are appropriate for applying the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence over an associate or joint control of a joint venture.*” This paragraph should be removed.
40. Paragraph B86 of IFRS 10 *Consolidated Financial Statements* outlines consolidation procedures as line-by-line consolidations, eliminations of the cost of investment and eliminations of intra-group transactions. None of these procedures are relevant under the revised IAS 28 given the proposed changes.

Supplementary resources to accompany the revised IAS 28

41. Given the proposed reordering of the requirements within IAS 28 without any changes in the requirements, we recommend the IASB to consider what supplementary resources could be produced to help explain how the existing order in IAS 28 reconciles to the new structure. We find the table of concordance published in the ED to be useful and recommend it should accompany the revised IAS 28.

Further review into the equity method of accounting

42. We encourage IASB to reflect upon whether further review of the equity method of accounting is required in the future, especially if the IASB continues to observe diversity in practice and receive further questions to the IFRS Interpretation Committee about the application of the equity method.
43. We have identified the following questions and areas that have not been addressed by the ED proposals and that continue to cause practical concerns:
- The boundaries between control, significant influence and no significant influence/control and whether the guiding thresholds for using the equity method are appropriate. There also remains a disconnect between IFRS 10 and IAS 28 around the concept of voting interests, where IAS 28 notes “*voting power*”, while IFRS 10 notes “*voting rights and substantive rights*”, which has caused confusion amongst preparers.

- The on-going proportionate value of the equity method compared to application of fair value – in particular, whether when investments with significant influence are accounted for using equity method, when investments with no significant influence are accounted for at fair value. There are also questions around whether the equity method is appropriate where there is a significant divergence in the net assets and the fair value of an investment.
- Whether the equity method is equally appropriate for joint ventures and associates, and whether the joint control over joint ventures results in fundamental differences to the significant influence over associates which should be reflected in differing accounting principles. The differing form of joint ventures, being joint business, joint assets or joint operations also leads to difficulties in applying the same equity method principles to those differing joint venture operations and structures.