Australian Government
Australian Accounting Standards Board

Postal Address
PO Box 204
Collins Street West VIC 8007
Telephone: (03) 9617 7600

Dr Andreas Barckow
Chair

International Accounting Standards Board
Columbus Building, 7 Westferry Circus

Canary Wharf, London E14 4HD
UNITED KINGDOM

(submitted via the IASB website)

6 December 2024

Dear Andreas,

AASB submission on IASB Exposure Draft Equity Method of Accounting IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board (IASB) Exposure Draft Equity Method of Accounting IAS 28 *Investments in Associates in Joint Ventures* (revised 202x). In formulating these comments, the views of our Australian stakeholders were sought and considered. This included:

- consultation with the AASB's User Advisory Committee, comprising a range of primary users of financial statements;
- consultation with the AASB's Business Combinations/Equity Method Project Advisory Panel, comprising subject matter experts across a range of stakeholder groups; and
- targeted consultations with key stakeholders, such as professional bodies, auditors and preparers in Australia.

The AASB acknowledges the IASB's efforts to address the numerous practical questions that arise in equity method accounting under IAS 28 *Investments in Associates and Joint Ventures* and welcomes the proposed amendments.

Overall, stakeholders were supportive of the proposals, although some improvements were recommended in several areas, including the consistency of applying principles to the application questions, specific transition methods and current wording in the proposals. Detailed recommendations and responses to the specific questions for respondents can be found in the Appendix to this letter. If you have any questions regarding this letter, please do not hesitate to contact me or Helena Simkova, Director (hsimkova@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall
Chair – AASB

APPENDIX

AASB responses to questions raised in the IASB Exposure Draft Equity Method of Accounting IAS 28 *Investments in Associates and Joint Ventures* (revised 202x).

Question 1—Measurement of cost of an associate
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.

The AASB agrees with the IASB's proposals in relation to the measurement of the cost of an associate.

Our stakeholders have raised concerns regarding the inconsistency in the application of principles in the proposals. In answering application questions, specifically with regards to defining cost, treatment of contingent consideration and treatment of deferred taxes, the Basis for Conclusions refers to applying principles of IFRS 3 *Business Combinations* (IFRS 3). However, IFRS 3 principles are not applied to other application issues, such as transaction costs. We note a previously published IFRS IC agenda decision "IAS 28 Investments in Associates—Potential effect of IFRS 3 Business Combinations (as revised in 2008) and IAS 27 Consolidated and Separate Financial Statements (as amended in 2008) on equity method accounting" recommends that treatment of transactions costs should be included in the cost of investment, similar to the acquisition of an asset. Therefore, it appears that in resolving application questions for equity method accounting, the principles used for acquiring a business will apply to some issues, while principles used for acquiring an asset will apply to others.

Consequently, the AASB recommends that the IASB expands the Basis for Conclusions to provide more context regarding the application of IFRS 3 principles to only certain aspects of equity method accounting. To avoid potential diversity in practice, we suggest that the IASB provides guidance on the accounting for transaction costs in the standard.

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

The AASB agrees with the IASB's proposals in relation to changes in an investor's ownership interest while retaining significant influence.

The AASB notes that changes in ownership interest may include scenarios where a change in ownership interest does not result in a change in net assets of the associate (e.g. when the associate has a subsidiary with a non-controlling interest and the associate buys out the non-controlling interest via issuing its own shares, thereby diluting the entity's ownership interest in the associate. In such a situation, the associate's net assets do not change.

The IASB's proposals on how to treat such transactions focus on a change in the net assets. Therefore, the AASB recommends that the IASB consider whether applying the proposed requirements to such transactions results in an appropriate outcome.

The AASB also noted that while the IASB specifically decided not to address the treatment of equity-settled share-based payments and share warrants (BC5-46), stakeholders would find additional guidance helpful. Therefore, the AASB recommends that the IASB consider including a project on holistic review of IAS 28 in the next agenda consultation.

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

The AASB agrees with the IASB's proposals. However, we note that stakeholders did not understand why the investor should prioritise recognition of its share of profit or loss before its share of other comprehensive income (OCI) when the net investment has been reduced to nil. Therefore, the AASB recommends that the IASB expand the Basis for Conclusions to provide further clarification on the reasoning behind this proposal and assist stakeholders in understanding the changes.

In addition, the feedback from stakeholders indicated that it is unclear whether a similar principle applies when an investor resumes recognising its share of the associate's profits. For example, in a situation when an investor reduced the investment in an associate to nil and has unrecognised excess losses of CU10 (from profit or loss) and CU20 (from OCI). If in the following year, the investor's share of profit or loss is a profit of CU50 and its share of OCI is CU40, it is unclear whether all accumulated unrecognised losses should be recognised against the profit or loss, OCI or separately.

The AASB noted that the IASB deliberately decided not to address this particular situation in its proposals (BC62). However, stakeholders' feedback has indicated that this is an area of concern. The AASB suggests that the IASB clarifies the order of recognising profits in profit or loss and OCI when the share of profit is resumed.

Question 4 – Transactions with associates

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.

The AASB agrees with the proposal that an investor shall 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.

Feedback from stakeholders has indicated that entities may face practical issues when implementing the proposal retrospectively. Please refer to our response to Question 9 below.

Question 5 – Impairment indicators (decline in fair value)
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

With respect to the proposed changes relating to impairment recognition, the AASB has noted the following:

a) The stakeholders expressed concerns that the existence of any of the indications proposed in paragraph 57 of the ED may be understood as an automatic trigger for an impairment test rather than an indicator for consideration. This could lead to more impairment tests being performed, thus, increasing the cost of compliance for preparers.

b) Stakeholders noted that the removal of a "significant or prolonged" decline in fair value potentially contradicted paragraph 12(a) of IAS 36, which states, "…the asset's value has declined during the period significantly more than would be expected as a result of the passage of time or normal use".

c) The accompanying Basis for Conclusions for indications of impairment does not explain the IASB's intention of the proposed changes and, therefore, does not clarify the above points of concern. BC195 states that the proposals "would change the conditions under which an investor tests its investment in an associate or joint venture for impairment" but it does not explain what the expected change is.

d) Stakeholders also requested guidance on how to perform the impairment test of goodwill that is included in the carrying amount of the investment in an associate or joint venture. The AASB notes that this was not specifically addressed in the IASB's proposals even though further guidance on this matter would be helpful.

Therefore, the AASB recommends that the IASB reconsider the wording in the proposal to better align with current wording in IAS 36. If the proposals are finalised with the current wording, the AASB recommends that the IASB expands the Basis for Conclusions to explain the reason for the changes and clarify the IASB's intended outcome.

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.

The AASB is unable to provide a response to the IASB's question as it is uncommon in Australia for parent entities to account for subsidiaries using the equity method in separate financial statements.

Question 7 – Disclosure requirements

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.

The AASB agrees with the IASB's disclosure proposals. The AASB is of the view that the disclosures will be useful to stakeholders in assessing their investments in associates and joint ventures, particularly the reconciliation between the opening and closing carrying amount of its investments.

Question 8 – Disclosure requirements for eligible subsidiaries

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).

The AASB is unable to provide a response to the IASB's question as Australia has not adopted IFRS 19.

Question 9 - Transition
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.

The AASB disagrees with the proposal to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures**.**

This reflects the concern of our stakeholders who suggest that entities may not have all the relevant information available to apply the change retrospectively. Specifically, some downstream or upstream transactions may have been carried out in the past and preparers may not have kept records of deferred gains and losses.

Therefore, the AASB suggests that prospective application should be used to recognise gains and losses from the transactions with associates.

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?

Based on stakeholders' feedback, the AASB expects that more entities may be affected than indicated by the IASB's analysis. Nevertheless, the AASB is of the view that this does not preclude the IASB from continuing to finalise and issue the proposals present in the Exposure Draft.

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)?

The AASB does not have any further comments to make on the proposals.