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IASB issues amendments to IAS 27 to allow the use of the equity method in separate financial statements

Why have the amendments been issued?

IAS 27 Separate Financial Statements requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 Financial Instruments (or IAS 39 Financial Instruments: Recognition and Measurement for entities that have not yet adopted IFRS 9).

As part of the IASB's 2011 Agenda Consultation, some constituents responded that the laws of some countries require listed companies to present separate financial statements using the equity method to account for investments in subsidiaries, joint ventures and associates. In addition, it was noted that in most cases the only difference between an entity's separate financial statements in accordance with IFRS and those prepared under local regulation was the use of the equity method.

The IASB acknowledged these concerns and, following publication of ED/2013/10 in December 2013 and consideration of the comment letters received, amended IAS 27 to add the option to use the equity method in an entity's separate financial statements for investments in subsidiaries, joint ventures and associates.

What are the amendments to IAS 27?

The amended IAS 27 allows an entity to use the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Consequently, an entity is permitted to account for these investments either:

(i) at cost; or

(ii) in accordance with IFRS 9 (or IAS 39); or

(iii) using the equity method.

This is an accounting policy choice for each category of investment.

Observation

'Separate financial statements are not required by IFRSs. In general, separate financial statements are required by local regulation or other financial statements users.

The amendments also clarify that when a parent entity ceases to be an investment entity, it should account for an investment in a subsidiary either at cost, using the equity method or in accordance with IFRS 9.

The effect of this change will be recognised at the date the entity changes its status and the fair value of the subsidiary at that date will be the deemed consideration for the purposes of accounting for that investment.

In addition, the IASB added consequential amendments to:

• IAS 28 Investments in Associates and Joint Ventures: The consequential amendments were added to avoid potential conflict with IFRS 10 Consolidated Financial Statements. The amendments clarify paragraph 25 such that when an entity's ownership interest in an associate or joint venture reduces, the entity is only required to reclassify to profit or loss the proportion of the gain or loss previously recognised in other comprehensive income

relating to that reduction in ownership interest when the investment continues to be classified as an associate or joint venture.

• IFRS 1 First-time Adoption of International Financial Reporting Standards: The consequential amendments require a first-time adopter that accounts for its investments in subsidiaries, joint ventures or associates using the equity method in its separate financial statements to apply the exemption for past business combinations to the acquisition of those investments. In addition, an entity that becomes a first-time adopter for its separate financial statements earlier than for its consolidated financial statements should apply paragraph D16 of IFRS 1 if it becomes a first-time adopter later than its parent, or paragraph D17 of IFRS 1 if it becomes a fist-time adopter later than its subsidiary.

Effective date

The amendments apply retrospectively to annual periods beginning on or after 1 January 2016. Earlier application is permitted.

Observation

'The IASB considered that an entity would not need to perform any additional procedures when applying the equity method in its separate financial statements because it would be able to use the information from its consolidated financial statements (i.e. the information from consolidating the entity's subsidiaries under IFRS 10 and from applying the equity method to associates and joint ventures under IAS 28). Accordingly, the IASB decided not to provide any transitional reliefs.

The IASB acknowledged in the Basis for Conclusions of the amendments that there could be situations where applying the equity method to investments in subsidiaries in separate financial statements would give a different result as compared to the consolidated financial statements. The IASB decided not to add additional guidance to address these potential differences because that would have required additional research and been outside the scope of this narrow scope project.