



iGAAP in Focus

Financial reporting

IASB proposes amendments to IAS 28 to answer application questions on how an investor applies the equity method

Contents

Background

The proposed amendments

Effective date, transition and comment period

Further information

This *iGAAP in Focus* outlines the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures* set out in Exposure Draft (ED) *Equity Method of Accounting*, published by the International Accounting Standards Board (IASB) on 19 September 2024.

- The IASB proposes amendments to IAS 28 to answer application questions about how an investor applies the equity method to:
 - changes in its ownership interest on *obtaining* significant influence or joint control
 - changes in its ownership interest while *retaining* significant influence or joint control, including when:
 - » purchasing an additional ownership interest in the associate or joint venture
 - » disposing of an ownership interest in the associate or joint venture
 - » other changes in an associate's or joint venture's net assets change the investor's ownership interest
 - recognition of its share of losses, including:
 - » whether an investor that has reduced its investment in an associate or joint venture to nil is required to 'catch up' losses not recognised if it purchases an additional interest in the associate or joint venture
 - » whether an investor that has reduced its interest in an associate or joint venture to nil recognises its share of the associate's or joint venture's profit or loss and other comprehensive income (OCI) separately
 - transactions with associates or joint ventures
 - deferred tax effects on initial recognition of an associate or joint venture
 - contingent consideration
 - the assessment of whether a decline in the fair value of an investment in an associate or joint venture is objective evidence that the net investment might be impaired
- The ED does not include a proposed effective date—it will be set when the IASB redeliberates the proposals
- The comment period for the exposure draft ends on 20 January 2025.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

Background

IAS 28 requires entities to use the equity method in their consolidated financial statements for investments in associates and joint ventures. Entities are also permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates.

Stakeholders have raised questions on how to apply the equity method in particular circumstances. With the proposed amendments, the IASB is seeking to resolve these application questions by identifying and applying the principles derived from IAS 28.

The proposed amendments

Measurement of the cost of an associate or joint venture

IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence or joint control—for example:

- whether to measure any previously held ownership interest in the associate or joint venture at fair value
- whether, and if so, how to recognise and measure contingent consideration.

The IASB is proposing that an investor would:

- measure the cost of an associate or joint venture, on obtaining significant influence or joint control, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate or joint venture
- recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter, an investor would:
 - not remeasure contingent consideration classified as an equity instrument
 - measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Changes in an investor's ownership interest while retaining significant influence or joint control

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

- the purchase of an additional ownership interest in the associate or joint venture
- the disposal of an ownership interest (partial disposal) in the associate or joint venture
- other changes in the investor's ownership interest in the associate or joint venture.

The IASB is proposing to require that:

- at the date of purchasing an additional ownership interest in an associate or joint venture, an investor would:
 - recognise that additional ownership interest and measure it at the fair value of the consideration transferred
 - include in the carrying amount the investor's additional share of the fair value of the associate's or joint venture's identifiable assets and liabilities
 - account for any difference between those two amounts 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
- at the date of disposing of an ownership interest, an investor would:
 - derecognise the disposed portion of its investment in the associate or joint venture measured as a percentage of the carrying amount of the investment
 - recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss
- for other changes in its ownership interest in an associate or joint venture, for example, when the associate or joint venture issues new shares or redeems outstanding shares, an investor would:

- recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In that case, the investor would determine the fair value of the consideration transferred as its 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
- recognise a decrease in its ownership interest, as if disposing of an ownership interest. In that case, the investor would determine the consideration received as its 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.

Recognition of the investor's share of losses

IAS 28:38 requires that if an investor's share of losses equals or exceeds its interest in the associate or joint venture, the investor discontinues recognising its share of further losses. However, IAS 28 does not specify whether an investor that has reduced the carrying amount of its investment in an associate or joint venture to nil:

- 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
- recognises separately its share of each component of the associate's or joint venture's comprehensive income.

The IASB is proposing that an investor would:

- on purchasing an additional ownership interest, not recognise its share of an associate's or joint venture's losses that it has not recognised by reducing the carrying amount of the additional ownership interest
- recognise and present separately its share of the associate's or joint venture's profit or loss and its share of the associate's or joint venture's OCI.

Observation

The IASB decided not to develop proposed answers for other related application questions, such as the order of recognising profits in profit or loss and in OCI when an investor resumes recognising its share of the associate's or joint venture's profits. In the IASB's view, those questions do not commonly arise in practice and, therefore, were not on the list of application questions selected for the project.

Transactions with associates or joint ventures

When an investor sells a subsidiary to an associate or joint venture, there are conflicting requirements between:

- IAS 28:28 which requires an investor to recognise gains and losses resulting from transactions between itself and an associate or joint venture only to the extent of unrelated investors' interests in the associate or joint venture
- IFRS 10:25 and B97-B99, which requires recognition in full of the gain or loss on losing control of a subsidiary.

The IASB is therefore proposing to resolve this inconsistency by requiring that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates or joint ventures, including transactions involving the loss of control of a subsidiary.

Observation

In 2014, the IASB amended the requirement in IAS 28:28 when it issued ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*** (the 2014 amendments). The 2014 amendments made it clear that a full gain or loss is recognised when a transfer to an associate or a joint venture involves a business, and a partial gain or loss is recognised if the asset transferred does not contain a business. The gain or loss that is not recognised is eliminated against the cost of the investment.

Following finalisation of the 2014 amendments, the IASB identified several practical issues affecting the implementation of the amendments. As a result, in December 2015, the IASB deferred the effective date of the 2014 amendments indefinitely.

The IASB is now proposing to abandon the 2014 amendments and, instead, proposes the approach set out in the ED. It also decided to propose amendments to IFRS 10 to remove the requirements introduced by the 2014 amendments.

Impairment indicators (decline in fair value)

IAS 28:41A-41C describe various events that indicate the net investment in an associate or joint venture could be impaired, including a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

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 or joint venture at the reporting date or to the cost of the investment on initial recognition.

The IASB is proposing:

- to replace 'decline [...] below cost' with 'decline [...] to less than its carrying amount'
- to remove 'significant or prolonged' decline in fair value
- 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 joint venture, 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*.

Proposed amendments to the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*

For investments accounted for using the equity method, the IASB is proposing to amend IFRS 12 to require an investor to disclose:

- gains or losses from other changes in its ownership interest
- gains or losses resulting from 'downstream' transactions with its associates or joint ventures
- information about contingent consideration arrangements
- a reconciliation between the opening and closing carrying amount of its investments.

The IASB is also proposing to amend 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.

Observation

IAS 27:10 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 IAS 27:10 unchanged, meaning that the proposals in the ED would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

Proposed amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary to disclose information about contingent consideration arrangements and to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

The IASB is also proposing amendments 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.

Effective date, transition and comment period

The ED does not propose an effective date. The effective date will be decided when the IASB redeliberates the proposals.

With regard to transition, the IASB proposes to require an entity:

- to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures
- 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
- to apply prospectively the other requirements from the transition date.

The IASB is also proposing relief from restating any additional prior periods presented.

The comment period for the ED ends on 20 January 2025.

Further information

If you have any questions about the proposed amendments, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature.

iGAAP on DART allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- illustrative financial statements for entities reporting under IFRS Accounting Standards.

In addition, our **sustainability reporting** volumes of iGAAP provide guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to iGAAP on DART, click [here](#) to start the application process and select the iGAAP package.

For more information about iGAAP on DART, including pricing of the subscription packages, click [here](#).

Key contacts

Global IFRS and Corporate Reporting Leader

Veronica Poole

ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas		
<i>Argentina</i>	Fernando Lattuca	arifrscoe@deloitte.com
<i>Canada</i>	Karen Higgins	ifrsca@deloitte.ca
<i>Mexico</i>	Kevin Nishimura	mx_ifrs_coe@deloittemx.com
<i>United States</i>	Magnus Orrell	iasplus-us@deloitte.com
	Ignacio Perez	iasplus-us@deloitte.com
Asia-Pacific		
<i>Australia</i>	Anna Crawford	ifrs@deloitte.com.au
<i>China</i>	Mateusz Lasik	ifrs@deloitte.com.cn
<i>Japan</i>	Kazuaki Furuuchi	ifrs@tohatsu.co.jp
<i>Singapore</i>	Lin Leng Soh	ifrs-sg@deloitte.com
Europe-Africa		
<i>Belgium</i>	Thomas Carlier	ifrs-belgium@deloitte.com
<i>Denmark</i>	Søren Nielsen	ifrs@deloitte.dk
<i>France</i>	Irène Piquin Gable	ifrs@deloitte.fr
<i>Germany</i>	Jens Berger	ifrs@deloitte.de
<i>Italy</i>	Massimiliano Semprini	ifrs-it@deloitte.it
<i>Luxembourg</i>	Jeremy Pages	ifrs@deloitte.lu
<i>Netherlands</i>	Ralph Ter Hoeven	ifrs@deloitte.nl
<i>South Africa</i>	Nita Ranchod	ifrs@deloitte.co.za
<i>Spain</i>	José Luis Daroca	ifrs@deloitte.es
<i>Sweden</i>	Fredrik Walmeus	seifrs@deloitte.se
<i>Switzerland</i>	Nadine Kusche	ifrsdesk@deloitte.ch
<i>United Kingdom</i>	Elizabeth Chrispin	deloitteifrs@deloitte.co.uk



Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities (collectively, the “Deloitte organisation”). DTTL (also referred to as “Deloitte Global”) and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte provides industry-leading audit and assurance, tax and legal, consulting, financial advisory and risk advisory services to nearly 90% of the Fortune Global 500® and thousands of private companies. Our people deliver measurable and lasting results that help reinforce public trust in capital markets, enable clients to transform and thrive and lead the way toward a stronger economy, a more equitable society and a sustainable world. Building on its 175-plus year history, Deloitte spans more than 150 countries and territories. Learn how Deloitte’s more than 450,000 people worldwide make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms or their related entities (collectively, the “Deloitte organisation”) is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.

© 2024. For information, contact Deloitte Global.

Designed by Deloitte CoRe Creative Services. RITM1877544