Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Not-for-Profit Financial Reporting Framework**	**Meeting:**	M214
Topic:	**Redeliberation – Associates and Joint Arrangements**	**Agenda Item:**	4.4
		Date:	29 July 2025
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		Decision-Making:	High
		Project Status:	Project redeliberations

Objective of this paper

1 The objective of this staff paper is for the Board to decide how to finalise the proposed requirements exposed in ED 335 *General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities* regarding Section 13 *Investments in Associates and Joint Arrangements*.

2 The Board's decisions to date regarding the proposed other topics for address in a Tier 3 Standard are summarised in the Not-for-Profit Financial Reporting Framework project summary and in Agenda Paper 4.0.

Structure of this paper

3 This paper is set out as follows:

(a) summary of staff recommendations – paragraph 4;

(b) background and reasons for bringing this paper to the Board – paragraphs 5 – 7;

(c) summary of the exposed Tier 3 requirements for subsidiaries, joint arrangements and associates – paragraphs 8 – 12;

(d) associates and joint arrangements: summary of feedback received – paragraph 13 and Table 1;

(e) associates and joint arrangements: analysis of stakeholder comments – paragraphs 14 – 16, including Table 2.

Summary of staff recommendations

4 As set out in paragraph 16 below, staff recommend that the Board finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements for associates and joint arrangements as exposed in Section 13 of ED 335, except as follows:

(a) to amend paragraph 13.10 to make it clear that joint arrangement held through a separate vehicle can be classified as a joint operation;

(b) in applying the equity method of accounting:

(i) require transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred;

(ii) to amend paragraph 13.16 so that it does not specify how the consideration paid for the associate or joint venture should be determined; and

(iii) not to require an investor to adjust an investee's financial statements to reflect the application of the investor's accounting policies;

(c) regarding transactions between the entity and its joint ventures – to amend paragraph 13.20 to refer to a loss of control of the transferred assets instead of the transfer of the significant risks and rewards of ownership;

(d) regarding the elimination of an investor's share of the unrealised gains and losses of transactions involving an associate or joint venture – to amend paragraphs 13.20 and 13.21 and the related heading to specify that these requirements apply also to joint operations;

(e) require the impairment of investments in associates or joint ventures measured under the cost model to be recognised in accordance with Section 10: *Financial Instruments*;

(f) to amend paragraph 13.18 to clarify that the election to measure an associate or joint venture at fair value through other comprehensive income applies to all associates or all joint ventures respectively; and

(g) regarding the measurement of associates and joint ventures under the fair value model – to amend paragraph 13.18 to clarify that when fair value is not reliably measurable, the carrying amount of the asset is estimated in a different way under the fair value model.

Background and reasons for bringing this paper to the Board

5 The Board decided at its 1 May 2025 meeting to proceed with developing a Tier 3 Accounting Standard with simplified recognition, measurement, and disclosure requirements for smaller not-for-profit (NFP) private sector entities, and commence redeliberations of the proposals in ED 335.[1]

6 At the May 2025 board meeting, the Board considered the summarised feedback on ED 335 and a proposed categorisation of the extent of the Board's re-deliberation efforts. This paper presents the staff analysis and recommendations for the identified Category B topics pertaining to the accounting for associates and joint arrangements. The Category B topics are proposals where stakeholders provided mixed feedback or expressed substantive concerns on one or more particular aspects of the proposals.[2]

7 The primary objective of this paper is for the Board to, in respect of the topic covered, decide whether to make any substantive changes to the proposals exposed in ED 335. Staff have not included any revised drafting in this paper. Consistent with the approach taken to the redeliberated topics to date, staff plan to present the revised drafting collectively in November 2025, as per the project timeline outlined in Agenda Paper 4.0. This approach will allow the Board to first consider all decisions on matters of principle, ensuring a comprehensive view of the overall draft Standard.

Summary of the exposed Tier 3 requirements for subsidiaries, joint arrangements and associates

8 The proposals for the accounting for subsidiaries, joint arrangements and associates are primarily specified in Section 8 *Notable Relationships and Consolidated and Separate Financial Statements*, Section 13 *Investments in Associates and Joint Arrangements* and Section 17 *Entity Combinations* of the draft Tier 3 Standard (ED 335). <u>For ease of reference, the summarised requirements set out in paragraphs 9 – 12 below are repeated in Agenda Papers 4.2 and 4.3.</u>

9 At a high level, ED 335 made the following key proposals regarding the accounting for subsidiaries, joint ventures and joint operations, and associates:

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1 Per minutes of the 1 May 2025 AASB meeting

2 Refer Agenda Paper 4.2 of the 1 May 2025 AASB meeting for the categorisation of topics as Category A and Category B.

(a) subsidiaries, joint ventures and joint operations, and associates may be treated as a single class of assets ('investments in notable relationship entities'). This class of assets must be measured at cost, fair value, or using the equity method of accounting in the financial statements of the entity (paragraph 8.5 of ED 335).

As the investments are treated as a single class of asset, it follows therefore that the only assessment of ownership interest that is required is whether or not the holding represents at least an interest in an associate (i.e. at least significant influence in that other entity) vs. an interest in an ordinary financial asset. It is not necessary for the investor (the reporting entity) to further consider whether its interest in the acquired entity is that of control or joint control;

(b) alternatively, subsidiaries, joint ventures and joint operations, and associates may be treated as separate classes of assets. In these instances, as per Tier 1 and Tier 2 reporting requirements, the entity must determine whether its interest is that of control, joint control, or significant influence. ED 335 then directs that:

<u>Where the reporting entity is a parent</u>

(i) consolidated financial statements must be presented, in which subsidiaries must be consolidated (paragraph 8.12 of ED 335) and associates and joint ventures measured using the equity method of accounting (paragraph 13.12 of ED 335). The entity recognises its share of any jointly controlled assets, liabilities, revenues and expenses of its interests in a joint operation (paragraph 13.19 of ED 335); and

(ii) when separate financial statements are presented together with the consolidated financial statements, these subsidiaries, associates and joint ventures are measured, by class, at either cost, fair value, or using the equity method of accounting (paragraph 8.37); and

<u>Where the reporting entity is not a parent (i.e. there are no subsidiaries)</u>

(i) associates and joint ventures are measured respectively at either cost, fair value, or using the equity method of accounting (paragraph 8.37). The entity recognises its share of any jointly controlled assets, liabilities, revenues and expenses of its interests in a joint operation (paragraph 13.19 of ED 335); and

(ii) when separate financial statements are presented together with those financial statements (e.g. in addition to equity-accounted financial statements), associates and joint ventures are measured respectively at either cost, fair value, or using the equity method of accounting (paragraph 8.37).

10 The proposed disclosures for subsidiaries, associates and joint arrangements depend on whether the investments are treated as a single class (notable relationship entities) or as separate classes of assets. Section 13 contains no specified disclosures for joint operations.

11 At a high level Section 17 of ED 335 made the following proposals about the acquisition of the subsidiary in consolidated financial statements, and for other entity combinations:

(a) the carrying amounts of the assets, liabilities and items of equity of the entity to be combined, adjusted to conform with the reporting entity's accounting policies, and the fair values of material assets and liabilities that do not have an existing carrying amount recorded in accordance with Australian Accounting Standards, are to be recognised at the 'deemed combination date'. The deemed combination date is the beginning of the reporting period during which the entity combination occurred (paragraphs 17.5, 17.6 and 17.8 of ED 335); and

(b) any difference between the carrying amount of the consideration paid and the carrying amount of the net assets recorded in the combination is recognised directly in equity (paragraph 17.7 of ED 335).

12 In relation to the equity method of accounting, at a high level, the equity method proposed in ED 335 is largely consistent to that specified by AASB 128 *Investments in Associates and Joint Arrangements*. However, there are several key differences:

(a) consistent to the book value method proposed for subsidiaries, the investment is measured on Day 1 at the investor's share of the carrying amounts of the net assets of the investee. This may be different to the consideration paid for the investee, and is the result of the interaction between paragraphs 13.16 and 13.16(c) of ED 335;[3]

(b) the consideration/transaction price of the acquisition is measured by reference to the carrying amounts of the investor's net assets given up in exchange (i.e. book values of the buyer), rather than their fair values (refer paragraph 13.16 of ED 335);[4]

(c) the difference between the transaction price[5] and the investor's share of the carrying amounts of the net assets of the investee is recognised directly in equity (paragraph 13.16(c) of ED 335);[6] and

(d) while an investor should adjust the financial statements of the investee to reflect the effect of different accounting policies, it need not do so if this would be impracticable (paragraph 13.16(g) of ED 335).

Associates and joint arrangements: Summary of feedback received

13 Specific Matter for Comment (SMC) 21 in ED 335 sought stakeholder views regarding the proposed accounting for investments in associates and joint arrangements in instances where these investments are not grouped into a single category together with the entity's subsidiaries (per the accounting policy choice in Section 8 of the draft Tier 3 Standard). Per Agenda Paper 4.3 of the 1 May 2025 Board meeting, of the 18 comment letters that responded directly to ED 335 and the total participants who attended a virtual/ in-person outreach session, 9 submissions and 25 respondents provided a response to SMC 21. Table 1 below provides an overview of the responses received:

Table 1: SMC 21 responses

	Agreed	Agreed with exception	Disagreed	Unsure
Out of 9 comment letters that commented on SMC 21	5 (56%)	4 (44%)	-	-
Out of 25 participants who attended a virtual/ in-person outreach session and commented on SMC 21	20 (80%)	-	-	5 (20%)

Associates and joint arrangements: Analysis of stakeholder comments

14 As noted in Table 1, a majority of stakeholders responding on this topic agreed with the Board's proposals in ED 335 regarding the accounting for associates and joint arrangements. However, several stakeholders 'agreed with exception' or indicated they were unsure, expressing concern

3 In contrast, AASB 128 and the *IFRS for SMEs* specify that the investment is initially measured at its transaction price (including transaction costs). The initial measurement is increased by the amount of any gain on bargain purchase so that the investment reflects the investor's share of the fair value of the net assets of the investee.

4 That is, under the proposals, if a fully depreciated asset or donated asset measured at $nil were transferred as payment for an associate, the transaction price/ consideration paid for the acquisition would be $nil.

5 Staff think the reference to transaction price in paragraph 13.16(c) should have been to the consideration paid, consistent with 13.16. Staff intend to review this drafting in the revised draft Standard (expected November 2025).

6 In contrast, AASB 128 and the *IFRS for SMEs* calculate any goodwill or gain on bargain purchase by reference to the fair values of the net identifiable assets of the investee, and require a gain on bargain purchase to be immediately recognised in profit or loss. Under the *IFRS for SMEs*, any goodwill is amortised over its useful life, and subject to impairment.

with some aspects of the proposals. Their concerns and comments are summarised and analysed in Table 2 below:

<u>*Table 2: Analysis of stakeholder comments*</u>

Stakeholder comments	**Staff analysis**
Measurement models available	
1. A stakeholder (other), consistent with their comment on SMC 14 (Section 8), found the applicability of Section 13 of ED 335 confusing viz the notable relationship entities classification in Section 8. This is because in Section 13 it appears that entities will need to distinguish whether or not it jointly controls another entity, holds an associate interest or a controlling interest, or otherwise.	On reflection, staff concur that Section 8 and Section 13 of ED 335 as drafted may be confusing for readers of the Standard. As noted in the staff comments/recommendations in Agenda Paper 4.2,[7] staff intend to review and revise the drafting of Section 8 and Section 13, including to clarify the proposed accounting to make it clear that: • an investor does not need to distinguish the nature of its holdings (beyond at least an associate interest) if it treats its investments in subsidiaries, associates and joint ventures as a single class of asset (notable relationship entities); and • Section 13 is only relevant where an investor does <u>not</u> treat its investments in subsidiaries, associates and joint ventures as a single class of asset (notable relationship entities). In this instance, it is necessary for the entity to identify whether the investee is an associate or joint venture because they are classed and accounted for separately. Different accounting policies may be elected for associates vs. joint ventures and, in some instances, separate or different disclosures apply. Staff will bring a draft Standard that has regard to the stakeholder feedback to a future Board meeting (expected November 2025).
2. A stakeholder (other) observed that the ED suggests that joint operations cannot be held through a separate vehicle, and sought clarity regarding this.	Per ED 335, a joint operation is recognised by recognising the investor's share of the assets, liabilities, revenues and expenses of the joint operation. In contrast, a joint venture is measured in consolidated financial statements using the equity method of accounting, or – when the entity is not a parent – either using the cost model, fair value model, or equity method of accounting. Therefore, whether or not a separate vehicle can be identified as a joint operation is important, as the resultant accounting will differ. AASB 11 *Joint Arrangements* envisages that joint operations can be held in a separate vehicle. The equivalent classification in the *IFRS for SMEs*, "jointly controlled operations" does not. While the IASB recently considered, as part of its recent review of the *IFRS for SMEs*, whether to align the requirements of the *IFRS for SMEs* with IFRS 11, it ultimately decided that the accounting should continue to follow the legal form of the arrangement to keep the Standard simple and straightforward to apply. On reflection of Section 13 as exposed in ED 335, staff concur that the drafting in paragraph 13.10 suggests that joint operations <u>cannot</u> be held through a separate vehicle. Staff note that this text is inconsistent with paragraph 13.9 which states that a joint arrangement in which the assets and liabilities relating to the

7 These included comment about the scope of 'notable relationship entities'.

Stakeholder comments	Staff analysis
	arrangement are held in a separate vehicle can be either a joint venture or joint operation. Staff think the inconsistency was an unintended drafting error because in developing ED 335 the Board had not decided to make a simplification from Tier 2 reporting requirements in this regard (changing classifications from IFRS 11).[8] Consequently, **staff recommend** that the Board amend the text in paragraph 13.10 for consistency with paragraph 13.9 (that is, to confirm that a joint arrangement held through a separate vehicle can be classified as a joint operation).
3. Two stakeholders (professional bodies), consistent with their response to Section 8 of ED 335, disagreed that the equity method should be available as a measurement basis for entities that do not consolidate their subsidiaries. These stakeholders considered that making available this measurement basis would be inconsistent with the decision not to consolidate, as well as introduce known complexities around the fundamental principles that underlay equity accounting.	Section 13 of ED 335 is intended to apply where the entity has determined not to collectively group and treat its investments in subsidiaries, associates and joint ventures as a single class of investments (notable relationship entities). The proposed accounting in Section 13 for associates and joint ventures is similar but not identical to the Section 8 requirements for: • notable relationship entities (including in instances where the notable relationship entities comprise only associates and joint ventures); and • associates and joint ventures in a parent entity's separate financial statements. Section 13 directs an investor that is not a parent entity to measure its investments in associates and joint ventures using either a cost model, fair value model or the equity method (paragraph 13.13 of ED 335). Unlike Section 8, preparing consolidated financial statements would not be pertinent to these investors because the investor has no subsidiary entities that it could consolidate. Further, staff note that AASB 128 requires an investor to account for its investment in an associate or a joint venture using the equity method, regardless of whether consolidated financial statements are prepared. Also, both the *IFRS for SMEs* and AASB 127 *Separate Financial Statements* identify the equity method as a permitted choice of measurement basis for associates and joint ventures in separate financial statements – subsidiaries, if present, are not consolidated in these financial statements. Staff concur that the equity method has known application complexities. However, having regard to the above observations and for the following reasons, **staff recommend** continuing to specify the equity method as a possible measurement basis for associates and joint ventures in financial statements that are not consolidated financial statements: (a) consistency with Tier 1 and Tier 2 reporting requirements;

8 This would have been consistent with the IASB exposure draft relating to the *IFRS for SMEs* proposing that alignment of the classifications.

Stakeholder comments	Staff analysis
	(b) permitting the equity method as an allowable accounting policy choice in these instances is not inconsistent with the decision to permit the non-consolidation of subsidiaries; and (c) it is one of three possible measurement bases available to the entity, and an expectation could be that Tier 3 entities will be less likely to select the equity method as their accounting policy for associates and joint ventures.
4. A stakeholder (professional services firm) was unsure why the proposals in paragraph 13.13 of ED 335 allowed an investor which is not a parent an accounting policy choice in accounting for its associates and joint ventures. The stakeholder recommended alignment with Tier 2 requirements for measuring those investments, that is, requiring application of the equity method. Similarly, a stakeholder in an externally organised meeting disagreed with the measurement options, citing potential difficulties in comparing financial statements across entities. The stakeholder noted that some NFP board members may not have the level of accounting knowledge or access to external auditors on their boards to make the	As noted above, Tier 2 reporting requirements (AASB 128) direct an investor to account for its investment in an associate or a joint venture using the equity method, regardless of whether consolidated financial statements are prepared. The requirements in paragraph 13.13 of ED 335 are more akin to those specified of associates and joint ventures in Tier 2 separate financial statements, where prepared. In developing the Discussion Paper (DP) preceding ED 335, the Board proposed requiring an investor to account for its investments in associates and joint ventures using the equity method, regardless of whether consolidated financial statements are prepared. As noted in paragraph BC89 of ED 335, most stakeholders responding to the DP agreed with this preliminary view: regarding the nature of an associate or jointly controlled interest to warrant the application of Tier 2 - equivalent accounting policies. However, in response to stakeholder feedback on the DP and having regard to its decisions on consolidation and notable relationship entities, the Board changed its preliminary view (implicitly, giving less weight to comparability across entities). Per paragraph BC90 of ED 335, the Board decided that its proposed requirements for associates and joint ventures should be consistent with the requirements for notable relationship entities as this would: (a) allow the selection of a measurement basis that meets the needs of the users of the entity's financial statements; and (b) complement the accounting for notable relationship entities; while continuing to maintain some consistency with Tier 1 and Tier 2 reporting requirements. Staff note that otherwise, an investor could simply elect to treat its associates and joint ventures as notable relationship entities and apply the accounting specified by Section 8, thereby continuing to avoid equity accounting these investments. In addition, staff note that the proposed accounting policy choice is also similar to the requirements specified by the *IFRS for SMEs* in instances where the investor is not a parent entity.[9] Also having regard to the stakeholder feedback, staff think that:

9 Further, staff observe that the ED 335 proposals are already stricter than the *IFRS for SMEs* where the investor is a parent. ED 335 requires associates and joint venture to be accounted for using the equity method of accounting where consolidated financial statements are prepared. In contrast, the *IFRS for SMEs* would allow these investments to be measured using the equity method, cost model or fair value model, even in consolidated financial statements.

Stakeholder comments	Staff analysis
appropriate measurement choice. Also, the stakeholder considered the additional training costs associated with new requirements may deter some auditors from the sector, and that the level of complexity that the proposals may generate may make assurance services unprofitable.	(a) a certain level of accounting expertise should be expected of NFP board members; (b) the additional training costs associated with these requirements are unlikely to be so significant as to deter auditors from the sector, as the additional models proposed are largely consistent with Tier 2 reporting requirements; and (c) these proposals simplify Tier 2 reporting requirements (as the equity method is not required), and as such are unlikely of themselves to cause assurance services to become unprofitable. Having regard to the above history and observations, and on consideration that the stakeholder feedback does not provide any new compelling evidence that should cause the Board to change its views, **staff recommend** that the Tier 3 requirements continue to allow an investor that is not a parent a choice of measurement bases to account for its investments in associates and joint ventures.
Mechanics of the equity method of accounting	
5. A stakeholder (professional services firm) sought clarity as to whether equity accounting an associate where the investor has no financial interest will result in the investor accounting for its interest at cost (nil) with no equity-accounted adjustments.	Staff think that paragraph 13.16 is clear that the interest will not be recognised at a $nil cost. As noted in paragraph 12(a) above, the result of the interaction between paragraphs 13.16 and 13.16(c) of ED 335 is that an equity accounted investment is measured on Day 1 at the investor's share of the carrying amounts of the net assets of the investee. (Note: Unlike the proposals for entity combinations, ED 335 does not require that these carrying amounts to have been determined in accordance with Australian Accounting Standards) The difference between the $nil consideration paid and the book value of the net assets of the investee is recognised in equity. Therefore, **staff recommend** making no changes to the proposed requirements in response to the stakeholder comment.
6. Two stakeholders commented on the treatment of transaction costs incurred on acquisition of an investment accounted for using the equity method. Transaction costs are included in the initial measurement of the investment (i.e. capitalised), per paragraph 13.16 of ED 335. One stakeholder (other) observed that the treatment of	As alluded to in the stakeholder feedback, this potential component of the initial "cost" of an investment will differ depending on whether the financial asset is in the nature of an associate or joint venture, or otherwise. That is: • If Section 8 or Section 13 applies, and the equity method of accounting is adopted – transaction costs incurred in acquiring the financial asset form part of the measurement of the asset; and • If Section 10 (financial instruments) applies – transaction costs incurred in acquiring the financial asset are excluded from the measurement of the asset (per paragraph 10.5 of ED 335). The Section 10 requirement is a simplification from the treatment specified by AASB 9 *Financial Instruments*. AASB 9 requires transaction costs included in the measurement of the asset or liability, and was initially proposed in the DP preceding ED 335. Having regard to the above, and noting that the Board did not discuss during the development of the ED whether the proposed

Stakeholder comments	Staff analysis
transaction costs appears inconsistent with section 10,[10] which requires transaction costs to be expensed. The second stakeholder (professional services firm) noted that AASB ED 333 *Equity Method of Accounting* does not appear to continue the IFRIC July 2009 Agenda Decision treatment of including transaction costs in the initial equity accounted amount. Hence, that stakeholder proposed simplifying the requirements by excluding transaction costs from the measurement of the investment, consistent to the AASB 3 treatment of acquisition-related costs. (*Staff note:* Relatedly, both these stakeholders <u>disagreed</u> with the proposed treatment of transaction costs in Section 10.[11] In that instance, these stakeholders recommended that transaction costs incurred in the acquisition of a financial asset/	simplification for transaction costs should be similarly adopted for equity accounted investments, staff think that Board could, in finalising a Tier 3 Standard, consider whether it would be preferable for transaction costs to be treated consistently between Section 10, Section 8 and Section 13, and also Section 17 (entity combinations).[12] Staff have identified the following reasons for doing so: (a) this would make the Standard easier to use as there is a consistent treatment for transaction costs; (b) 'like' transactions are treated similarly; (c) requiring transaction costs to be recognised in the profit and loss more faithfully represents the expense to the entity; and (d) currently, "cost" for the purposes of measuring subsidiaries, associates and joint ventures at "cost" (paragraphs 8.5 and 8.37 of ED 335) or under the "cost model" (paragraph 13.14 of ED 335) is not defined or explained. Because transaction costs are treated differently in different parts of the Standard, this introduces ambiguity as to whether the "cost" of associates and joint ventures should include transaction costs or not. Conversely, the following are reasons why the Board should finalise the treatment of transaction costs incurred on acquisition of an equity-accounted investment as exposed in ED 335: (a) the treatment is consistent with the third edition of the *IFRS for SMEs* and current IFRS Interpretations Committee guidance set out in their July 2009 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*. Hence, it is likely consistent with the treatment specified by AASB 128; (b) comparability between entities is arguably less important when regarding the type of entities that the Tier 3 Standard is being developed for; and (c) requiring transaction costs to be immediately expensed will impact profit and loss. **Staff recommend** that the Board preference consistency in the accounting for transaction costs within a Tier 3 Standard, and require, in applying the equity method of accounting, transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred (i.e. excluded from the measurement of the asset). That is, to depart from the exposed proposal.

10 The submission referenced Section 9 *Accounting Policies, Estimates and Errors*, but staff think the intended reference was to Section 10 *Financial Instruments*.

11 In addition to these 2 stakeholders, one (1) further stakeholder in the outreach sessions disagreed with the ED 335 proposal to require transaction costs on the acquisition of financial instruments to be expensed as incurred.

12 Paragraph 17.9 of ED 335 requires transaction costs associated with an entity combination to be expensed as incurred.

Stakeholder comments	Staff analysis
financial liability be capitalised and amortised over the life of the instrument, similar to AASB 9.)	Staff think requiring transaction costs to be immediately expensed would be (1) consistent with the Board's Tier 3 Standard development principles and (2) recognise the level of financial expertise and resource/ time constraints suffered by smaller NFP private sector entities. There is also the 'benefit' of potentially future proofing the requirement, if Tier 1/ Tier 2 practice changes in this regard in the medium term. In making this recommendation, staff gave less weight to consistency with existing Tier 2 reporting requirements because the Board has made other decisions regarding the equity method that have already caused it to differ from the equity method of accounting described in AASB 128. <u>Analysis of feedback on Section 10 *Financial Instruments*</u> Per the timetable in Agenda Paper 4.0, staff intend to bring analysis of the stakeholder feedback on Section 10: *Financial Instruments* to its August 2025 meeting. Assuming the Board agrees with the staff recommendation that the accounting for transaction costs within a Tier 3 Standard should be consistent for different financial assets, staff may ask the Board to revisit this decision following the Board's decision making on the Tier 3 treatment of transaction costs incurred in the acquisition of basic and more commonly held financial assets and financial liabilities.
7. Some stakeholders in outreach meetings considered that whether 'removing goodwill' in applying the equity method is received positively will depend on the entity applying the Standard. However, they also considered that the proposed treatment of implicit goodwill is unlikely to be of significant concern as many smaller entities are unlikely to apply equity accounting presently or in the future. A few stakeholders in these meetings observed that it is less common for NFP entities to hold investments in	The Board did not receive any objections to its proposal to require the difference between the consideration paid / transaction price and the investor's share of the carrying amount of the net assets of the investee directly in equity. Therefore, there is no action required by the Board in direct response to this stakeholder feedback. <u>Further Board direction required – measurement of consideration paid</u> In reviewing Section 13, staff observe that the measurement of 'goodwill' is driven by the consideration paid for the investment asset. Paragraph 13.16 of ED 335 specifies that the consideration paid is measured at the carrying amount of the net assets transferred in exchange. As noted in footnote 4 of this paper, staff think that under the proposals, if a fully depreciated asset or donated asset measured at $nil were transferred as payment for the associate, the consideration paid for the acquisition would be $nil. Staff note that the text specifying the measurement of 'consideration paid' was reviewed by the Board at its 5-6 September 2024 meeting as part of its consideration of a draft ED. While there was no accompanying note to the drafting, staff think this was done in order to provide users of the Standard with more guidance on how to measure the investment, and that it referenced the carrying amounts given up for consistency with the 'book value' decision of the Board on entity combination accounting. However, on reflection, staff think that the Tier 3 Standard should be silent in Section 13 on identifying what is the 'consideration paid'

Stakeholder comments	Staff analysis
associates and joint ventures.	(that is, to remove the requirement that the consideration paid should be measured at the carrying amount of the net assets transferred in exchange). This would be consistent with how Section 17 (refer paragraph 17.7) is silent as to what the consideration paid by an acquirer in an entity combination is. Also, as noted in the analysis to stakeholder comment #6 above, “cost” for the purposes of measuring subsidiaries, associates and joint ventures at “cost” (paragraphs 8.5 and 8.37 of ED 335) or under the “cost model” (paragraph 13.14 of ED 335) is not defined or explained. Similarly, Section 14: *Investment Property*, Section 15: *Property, Plant and Equipment* and Section 16: *Intangible Assets* require assets to be measured at “cost”, which includes the asset’s purchase price. Staff think that differences in practice could arise as some users of the Tier 3 Standard might consider that the paragraph 13.16 direction on “consideration paid”: • does not apply in determining the consideration paid by an acquirer in an entity combination; viewing it as specifying only the application of the equity method; or • equally applies in determining the “cost” of other assets, even though this might be beyond the scope intended by the Board.[13] Staff note that in developing ED 335, the Board had considered that the ED should not explain how an entity should measure non-financial assets transferred in exchange for another non-financial asset.[14] Therefore, even though the Board has not received any stakeholder objection to its proposal to specify that the consideration paid is measured at the carrying amount of the net assets transferred in exchange, **staff recommend** that the Tier 3 Standard remain silent in this regard (i.e. remove the proposed requirement that consideration paid is measured at the carrying amount of the net assets transferred in exchange), leaving it up to preparers to develop an appropriate accounting policy.
8. Paragraph 13.16(g) of ED 335 proposes that, in applying the equity method and unless impracticable, the investor should adjust an investee’s financial	Staff observe that adjustments by a Tier 3 investor to the financial statements of its investees are not limited only to instances where the investee is a Tier 2 entity, and similar application challenges may be present in instances where the investee prepares special purpose financial statements or Tier 1-compliant general purpose financial statements – or even Tier 3-compliant general purpose financial

13 For instance, some stakeholders might interpret ‘purchase price’ as being equivalent to the ‘consideration paid’, while others may not. Assume an entity acquires a vehicle with a fair value of $100k in exchange for cash of $85k and the trade-in of its fully depreciated vehicle. Stakeholders interpreting purchase price as being equivalent to the consideration paid would recognise the new vehicle at $85k, while others might record the new vehicle at $100k and recognise a $15k gain on disposal of the fully depreciated vehicle.

14 The Board considered that smaller NFP private sector entities are unlikely to undertake exchanges of non-monetary assets, and noted that if it were to develop requirements in this regard it would have to consider the implications of its proposal that donated assets may be measured at minimal or nil value. Refer Agenda Paper 4.12 presented in the Board only supplementary folder at the 7-8 March 2024 AASB Board meeting. The Board will consider its proposal on the initial measurement of donated non-financial assets in Agenda Paper 4.1.

Stakeholder comments	Staff analysis
statements to reflect application of the investor's accounting policies. A stakeholder (professional services firm) noted a risk of significant application issues in applying this requirement if investee is a Tier 2 entity.	statements when different accounting policy elections have been made. When developing ED 335, the Board did not specifically discuss any potential further simplifications to the equity method specified in AASB 128, except with regards to the treatment of any goodwill implicit in the consideration transferred for the investee and adding the 'impracticable out' to adjusting the financial statements for different accounting policies.[15] Staff note that the 'impracticable out' to adjusting the financial statements for different accounting policies is a difference between the *IFRS for SMEs* and AASB 128. Staff concur with the stakeholder feedback that requiring the same accounting policies to be applied adds a layer of complexity to the accounting for the associate or joint venture. This could be further exacerbated by the proposed initial measurement requirements, which 'lock in' the associate's accounting policies (as the measurement has regard to the book values of the associate and joint venture). In addition, the interaction with the proposed Day 1 measurement requirements could also result in accounting outcomes that might not be as representative of the performance of the investor.[16]

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15 Refer Agenda Paper 3.12 (Supporting Material) of the 5-6 September 2024 AASB meeting. Staff note no stakeholders commenting on Section 13 specifically disagreed with the proposal that the difference between the consideration paid and the initial carrying amount of the investment be recognised in equity.

16 The following examples illustrate how staff think the requirement to adjust the financial statements of the acquiree to match the accounting policies of the investor might apply. In Example 1, the investor recognises a profit or loss impact even though it acquires its associate interest for the fair value of the entity.

Example 1: Investor A acquires 20% of the shares of Entity B for $100 on the last day of the reporting period. Investor A applies the equity method of accounting to measure its investment in Entity B. At the acquisition date, Entity B holds a single asset: ordinary shares measured at cost of $100 and which have a fair value at the acquisition date of $500. Investor A measures ordinary shares at fair value through profit and loss in accordance with the Tier 3 reporting requirements specified in Section 10 of ED 335. Under the proposals, Investor A records the following journal entries:

DR Investment in associate $20 (20% share of the carrying amount of net assets of the associate)
DR Equity ('goodwill') $80
CR Cash $100
(Initial recognition of Investor A's interest in Entity B)
and

DR Investment in associate $80
CR Share of profit/loss of associate (p/l) $80 (20% x $400 fair value increase on shares)
(The share of the profit or loss of Entity B must be adjusted to include the fair value gain on the shares, consistent with the requirement for Investor A to align the accounting policies of the associate and investor)

Example 2: Investor A acquires 20% of the shares of Entity B for $100. Investor A applies the equity method of accounting to measure its investment in Entity B. At the acquisition date, Entity B holds a single asset: bonds measured at fair value of $500 and which have a cost of $200. Investor A measures these bonds at cost in accordance with the Tier 3 reporting requirements specified in Section 10 of ED 335, as they are not held to generate a capital return for the entity. At the reporting date, the fair value of the bonds was $600. Under the proposals, Investor A records the following journal entries:

DR Investment in associate $100 (20% share of the carrying amount of net assets of the associate)
CR Cash $100
(Initial recognition of Investor A's interest in Entity B)
and

Stakeholder comments	Staff analysis
	Consequently, as there already exists a difference from AASB 128 in this regard and noting that the initial measurement of the associate/ joint venture already differs from Tier 1 reporting requirements (as the entity measures the investment at its share of the investee's book value), staff note that the Board could consider responding to the stakeholder concern by amending the extent of the proposed simplification to simply not require such adjustments in applying the equity method. This would arguably be a practical action that the Board could take especially if in practice many Tier 3 entities are likely to rely on the 'impracticable out' available – this might be the case due to challenges obtaining the information or having regard to the relative monetary cost or effort involved. Amending the extent of the simplification to simply not require such adjustments in applying the equity method avoids entities incurring costs of determining (1) whether there are different accounting policies, and (2) whether the relief is available. However, for the following reasons, it might continue to be appropriate to retain the requirement to align accounting policies, making no changes to the proposed equity method in this regard in response to the stakeholder feedback: (a) it is preferable to limit the differences between the Tier 3 'equity method' and the equity method of accounting specified by AASB 128. The 'impracticable out' enables users of financial statements to have a more consistent understanding of the measurement behind the equity accounted amount if the presumption is that the financial statements will normally be adjusted to reflect uniform accounting policies; (b) a change is not necessary as the 'impracticable out' already provides entities with an opportunity for relief from adjusting its accounting policies. The availability of the relief would depend on the reason for the application issues; and (c) relatively few entities may elect to apply the equity method to account for their associates and joint ventures (or subsidiaries). Therefore, it is not necessary for the Board to develop further specific requirements in this regard. Rather, the consistency to the *IFRS for SMEs* should be prioritised to limit further training/ education costs and facilitate the movement of accounting professionals between entities. On balance, **staff recommend** that an investor does <u>not</u> adjust an investee's financial statements to reflect application of the investor's accounting policies in applying the equity method of accounting. That is, staff recommend amending the ED 335 proposal**.** Staff think doing

DR Share of profit/loss of associate (p/l) $nil
CR Investment in associate $nil

(Entity B's profit for the period is $100, being the fair value gain on the bond. However, Investor A's share of the profit or loss of Entity B must include an adjustment to this amount to recognise the measurement of the bonds at cost, consistent with the requirement for Investor A to align the accounting policies of the associate and investor)

Stakeholder comments	Staff analysis
	so aligns the ongoing accounting with the measurement of the investment having regard to the book values of the investee.
9. A stakeholder (professional services firm) considered the requirements in paragraph 13.16(e) of ED 335 to eliminate unrealised profits or losses from upstream and downstream transactions to the extent of the investor's ownership interest in the investee is often complex and may require visibility to financial information of the investee which is not practicable to obtain. The stakeholder noted that the IASB has proposed to revise IAS 28 *Investments in Associates and Joint Ventures* to require the recognition in full of the gains and losses from all upstream and downstream transactions on the basis that control of the underlying assets has been lost (refer AASB ED 333 *Equity Method of Accounting*). As such, the stakeholder proposed that these modifications should also be included in the Tier 3 Standard as well.	Staff concur that transactions between the investor and investee introduce complexity to the application of the equity method of accounting. However, **staff recommend** that no change be made to the exposed requirements in this regard for the following reasons: (a) while the Board has expressed support for the IASB proposal,[17] the IASB and AASB have not yet made any final decisions or issued amendments to revise the equity method specified in IAS 28 and AASB 128. Therefore, it is too early to consider whether such changes would be appropriate for Tier 3 entities applying the equity method of accounting. Doing so would create a further point of difference between the equity method specified in AASB 128 and in a Tier 3 Standard, increasing costs (e.g. training/education) and making results less comparable and more difficult to interpret consistently; (b) the proposed accounting policy choices available allow entities a pathway to not having to apply the equity method of accounting; (c) the complexities and challenges in applying the equity method are also present to entities preparing financial statements that comply with Tier 1 or Tier 2 reporting requirements.
10. Two stakeholders (professional bodies) suggested replacing 'significant risks and rewards' in paragraph	The derecognition of financial and non-financial assets in ED 335 is based on the concept of control. Therefore, on reflection, staff concur with the stakeholder feedback that the reference to risks and rewards should be replaced with a reference to the notion of control.

17 AASB submission to IASB Exposure Draft *Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)*, dated 6 December 2024

Stakeholder comments	Staff analysis
13.20 of ED 335 with 'control'. The paragraph states "When a party with joint control of a joint venture … contributes or sells assets to the joint venture, recording any portion of a gain or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the joint venturer has transferred the significant risks and rewards of ownership, the joint venturer shall record only the portion of the gain or loss attributable to the other venturers' interests. …".	Consequently, **staff recommend** that the Board revise the requirement in paragraph 13.20 of ED 335 from the notion of transfer of the significant risks and rewards of ownership to that of a loss of control of the transferred assets. <u>Further Board direction required – joint operations and the elimination of unrealised gains and losses</u> On further review of Section 13, staff observed that the requirements of paragraphs 13.20 and 13.21 of ED 335 appear to be a duplication of the requirements in paragraph 13.16(e). Paragraph 13.16(e) specifies that, under the equity method, the investor should eliminate its share of unrealised profit and losses of the investee. Therefore, staff reflected on whether or not that duplication should be removed, or a cross-reference to paragraph 13.16(e) at least added. However, on further investigation, staff observed that the requirements specified in paragraphs 13.20 – 13.21 were intended to apply to both joint ventures and joint operations, such that an entity that is a joint operator would similarly be required to eliminate its share of any unrealised gains and losses related to its transactions with the joint operation, consistent with AASB 11.B34 and B36. This was indicated by the draft original heading in the AASB ED of the section ("Transactions between a party to a joint arrangement and the joint arrangement") and also reflected in the drafting of the paragraphs in question. However, in the course of finalising ED 335, the relevant heading was changed to "Transactions between a joint venturer and a joint venture". The associated paragraphs were likewise updated, thereby limiting the scope of the requirements.[18] Staff are unable to identify a specific discussion or reason for the change. Consequently, staff are seeking the Board's direction as to how the Board wants to progress on this matter. Staff have identified the following Actions the Board could take: 1. Maintain the scope of paragraphs 13.20 – 13.21 as exposed in ED 335, and include a cross-reference to paragraph 13.16(e); or 2. Amend paragraphs 13.20 and 13.21 and the related heading to require that these requirements apply also to joint operations. **Staff recommend** Action 2 (extending the scope of the requirement) as this would retain the consistency between Tier 1 / Tier 2 reporting requirements and Tier 3 reporting requirements. However, staff note that Action 1 (maintain scope and add a cross-reference) recognises that the narrower requirement has been exposed and, being limited to equity accounted investments, is simpler to apply.[19]
Disclosures	

18 Refer Agenda Paper 4.3 (Supporting Material) of the 7-8 March 2024 AASB meeting and Agenda Paper 3.12 (Supporting Material) of the 5-6 September 2024 AASB meeting.

19 Staff note that the *IFRS for SMEs* appears to specify a similar requirement in respect of investments in joint ventures that are measured under the cost model or fair value model. If so, this will be a difference between that Standard and the Tier 3 Standard.

Stakeholder comments	Staff analysis
11. A stakeholder (other) disagreed with the proposed disclosure about an investor's share of the discontinued operations of its investments in associates and joint ventures, as the stakeholder considered that a Tier 3 entity should not need to comply with AASB 5, including provisions regarding discontinued operations.	Paragraph 13.27 of ED 335 specifies that a Tier 3 entity shall disclose: (a) its share of any discontinued operations of its associates accounted for using the equity method; and (b) its share of any discontinued operations of its joint ventures accounted for using the equity method. This disclosure requirement is consistent with the requirements specified by paragraphs 14.14 and 15.20 of the *IFRS for SMEs*. At its 3 July 2025 meeting, the Board discussed how to finalise its proposed requirement that Tier 2 reporting requirements should apply to certain transactions, balances and events, including that AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* should apply to assets held for sale.[20] The Board decided to finalise the requirement as exposed in paragraph 1.3 of ED 335, except that the drafting should clarify that the requirements of the topic-based Accounting Standards referred to apply only to those specified transactions, events and other conditions within that topic-based Standard's scope.[21] Consequently, given the reason for the stakeholder's objection to this disclosure requirement and as the Board has already made a decision in this regard, staff think the Board could finalise the disclosure requirement as exposed. Alternatively, on reflection of the effort required to obtain the information required for this disclosure, the Board could determine not to finalise the proposed disclosure requirement. Consistent with the requirement for uniform accounting policies (paragraph 13.16(g) of ED 335), an investor will need to adjust the associate's financial statements to measure and reflect discontinued operations if the associate does not already comply with the measurement and presentation requirements of AASB 5 in this regard. This will impose further costs on the Tier 3 entity for less apparent benefits. On balance, **staff recommend** that a Tier 3 Standard should require the disclosure of the investor's share of any discontinued operations of its associates and joint ventures (i.e. finalise the disclosure requirement as exposed). Staff note that (1) no other stakeholders objected to the proposed disclosure, (2) staff think it would be rare for this disclosure requirement to be applicable in practice, and (3) that operations are being discontinued is information of sufficient significance as to warrant separate disclosure, where material to the understanding of the investor's financial performance and position, and even though the information collection procedures may be complex to action. Staff further note that the costs of making this disclosure might be lower) if the Board agrees with the staff recommendation for the Board to <u>not</u> finalise its proposal that the investor should adjust the

20 The presentation requirements of AASB 5 require discontinued operations (being a component of the entity that is disposed of or classified as held for sale) to be presented as a separate line item in the statement of comprehensive income.

21 Per the draft minutes of the 3 July 2025 AASB meeting set out in Agenda Paper 2.2.

Stakeholder comments	Staff analysis
	investee's accounting policies for uniformity with its accounting policies (see staff recommendation at stakeholder comment #8 above), because AASB 5 measurement requirements will not necessarily apply.
12. Two stakeholders (professional bodies) recommended including a specific reference in disclosure paragraphs 13.25 – 13.28 so that it is clear which disclosures are required when the consolidated financial statements are prepared.	Paragraphs 13.25 – 13.28 of ED 335 specify disclosures about an entity's associates and joint arrangements where those investments have not been grouped and described as 'notable relationship entities'. Some of these disclosures apply only where the entity adopts a cost model or fair value model. On review of the drafting, staff think it is clear whether or not a particular disclosure applies when consolidated financial statements are prepared. Staff also think that inserting a specific reference as suggested will overly complicate and visually lengthen the disclosures. Therefore, **staff recommend** not adding such specific reference in response to the stakeholder feedback. However, on reflection, staff think that the specified disclosures could be rearranged to better group the disclosures specific to the equity method, cost model and fair value model separately from each other and distinct from the disclosures applying irrespective of the accounting policy adopted. For example, paragraph 13.25(c) might be presented together with the requirements specified by paragraph 13.27 as these requirements are relevant only where the equity method of accounting apply while the other requirements in paragraph 13.25 apply more generally. Staff think that this rearrangement will help address the stakeholder request for better clarity. Staff propose to bring its drafting recommendations in this regard as part of a draft Standard to a future Board meeting (expected November 2025).
Other	
13. Two stakeholders (professional bodies) suggested that a Tier 3 Standard include specific requirements for the subsequent measurement of associates and joint arrangements accounted for using the cost model or fair value model.	Staff note that paragraphs 13.14 – 13.15 (cost model) and 13.18 (fair value model) of ED 335 already specify requirements for the subsequent measurement of associates and joint arrangements accounted for using the cost model or fair value model. Consequently, staff do not think it is necessary for the Standard to include further direction in this regard: for example, by inserting a 'subsequent measurement' heading or, as per paragraph 13.16 (equity method), using the word 'subsequently' in the text. Therefore, **staff recommend** making no changes to the proposed requirements in direct response to the stakeholder feedback. However, on further consideration of the sufficiency of the proposed subsequent measurement requirements for the cost model and fair value model and although no stakeholder feedback was received about these aspects of the proposals, staff have identified the following matters requiring further Board discussion and decision. 1. <u>Impairment under the cost model</u> [*Staff note:* Agenda Paper 4.1 notes that a stakeholder sought clarification of the scope of Section 23. The staff recommendation is

Stakeholder comments	Staff analysis
	consistent between the papers. The Board decision regarding address of that stakeholder comment may have implications for its decision-making in this paper] Paragraph 13.14 of ED 335 requires the impairment of an investment measured under the cost model to be recognised in accordance with Section 23: *Impairment of Assets*. However, Section 23 and its indicators of impairment are not relevant to assets of a financial nature. Consequently, **staff recommend** that the Tier 3 Standard instead require the impairment of an investment measured under the cost model to be recognised in accordance with Section 10: *Financial Instruments* (refer paragraphs 10.17 – 10.21).[22] This would be consistent with the asset's legal form being a financial asset. 2. <u>Fair value through other comprehensive income election</u> [*Staff note:* A stakeholder observed a similar ambiguity regarding similar requirements applicable to notable relationship entities. This stakeholder comment is discussed in Agenda Paper 4.2 (refer stakeholder comment #7). The staff recommendation is consistent between the papers. The Board decision regarding address of that stakeholder comment may have implications for its decision- making in this paper.]

22 Paragraphs 10.17 – 10.21 of ED 335 state as follows. Staff intend to consider further the measurement provisions of paragraph 10.21 for its suitability (as an associate or joint venture investment will have no contractual interest rate) at a future meeting if the Board agrees with the staff recommendation that the cross reference should be to Section 10 rather than Section 23:

Impairment of debtors and financial assets measured at cost

Recording

10.17 At the end of each reporting period, an entity shall assess whether there is objective evidence of impairment of any financial asset, or group of financial assets, in the following categories:

(a) debtors within the scope of Section 20: Revenue; and

(b) any other financial assets measured at cost in accordance with paragraph 10.7(b).

If there is objective evidence of impairment, the entity shall record an impairment loss in profit or loss immediately.

10.18 Objective evidence that a financial asset or group of assets is impaired includes observable data that come to the attention of the holder of the asset about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the creditor, for economic or legal reasons relating to the debtor's financial difficulty, granting to the debtor a concession that the creditor would not otherwise consider;

(d) it has become probable that the debtor will enter bankruptcy or other financial reorganisation; or

(e) observable data indicating that there has been a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recording of those assets, even though the decrease cannot yet be identified with the individual financial assets in the group, such as adverse national or local economic conditions or adverse changes in industry conditions.

10.19 Other factors may also be evidence of impairment, including significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the debtor or issuer operates.

10.20 An entity uses judgement to determine whether to assess financial assets for impairment either individually or grouped on the basis of similar credit risk characteristics.

Measurement

10.21 An entity shall measure an impairment loss for a financial asset measured at cost as the difference between the asset's carrying amount and the present value of estimated cash flows discounted at the asset's contractual interest rate.

Stakeholder comments	Staff analysis
	Paragraph 13.18 of ED 335 specifies that "Changes in the fair value of the investments shall be recorded in profit or loss, except that if an investment is held to generate both income and a capital return, the investor may make an irrevocable election, upon initial recording of a **particular investment**, to record those changes in other comprehensive income. **Any such election must be applied on a class-of-instruments basis**" [emphasis added]. Staff think that it is unclear whether this should be read as requiring: (a) all associates (or joint ventures) to be measured consistently at fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVTOCI); or (b) associates (or joint ventures) that are held to generate both income and a capital return to be measured consistently at FVTPL or FVTOCI, and treated separately from associates (and joint ventures) that are held to generate either an income or capital return. This is because the consistent measurement suggested by (a) above would appear internally consistent with the requirement in paragraph 10.7(a) of ED 335, which specifies that "… Changes in the fair value of such financial assets shall be presented in profit or loss, unless the entity elects irrevocably, on initial recording of the first asset in a class of financial assets, to present changes in the fair value of that class in other comprehensive income". Also, staff's understanding is that the Board intended for the election requirements to be consistently applied to different types of investments in associates and joint ventures.[23] However, staff observe that: (a) different associates (and joint ventures) may be held for different purposes even though all the financial instruments in question may be ordinary shares/ other equity instruments; (b) paragraph 8.37(b) appears less definitive as to what might constitute a class of associate or joint venture in the separate financial statements of an investor; and (c) paragraph 8.5 appears to suggest that, for notable relationship entities, the fair value election can be made on an asset-by-asset basis without being driven by an earlier decision in respect of another associate or joint venture. (Note: However, the staff recommendation in Agenda Paper 4.2 is for these requirements to be amended to clarify that the fair value election is driven by an earlier decision in respect of another notable relationship entity). Ultimately, staff consider that a Tier 3 Standard should be aligned in its treatment of associates and joint ventures whether or not they are accounted for in accordance with Section 8 or Section 13 of the proposed Tier 3 Standard. Otherwise, an investor could simply achieve their intended outcome by electing to apply Section 8 rather

23 Refer Minutes of the 29-30 November 2023 AASB meeting

Stakeholder comments	Staff analysis
	than Section 13 (different disclosure requirements apply). Therefore, on consideration of the observations above and having regard to the staff recommendation in Agenda Paper 4.2, **staff recommend** that the requirement "Any such election must be applied on a class-of-instruments" basis be amended to clarify that the election to measure an associate or joint venture at FVTOCI applies to all associates or all joint ventures respectively. 3. <u>Requirement to use the cost model</u> Paragraph 13.18 of ED 335 specifies that "An investor using the fair value model shall use the cost model for any investment in an associate or a joint venture for which fair value cannot be measured reliably". This requirement is mostly consistent to the equivalent requirement in the *IFRS for SMEs*. Staff note that this requirement might be read as disallowing the use of the fair value model in those instances – resulting, some associates/ joint ventures may be measured differently to other associates/ joint ventures, inconsistent to the Board's decision to require the same measurement to be applied to all investments in the same class. Also, on reflection, staff think it is not clear whether a change in accounting policy is required should a reliable fair value measurement subsequently become available. Staff note that Section 10: *Financial Instruments* of ED 335 requires equity instruments to be measured at fair value. Paragraph 10.12 states "If a reliable measure of fair value of an investment in an unlisted equity instrument is unavailable as at the measurement date, its carrying amount at the last date the asset was reliably measurable becomes its new cost. An entity shall measure the asset at this cost amount less any accumulated impairment losses until a reliable measure of fair value becomes available". On regard of the observations above, staff note that paragraph 13.18 could be revised to either: (a) Option A: Improve its consistency with paragraph 10.12. That is, to clarify that a different way of estimating the carrying amount of the asset applies <u>under the fair value model</u> for those investments for which fair value cannot be measured reliably. Staff think that under this approach, should a reliable measure of fair value subsequently become available, the changes to start remeasuring the asset at fair value will be treated as a change in accounting estimate. However, a difference from the *IFRS for SMEs* may result; or (b) Option B: Clarify that an investor cannot apply the fair value model to investments in associates and joint ventures when their fair values cannot be measured reliably. **Staff recommend** adopting the approach in Option A above. While a consistent accounting outcome can be achieved under either approach, staff prefer Option A for reasons of internal consistency and on regarding that a higher 'bar' is usually associated with a change in accounting policy.

Stakeholder comments	Staff analysis
14. A stakeholder (professional services firm) observed that the proposals reference an 'active market' (e.g. paragraph 10.27 of ED 335) without a definition. They suggested including a definition if the term is to be retained.	Paragraph 10.27 of ED 335 applies to investments in associates and joint arrangements that are measured at fair value, and requires entities to disclose the fair value amounts of financial assets that are based on a quoted price in an active market separately from those which are not. Other references to an active market in ED 335 relate to the accounting for intangible assets. At its 3 July 2025 meeting, the Board discussed the stakeholder feedback regarding the Glossary of Terms forming part of the draft Tier 3 Standard, including that the glossary appeared to be missing 'active market' as a defined term.[24] The Board decided to include, for this and other defined terms, the equivalent Tier 2 terminology within the Glossary of Terms or within the body of the Tier 3 Standard where the Tier 3 requirements do not deviate from the Tier 2 terminology.[25] Consequently, staff are not seeking a further decision from the Board in response to actions resulting from this stakeholder comment.

15 In addition to the stakeholder comments summarised in Table 2, as part of our consideration of Section 13 viz the stakeholder feedback received, staff have identified further possible editorial or minor amendments to Section 13 that have not been raised for the Board's consideration as part of this paper.[26] Staff intend to bring these recommendations, together with the changes resulting from the Board decisions on the matters noted in Table 2, to a future Board meeting for consideration as part of the Board's review of a revised draft Tier 3 Standard (expected November 2025).

Summary of recommendations and Question to the Board

16 Having regard to the majority support for the proposals and staff's analysis of the stakeholder concerns raised, staff recommend that the Board finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements for associates and joint arrangements as exposed in Section 13 of ED 335, except as follows:

(a) to amend paragraph 13.10 to make it clear that joint arrangement held through a separate vehicle can be classified as a joint operation;

(b) in applying the equity method of accounting:

(i) require transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred;

(ii) to amend paragraph 13.16 so that it does not specify how the consideration paid for the associate or joint venture should be determined; and

(iii) not to require an investor to adjust an investee's financial statements to reflect the application of the investor's accounting policies;

(c) regarding transactions between the entity and its joint ventures – to amend paragraph 13.20 to refer to a loss of control of the transferred assets instead of the transfer of the significant risks and rewards of ownership;

24 Refer Agenda Paper 5.5 of the 3 July 2025 AASB meeting

25 The draft minutes of the 3 July 2025 AASB meeting are presented as Agenda Paper 2.X of this meeting

26 These include amendments identified as part of staff's review of the third edition of the *IFRS for SMEs* Accounting Standard (issued in February 2025). As part of that review, staff determined that the IFRS Standard contains no significant substantive changes from the Exposure Draft on which Section 13 was based that impact the Board's proposals regarding associates and joint arrangements.

(d) regarding the elimination of an investor's share of the unrealised gains and losses of transactions involving an associate or joint venture – to amend paragraphs 13.20 and 13.21 and the related heading to specify that these requirements apply also to joint operations;

(e) require the impairment of investments in associates or joint ventures measured under the cost model to be recognised in accordance with Section 10: *Financial Instruments*;

(f) to amend paragraph 13.18 to clarify that the election to measure an associate or joint venture at fair value through other comprehensive income applies to all associates or all joint ventures respectively; and

(g) regarding the measurement of associates and joint ventures under the fair value model – to amend paragraph 13.18 to clarify that when fair value is not reliably measurable, the carrying amount of the asset is estimated in a different way under the fair value model.

Question 1 for Board members

Do Board members agree with the staff recommendation in paragraph 16 above for the Board to finalise, subject to any redrafting necessary to improve the clarity of the requirements, the Tier 3 requirements for associates and joint arrangements as exposed in Section 13 of ED 335, except as follows:

(a) to amend paragraph 13.10 to make it clear that joint arrangement held through a separate vehicle can be classified as a joint operation;

(b) in applying the equity method of accounting:

  (i) require transaction costs incurred in acquiring an associate or joint venture to be expensed as incurred;

  (ii) to amend paragraph 13.16 so that it does not specify how the consideration paid for the associate or joint venture should be determined; and

  (iii) not to require an investor to adjust an investee's financial statements to reflect the application of the investor's accounting policies;

(c) regarding transactions between the entity and its joint ventures – to amend paragraph 13.20 to refer to a loss of control of the transferred assets instead of the transfer of the significant risks and rewards of ownership;

(d) regarding the elimination of an investor's share of the unrealised gains and losses of transactions involving an associate or joint venture – to amend paragraphs 13.20 and 13.21 and the related heading to specify that these requirements apply also to joint operations;

(e) require the impairment of investments in associates or joint ventures measured under the cost model to be recognised in accordance with Section 10: *Financial Instruments*;

(f) to amend paragraph 13.18 to clarify that the election to measure an associate or joint venture at fair value through other comprehensive income applies to all associates or all joint ventures respectively; and

(g) regarding the measurement of associates and joint ventures under the fair value model – to amend paragraph 13.18 to clarify that when fair value is not reliably measurable, the carrying amount of the asset is estimated in a different way under the fair value model.

If not, what do Board members suggest?