

IASB Exposure Draft: Equity Method of Accounting



FOREWORD

Among the world's largest corporations, investments in associates and joint ventures (JVs) are common, reflecting their strategic importance in global operations. Companies engage in these strategies not only for financial gain but also to foster innovation, expand market presence, and share risks, cost and resource sharing, access to technology and innovation, and regulatory compliance making them integral to long-term growth and strategic alignment. Over 70% of the Global 100 companies report having associates and/or JVs on their balance sheets. The equity method of accounting serves as a cornerstone in financial reporting, enabling entities to account for investments in associates and joint ventures effectively. It provides a robust framework that reflects the investor's share of the investee's financial performance, ensuring that the interconnectedness of these entities is accurately represented.

Despite its robust framework, the method has faced challenges in its practical application over time, leading to diverse interpretations and practices across entities. These inconsistencies have underscored the need for a more transparent, more harmonized approach to enhance the comparability and reliability of financial statements.

To address these inconsistencies and enhance the clarity and comparability of financial reporting, the International Accounting Standards Board (IASB) has embarked on a project to clarify the application of the equity method in specific scenarios. This initiative aims to address specific application questions and streamline practices related to the equity method, such as changes in ownership interest, recognition of losses, and transactions involving associates. The proposed amendments are designed to resolve ambiguities, reduce diversity in application, and improve the transparency and utility of financial information for stakeholders.

By focusing on these application challenges, the IASB reaffirms its commitment to fostering consistent and high-quality financial reporting. The Exposure Draft not only addresses existing concerns but also paves the way for a more robust accounting standard that aligns with the evolving needs of preparers and users of financial statements. The enhanced guidance is expected to deliver greater clarity, thereby enabling stakeholders to make more informed economic decisions.

This Point of View delves into the key proposals outlined in the Exposure Draft, focusing on their potential impact on financial reporting practices. We aim to provide a comprehensive analysis that helps stakeholders navigate these changes effectively while contributing to the broader discourse on the development of accounting standards.

We sincerely hope you find this publication insightful and engaging. It offers a thoughtful perspective on the key concerns expressed by stakeholders and regulatory bodies. We will be happy to engage in discussions and provide clarifications on our views, which are enclosed in the attached publication. We look forward to hearing from you!



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OVERVIEW

IAS 28, Investments in Associates and Joint Ventures ('the standard' or 'IAS 28'), stands as a pivotal element of IFRS that outlines how entities should account for their investments in associates and joint ventures, emphasizing the importance of accurately reflecting their financial involvement. The standard emphasizes the importance of faithfully representing the financial involvement of entities, ensuring alignment between financial reporting and the underlying economic relationships. At its core, the standard mandates the equity method—a technique that allows investors to recognize their share of the investee's net assets and financial performance within their financial statements. By doing so, it aligns the financial reporting with the underlying economic relationship, which goes beyond mere ownership but also capturing the dynamic interaction and mutual influence between the investor and the investee.

The equity method is particularly relevant for investments when an investor exercises significant influence over the investee but does not have control, typically defined as holding between 20% and 50% of the voting rights. However, this influence is not merely a numerical threshold; it reflects a substantive ability to participate in key financial and operational decisions. The standard acknowledges that such relationships require nuanced accounting to portray the investor's exposure to risks and rewards accurately. IAS 28 also accommodates real-world complexities, offering exemptions and special treatments in certain scenarios, such as when investments are held by venture capital organizations or similar entities. By requiring entities to continually adjust their investment's carrying amount to reflect post-acquisition profits, losses, and distributions, IAS 28 ensures that the reported figures remain timely and relevant.

In September 2024, IASB published a draft update to IAS 28 to address specific application challenges related to the equity method. This exposure draft represents the culmination of a focused research project initiated in 2015, which prioritized resolving practical application issues rather than undertaking a comprehensive overhaul of the Standard.

The IASB initiated a research project in 2015 to explore potential improvements to the equity method. However, after careful consideration, the Board decided to focus on specific application questions rather than a comprehensive overhaul.

The proposed amendments address several key areas, including:

Changes in ownership interest:

Guidance on accounting for ownership changes while retaining significant influence.

Recognition of losses:

Enhanced clarity on recognizing losses when the investment's carrying amount is reduced to zero.

Transactions with associates and joint ventures:

Full recognition of gains and losses from upstream and downstream transactions.

Deferred taxes:

Addressing the impact of deferred tax effects on initial recognition.

Contingent consideration:

Clarifying the treatment of contingent consideration.

Impairment of investments:

Streamlined procedures for assessing and accounting for impairments.

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The proposed changes are poised to significantly affect entities applying the equity method, particularly those engaging in upstream or downstream transactions with associates or joint ventures. The draft requires full recognition of gains and losses from all such transactions, which could lead to more complex accounting. Additionally, the clarified guidance on loss recognition could necessitate adjustments to current practices, especially for entities with loss-making associates or joint ventures.



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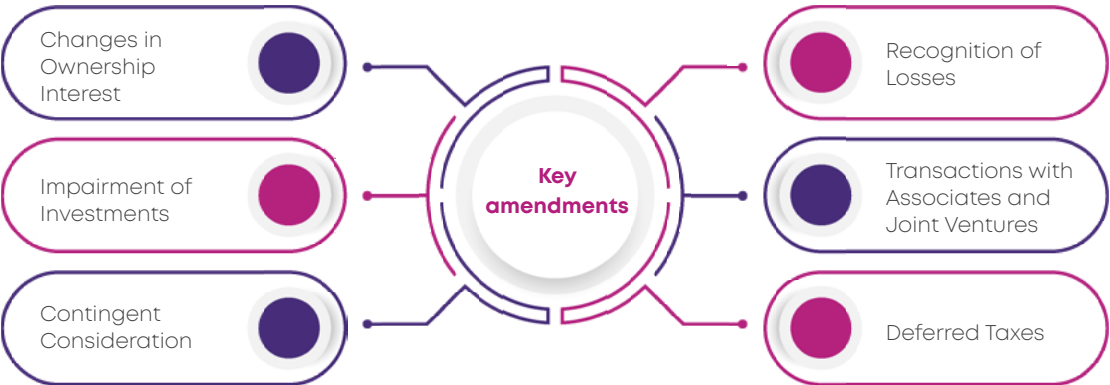
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PROPOSED AMENDMENTS

The proposed amendments are designed to enhance the transparency and comparability of financial statements. By refining the application of the equity method and introducing more comprehensive disclosure requirements, these changes aim to provide investors, creditors, and other stakeholders with deeper insights into an entity's financial performance and position. Additionally, the amendments address inconsistencies in accounting practices by offering clearer guidance on various aspects of equity method accounting. This improved specificity will promote uniformity in financial reporting across jurisdictions, facilitating easier comparison of financial information for investors.



Topic	Current guidance	Proposed change	Assessment	Entities with higher impact
Measurement of Cost on Obtaining Significant Influence	No specific guidance; practices varied between original purchase cost or IFRS 9 carrying amount.	Measure cost at fair value of consideration transferred , including previously held interests.	Aligns with IFRS 9/IFRS 3; enhances comparability and relevance; reduces diversity in practice.	Entities with frequent transitions from financial assets to associates
Additional Ownership Interests	No guidance on how to account for additional interests; practices varied (book value vs. fair value).	Measure new interests at fair value , without remeasuring previously held interests. Recognize goodwill or bargain purchase gain.	Reduces complexity; reflects incremental acquisition as part of cumulative investment; aligns with IFRS 3 principles.	Entities with incremental acquisitions in associates
Disposals While Retaining Significant Influence	No specific guidance; varied approaches for derecognition and gain/loss recognition.	Derecognize disposed portion at a pro-rata percentage of carrying amount; recognize difference as gain/loss in profit or loss.	Enhances consistency; reflects economic substance of disposals; avoids interpretational diversity.	Entities in jurisdictions with active secondary markets for equity stakes
Recognition of Losses	Unclear treatment of unrecognized losses upon additional investment or recognition of OCI components.	No catch-up of unrecognized losses. Separate recognition of profit or loss and OCI components.	Avoids artificial reductions of carrying amount; clarifies presentation in profit or loss vs. OCI.	Entities with loss-making associates or joint ventures, especially in emerging markets or start-ups
Transactions with Associates	Gains/losses on transactions restricted to unrelated investors' share; deferred recognition for transfers.	Recognize full gain or loss on all transactions, including downstream and upstream.	Resolves inconsistency with IFRS 10; simplifies accounting by removing tracking requirements for deferred gains.	Entities with frequent upstream/downstream transactions (e.g., manufacturing, supply chain, conglomerates).
Deferred Taxes	No explicit guidance on including deferred tax effects in carrying amounts; diversity in practice.	Include deferred tax effects in carrying amounts of associate's identifiable assets and liabilities.	Aligns with IFRS 3; ensures complete representation of investment value.	Entities in jurisdictions with complex tax regimes (e.g., high tax jurisdictions with temporary differences).
Contingent Consideration	No guidance for initial or subsequent measurement; diverse practices existed.	Recognize contingent consideration at fair value initially . Remeasure liability-classified instruments to profit or loss; equity-classified not remeasured.	Aligns with IFRS 3; reduces diversity; improves clarity on treatment of contingent liabilities/instruments.	Entities in acquisition-heavy industries with earnout clauses or performance-linked payments (e.g., pharma, tech).

Topic	Current guidance	Proposed change	Assessment	Entities with higher impact
Impairment Testing	Compared fair value to cost; "significant or prolonged" decline unclear.	Compare fair value to carrying amount; removed "significant or prolonged" language; added guidance on observable fair value.	Aligns with IFRS principles; simplifies impairment testing and removes ambiguity.	Entities with significant associate revaluations (e.g., real estate, financial institutions).
Disclosures	Limited reconciliation of opening and closing balances for equity-method investments.	Disclose reconciliation of opening/closing balances, downstream gains/losses, changes in ownership interest, contingent consideration.	Provides better insight into equity-method changes; enhances transparency and comparability for users.	Large, multi-national corporations with diverse associate and joint venture portfolios.

A.

Change in the ownership interest including contingent consideration

Measurement of cost of an associate

Under the current IAS 28 framework, changes in ownership interest while retaining significant influence were broadly addressed but lacked specificity:

- **Acquisitions:** The cost of additional ownership interests was typically measured without clear guidance on incorporating fair value adjustments for previously held interests.
- **Disposals:** Guidance was limited to derecognizing portions of investments and accounting for gains or losses arising from partial disposals.

There was ambiguity on whether ownership changes should adjust the carrying amount of the investment proportionately or recognize other elements like goodwill or bargain purchases.

Proposed Change

Fair Value of the consideration transferred

Including the fair value of any previously held interest in the associate

Recognize contingent consideration fair value

- Not remeasure contingent consideration classified as an equity instrument
- Measure other contingent considerations at fair value

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

When an investor acquires additional interest in an associate, disposes of existing interests in an associate, or any other changes in the investor's ownership interest while retaining significant influence, IAS 28 does not include requirements on how to account for these changes in its ownership interest in an associate. The cost of additional ownership interests was typically measured without clear guidance on incorporating fair value adjustments for previously held interests.

There was ambiguity on whether ownership changes should adjust the carrying amount of the investment proportionately or recognize other elements like goodwill or bargain purchases.

Proposed Change

Changes in ownership interest should reflect the economic realities without altering the fundamental nature of the relationship (i.e., retaining significant influence), and accordingly below changes are proposed.

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Purchasing an additional ownership

- Additional ownership interest at its fair value
- Adjust the carrying to include the investor's share of the fair value
- Difference accounted as goodwill included as part of carrying amount of the investment) or as a gain from a bargain purchase in profit or loss

Disposing of Ownership Interest

- Derecognise the disposed portion measured as a % of the carrying amount of the investment
- Recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss

Other changes in its ownership interest

- Recognise an increase in its ownership interest, as if purchasing an additional ownership interest
- Recognise a decrease in its ownership interest, as if disposing of an ownership interest

B.

Recognition of the investor's share of losses

IAS 28 currently provides the following framework for recognizing an investor's share of losses in associates or joint ventures:

- **Loss Limitation Rule:** An investor was required to discontinue recognizing its share of losses once the carrying amount of the investment (including any long-term interests forming part of the net investment) was reduced to zero.
- **Unrecognized Losses:** Losses exceeding the carrying amount were not recognized unless the investor had incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.
- **Profit Resumption:** If the associate or joint venture subsequently reported profits, recognition resumed only after unrecognized losses had been offset.

There was no clarity on whether unrecognized losses should be deducted from the cost of additional interests acquired after the carrying amount reached zero. The standard lacked guidance on how to separately recognize and present different components of the associate's comprehensive income (e.g., profit or loss and other comprehensive income). The absence of specific rules led to diverse interpretations, particularly when dealing with loss-making entities.

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Proposed Change



01

Catch-Up
Losses

Investors should not recognize previously unrecognized losses as a "catch-up" adjustment when acquiring additional ownership interests unless they have legal or constructive obligations to cover those losses



02

Separate
Recognition
of
Components

Clearly delineate an investor's share of:

Profit or Loss: Reported in the statement of profit or loss

Other Comprehensive Income: Reported separately to provide greater granularity and transparency



03

Continuous
Loss
Recognition
Rules

Reinforce that additional losses beyond the carrying amount are recognized only when obligations exist, maintaining alignment with the loss limitation rule

C. Transactions with associates

IAS 28 historically required investors to recognize gains or losses from transactions with associates only to the extent of the unrelated investors' interest in the associate. Currently, this rule applies to both downstream transactions (e.g., asset sales or contributions from the investor to the associate) and upstream transactions (e.g., asset sales from the associate to the investor).

However, a key inconsistency arose when these transactions involved the loss of control of a subsidiary. IAS 28 limited gain or loss recognition, whereas IFRS 10 required full recognition of such gains or losses. The divergence between IAS 28 and IFRS 10 led to variability in how entities reported transactions with associates. Some entities strictly adhered to IAS 28, recognizing only partial gains or losses, while others leaned on IFRS 10's principle of full recognition in cases of losing control of a subsidiary. This inconsistency reduced comparability and raised questions about the conceptual alignment between the two standards.

Proposed Change

IASB has recognized the need for a unified approach and is proposing a significant change:

- Investors will recognize **full gains and losses** from all transactions with associates, whether **upstream or downstream**.
- This includes transactions where an investor loses control of a subsidiary, ensuring alignment with IFRS 10.

D. Impairment indicators (decline in fair value)

IAS 28 required investors to assess objective evidence of impairment for their net investment in an associate based on the following:

- **Comparison Metric:** The fair value of the investment was compared to its **cost** (original recognition value) rather than its carrying amount creating inconsistencies with IAS 36.
- **Significant or Prolonged Decline:** A decline in fair value must be "significant or prolonged" to constitute objective evidence of impairment. This phrase was a legacy from IAS 39, which applied to available-for-sale financial instruments, but it is ill-suited for investments in associates measured under the equity method, as these instruments follow different accounting principles.
- **Sources of Impairment Information:** Limited guidance was provided on observable inputs for fair value, leaving room for inconsistent application.

Proposed Change

The proposed changes aim to address the shortcomings of the current approach in IAS 28 for impairment assessment.



The proposed changes aim at simplifying the assessment process and reducing interpretational variability.

The reorganization of impairment requirements in IAS 28 also aims to enhance clarity and consistency by aligning its wording and structure with IAS 36.

E.

Proposed amendments to IFRS 12 and IAS 27

The IASB's proposal to retain paragraph 10 of IAS 27 unchanged and apply the equity method in IAS 28 to investments in subsidiaries, joint ventures, and associates in separate financial statements in certain jurisdiction demonstrates an effort to maintain consistency in accounting practices while addressing existing diversity in application.

The current guidance under IFRS 12 and IAS 27 required disclosures related to the financial performance and position of investments accounted for using the equity method but lacked specificity on certain key areas. Users of financial statements often found it challenging to assess the quality and sustainability of earnings, as details such as gains or losses from changes in ownership, downstream transactions, and contingent considerations were not explicitly required.

The proposed amendments address these gaps by mandating more detailed disclosures, including reconciliations of carrying amounts, specifics of contingent consideration, and transparency around downstream transactions. These enhancements provide users with a clearer understanding of the financial effects, timing, and uncertainty of these investments, improving their ability to analyze financial statements and make informed decisions.

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F.

Proposed amendments to IFRS 19 - Disclosure requirements for eligible subsidiaries

The proposed amendments to IFRS 19 aim to refine disclosure requirements for subsidiaries without public accountability that apply IFRS with reduced disclosure obligations. These changes focus on improving transparency around specific transactions while balancing cost and relevance for eligible subsidiaries. Key proposed disclosures include:

- **Downstream Transactions:** Gains or losses resulting from transactions with associates, joint ventures, or subsidiaries accounted for using the equity method.
- **Contingent Consideration:** For arrangements linked to obtaining significant influence, joint control, or additional ownership interests, subsidiaries would disclose amounts recognized, arrangement details, and valuation bases, with updates for subsequent changes until settlement or expiration.

The IASB's evaluation ensures these amendments align with principles emphasizing short-term cash flows, liquidity, and disaggregation while avoiding disclosures with limited user value. This approach maintains the proportionality and utility of financial statements under reduced disclosure frameworks.

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G.

Other matters – Transition

The IASB's proposals for the transition requirements regarding the equity method in IAS 28 present both advantages and challenges, particularly from the perspective of users of financial statements.

Category	Requirement
Full gain or loss on all transactions	Apply retrospectively the requirement to recognize the full gain or loss on all transactions with associates or joint ventures
Contingent consideration	Recognizing 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
All other requirements	Prospectively
Restatement	Relief from restating any additional prior periods presented under IAS 8



IASB'S EXPOSURE DRAFT QUESTIONS AND UNIQUE POINT OF VIEW

The IASB's Exposure Draft (ED) on IAS 28 seeks to improve the equity method of accounting by addressing practical application challenges and enhancing clarity. The ED aims to resolve common application questions, reducing inconsistencies in how the equity method is applied across entities. This is expected to lead to more comparable, transparent, and user-friendly financial information.

- **Improved Disclosure:** Introducing new disclosure requirements to provide more detailed insights into equity-accounted investments, enhancing the transparency and relevance of financial statements.
- **Reordered Framework:** Restructuring the standard to improve its logical flow and ease of understanding, benefiting entities preparing both consolidated and separate financial statements.
- **Harmonization:** By clarifying complex areas, the IASB intends to reduce diversity in practice, thereby aligning the treatment of equity method accounting globally.

These changes underscore a commitment to improving the consistency and usability of financial reporting standards while supporting preparers in meeting user expectations effectively.

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Question 1 - Measurement of cost of an associate



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) recognize 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 considerations at fair value at each reporting date and recognize 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.

Uniquis Point of View



We broadly support the IASB's proposal to measure the cost of an associate upon obtaining significant influence at the fair value of the consideration transferred, including the fair value of any previously held interest.

This approach aligns with IFRS 3's treatment of step acquisitions in business combinations, promoting consistency across accounting standards. By revaluing previously held equity interest, the proposal reflects economic reality, recognizing gains or losses based on current fair value rather than historical costs. This methodology enhances transparency and comparability, particularly in transitions from financial asset classification (under IFRS 9) to significant influence (under IAS 28).

To further aid in implementation, we suggest that the IASB include illustrative examples to clarify scenarios such as step acquisitions with complex ownership histories or fluctuating levels of influence.

Contingent Consideration

We agree with the proposal to measure contingent consideration at fair value upon acquisition and to:

- **Not Remeasure:** For equity-classified instruments, aligning with existing IFRS practices.
- **Remeasure Through Profit or Loss:** For liability-classified instruments, update fair value at each reporting date.

However, additional clarity is needed on the following:

- **Foreign Exchange Differences:** When contingent consideration is denominated in the investee's functional currency but differs from the investor's currency, guidance should specify whether foreign exchange fluctuations are recognized in OCI or profit or loss.
- **Embedded Derivatives:** If contingent consideration includes derivatives (e.g., linked to the investee's performance), it is unclear whether these should be accounted for separately under IFRS 9 or incorporated into IAS 28 fair value adjustments. The IASB should provide explicit guidance and illustrative examples.

Transaction Costs and Directly Attributable Costs

The treatment of transaction costs incurred during the acquisition of an associate should be explicitly addressed. Consistent with broader IFRS principles, such costs should not adjust the associate's fair value, as they do not represent inherent characteristics of the asset. Instead, they should be recognized in the Statement of Profit or Loss in the period incurred. Additionally:

- Costs directly attributable to structuring or negotiating the investment (e.g., due diligence, legal fees) should be distinguished from general transaction costs.
- IASB should clarify which costs enhance the investment's value and can be capitalized, versus those incidental to the transaction, which should be expensed.

Deferred Consideration (Time-Contingent)

For deferred consideration contingent solely on the passage of time, we recommend clear guidance on:

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- **Initial Recognition:** Recognizing the present value of deferred consideration as part of the cost of acquisition.
- **Subsequent Measurement:** Recognizing the unwinding of the discount as a finance cost in profit or loss over the payment period.

Treatment of Pre-Acquisition Gains and Losses

The Exposure Draft does not explicitly address the treatment of gains or losses recognized before obtaining significant influence. For example, should gains or losses on a financial asset (previously held under IFRS 9) be adjusted directly into the cost of the investment or retained separately in retained earnings?

Explicit guidance should clarify whether to:

- Recycle pre-acquisition gains or losses into the carrying amount of the associate, or
- Retain them in retained earnings to avoid inconsistencies in practice.

Foreign Exchange Considerations

When a previously held interest is denominated in a foreign currency, the IASB should clarify how to incorporate cumulative foreign exchange translation differences into the fair value calculation at acquisition. Specific guidance is needed on whether these differences should:

- Be recycled into profit or loss at remeasurement, or
- Be included as part of the investment cost.

Initial Measurement When Using Fair Value Through Other Comprehensive Income (FVOCI)

For investments previously classified as FVOCI under IFRS 9, there is ambiguity around the treatment of unrealized gains or losses recognized in OCI upon obtaining significant influence. The IASB should specify:

- Whether unrealized gains or losses should remain in OCI, or
- Be reclassified to profit or loss or adjusted into the cost of the associate.

These clarifications will strengthen the proposed amendments, reducing interpretative variability and ensuring greater alignment with economic realities. Specifically, we recommend that the IASB:

- Provide additional illustrative examples for complex acquisition scenarios.
- Address foreign exchange fluctuations, embedded derivatives, and the treatment of transaction and deferred costs in greater detail.
- Clarify the treatment of pre-acquisition gains and losses and FVOCI unrealized gains.

Question 2 - Measurement of change in ownership interest in an associate

IASB is proposing an investor:



- a) Acquiring additional ownership interest - at the date of purchasing an additional ownership interest in an associate:
 - i. Recognize the additional ownership interest at its fair value based on the consideration transferred;
 - ii. Adjust the carrying amount to include the investor's 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) Disposing of Ownership Interest: at the date of disposing of an ownership interest:
 - i. derecognize the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and
 - ii. recognize 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. recognize 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. (ii) recognize 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'.

Uniquis Point of View



Acquisition of Additional Ownership Interest

We agree with the IASB's proposed amendments, which aim to provide explicit and practical guidance on accounting for changes in ownership interest in an associate while retaining significant influence. The clarity offered by these proposals is critical for enhancing consistency across entities. Below is our reassessed perspective:

- Measuring additional ownership interests at the **fair value of the consideration transferred** aligns well with the principles of the equity method, IFRS 3, and IFRS 11. By incorporating the investor's share of the associate's identifiable net assets, the proposal reflects the **economic substance** of these transactions.
- Recognizing the difference between the consideration transferred and the associate's net assets as **goodwill** or **bargain purchase gain** improves transparency and faithfully represents the nature of the acquisition.

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The IASB's decision not to remeasure previously held interests avoids unnecessary volatility in financial statements and maintains economic continuity, which is appropriate when the nature of the relationship (significant influence) remains unchanged.

This incremental approach ensures consistent treatment of investments and eliminates the complexity of intermittent fair value remeasurement.

Disposal of Ownership Interest

The proposal to measure the disposed portion as a **percentage of the carrying amount** ensures pragmatic and consistent accounting for partial disposals.

Recognizing the resulting gain or loss in profit or loss appropriately reflects the economic impact of disposals.

Clarifying whether the percentage-based derecognition approach considers **step acquisitions** or **changes in fair value** since initial recognition is necessary to avoid diverse interpretations.

The exposure draft lacks guidance on scenarios where **simultaneous acquisitions and disposals** occur. These transactions may lead to conflicting treatments of gains or losses if not explicitly addressed. IASB may include illustrative examples for simultaneous ownership increases and decreases to ensure consistent application.

Ownership percentage changes due to **dilution** (e.g., issuance of additional shares by the investee) require further clarification regarding the treatment of resulting gains or losses and may be addressed through an Illustrative Example.

Explicit guidance on the timing of recognition—whether on the transaction date, agreement date, or completion date—is essential, particularly for **multi-phase transactions**.

Guidance should explicitly state that transaction costs related to ownership changes should be expensed in the period incurred, as they are transactional in nature and do not alter the fair value of the additional or disposed interest.

The IASB's proposed amendments provide a strong framework for addressing changes in ownership interest. By clarifying measurement, derecognition, and treatment of additional acquisitions, the proposals enhance transparency, comparability, and consistency. However, addressing the nuanced scenarios outlined above, such as simultaneous transactions, dilution, and timing, would further strengthen the guidance and reduce the potential for interpretational diversity.

Question 3 - Recognition of the investor's share of losses

The IASB is proposing an investor:



- (a) on purchasing an additional ownership interest, not recognize its share of an associate's losses that it has not recognized by reducing the carrying amount of the additional ownership interest.
- (b) recognize and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income.

Uniquis Point of View



We generally support the IASB's proposals regarding the recognition of the investor's share of losses in an associate or joint venture. However, we believe there are areas where additional clarification or alternative approaches could enhance the practicality and relevance of the guidance.

Alignment with Economic Substance:

- The proposal to discontinue recognizing an investor's share of losses when the carrying amount of the investment is reduced to zero, unless the investor has legal or constructive obligations, aligns well with the principle of limiting recognition to the entity's exposure.
- This approach appropriately balances economic reality and the risk of overstatement of losses.

Separation of Components:

Requiring the separate recognition of an associate's profit or loss and other comprehensive income (OCI) components ensures that financial reporting aligns with the Conceptual Framework and the requirements of IAS 1.

Prioritizing losses in profit or loss over OCI aligns with the principle that the statement of profit or loss is the primary source of financial performance information.

Recommendations

Treatment of Unrecognized Losses on Subsequent Acquisitions:

IASB's proposal to prevent the recognition of previously unrecognized losses upon acquiring additional ownership interests in an associate introduces unnecessary complexity and disregards the inherent responsibilities of equity holders. When an investor increases their stake in a loss-making associate, it often signals a deeper financial commitment or a constructive obligation to support the entity. Prohibiting the "catch-up" recognition of losses artificially separates the economic reality of ownership from its accounting treatment, potentially misleading users of financial statements about the true financial exposure of the investor.

Interplay with Downstream Transactions:

Guidance on whether unrecognized losses need to be offset against gains from downstream transactions with the associate would improve the clarity of application.

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For example, if a loss-making associate subsequently generates profits through investor transactions, should these gains be offset by past unrecognized losses?

IASB may establish a rule for how unrecognized losses should interact with gains from transactions with the associate, ensuring consistent treatment.

Impact on Long-Term Interests:

Unrecognized losses under IAS 28 could overlap or conflict with expected credit loss (ECL) provisions for long-term interests under IFRS 9.

Without guidance, preparers face challenges in distinguishing between impairments recognized under IFRS 9 and those arising from equity accounting.

For example, if an associate incurs losses exceeding its equity balance, should unrecognized losses apply to loans (long-term interests) first, or should IFRS 9's impairment model takes precedence?

IASB should provide explicit rules to address how unrecognized losses should interact with impairments under IFRS 9 for long-term interests.

IASB should clarify whether unrecognized losses reduce the carrying amount of loans or other interests within the net investment, or if ECL assessments should operate independently.

We believe that by addressing these nuances, the IASB's proposals would achieve greater consistency, improve alignment with economic substance, and enhance the utility of financial statements for stakeholders.

Question 4 - Transactions with associates



The IASB is proposing to require that an investor recognize 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.

Do you agree with this proposal? If you disagree, please explain why you disagree and your suggested alternative.



Uniquis Point of View

We believe the decision to apply the full gain or loss recognition approach (as per IFRS 10) ensures consistency with how gains and losses are treated when an investor loses control of a subsidiary or disposes of assets.

By recognizing gains and losses in full, the standard reflects significant economic events, such as the loss of control of a transferred asset, in a transparent manner.

Full recognition eliminates the need for complex elimination entries or tracking of deferred gains and losses over time, significantly reducing **operational complexity and costs for preparers.**

The approach aligns with **user information needs**, providing clear and comparable information for investors, particularly when financial statements of associates are unavailable or limited. Recognizing full gains and losses makes it easier for users to assess future cash flows and evaluate an associate's performance without adjustments for restricted gains.

The proposal rightly moves away from treating associates as an extension of the reporting entity's boundary. This eliminates the artificial application of consolidation-like procedures to equity-accounted investments, as previously required by IAS 28.

Recommendation

Full recognition of gains in downstream transactions (e.g., transfers of inventory or assets to associates) may overstate an investor's financial position if the associate is unable to realize the full value of the transferred assets. Further, this could create an incentive for companies to develop structures whereby to recognize gains on own instruments.

IASB should introduce specific guidance for recognizing losses in situations where the transferred asset's value is not likely to be fully recoverable by the associate. Further, IASB should include specific guidance in situations of cross holding to avoid misuse.

In upstream transactions (e.g., sales from associate to investor), losses may be deferred under local practices, particularly if they are not indicative of a permanent impairment.

The IASB's move toward full gain and loss recognition simplifies accounting, enhances comparability, and aligns with the economic substance of transactions. However, nuanced guidance on deferred taxes, upstream losses, and recoverability assessments is needed to ensure the proposed approach achieves its intended objectives.

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 reorganize 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*.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Uniquis Point of View



We broadly agree with the IASB's proposal to amend the impairment requirements in IAS 28. The proposed changes, which aim to align the guidance on assessing impairment with IAS 36, are a step forward in promoting clarity and consistency in accounting practices. The replacement of the phrase 'decline...below cost' with 'decline...to less than its carrying amount' is particularly beneficial, as it reflects the economic reality more accurately by considering the carrying amount at the reporting date rather than the initial cost.

Alignment with IAS 36: The proposed amendments align the impairment requirements in IAS 28 with those in IAS 36. This enhances consistency across standards, particularly in how impairment is measured and recognized.

Removal of Ambiguity: Replacing 'cost' with 'carrying amount' eliminates the confusion about whether to compare fair value with initial cost or the carrying amount at the reporting date. This change aligns the assessment with the equity method's ongoing valuation principle.

Clarification on Observability of Fair Value: The addition of guidance regarding the use of observable transaction prices (e.g., purchases of additional ownership interests or sales of partial interests) to assess fair value is pragmatic. This reflects real-world practices where such transactions often provide the best evidence of fair value.

Removal of 'Significant or Prolonged' Decline: Eliminating the 'significant or prolonged' criterion reduces subjective interpretation and application difficulties, especially as IAS 36 allows for the reversal of impairment losses when conditions improve.

We believe that while the guidance suggests using transaction prices to assess fair value, it does not address scenarios where markets for such transactions are illiquid or where prices may not reflect fair value due to strategic motivations.

The proposal assumes that impairment reversals under IAS 36 are straightforward. However, additional guidance on how to account for subsequent recoveries of fair value, particularly in fluctuating markets, could provide more practical support.

The proposal does not explicitly discuss how to assess impairment for other components of net investment (e.g., long-term loans or receivables) that form part of the associate relationship under IAS 28.

While bargain purchase gains are identified as potential indicators of impairment, further clarification on assessing and accounting for such gains would be helpful, particularly when market conditions drive these transactions.

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Accordingly, IASB may consider:

- Including specific provisions for cases where the observable transaction price may not fully reflect fair value due to strategic considerations or illiquid markets.
- Provide more detailed guidance on how reversals should be accounted for when the impairment conditions no longer exist, particularly considering fluctuating fair values.
- Add examples demonstrating the impairment assessment process in various practical scenarios, including instances of bargain purchases, partial disposals, and mixed indicators of impairment.
- Explicitly state whether and how the impairment assessment applies to other components of net investment, such as long-term receivables, ensuring comprehensive application guidance.

The IASB's proposed amendments to IAS 28's impairment requirements are a positive step toward enhancing clarity and consistency in practice. By aligning the guidance with IAS 36, the changes ensure a coherent approach to assessing impairment. However, addressing the nuanced scenarios mentioned above through additional guidance or illustrative examples would further strengthen the robustness and applicability of the standard.

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.

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.



Uniquis Point of View

We disagree with IASB's decision to retain the option of applying the equity method to investments in subsidiaries, joint ventures, and associates in separate financial statements. We believe the approach adopted under Ind AS 27, which disallows the equity method in separate financial statements, is more aligned with the purpose of such statements and provides greater clarity and comparability for users.

Separate Financial Statements Serve a Distinct Purpose:

Separate financial statements are designed to present an entity's direct interests in its subsidiaries, joint ventures, and associates. They are not intended to reflect group-level performance or inter-entity economic

relationships, which are better captured in consolidated financial statements. Disallowing the equity method aligns with this distinct purpose, ensuring that separate financial statements remain focused on the entity's direct financial interests.

Clarity and Simplicity for Users:

Under Ind AS, investments in subsidiaries, joint ventures, and associates in separate financial statements are measured either at cost or in accordance with Ind AS 109 (fair value). This simplifies the accounting treatment and enhances understandability for stakeholders who rely on separate financial statements for statutory and decision-making purposes. Allowing the equity method adds an unnecessary layer of complexity, especially for entities operating across jurisdictions.

Avoiding Divergence in Presentation:

The use of the equity method in separate financial statements introduces inconsistencies with the presentation of investments in subsidiaries, joint ventures, and associates under consolidated financial statements. For example, under IAS 27, gains or losses on transactions with subsidiaries are recognized in full in separate financial statements but eliminated in consolidation. This divergence may confuse users who expect alignment between the two sets of financial statements, particularly in jurisdictions like India where separate financial statements are extensively used for statutory reporting.

Alignment with Economic Substance:

The Ind AS approach emphasizes presenting investments in subsidiaries, joint ventures, and associates based on their economic substance in separate financial statements. Cost or fair value better reflects the direct financial relationship between the parent entity and its investments without embedding group-level performance.

Recommendation:

We recommend that the IASB revisit this proposal and align IAS 27 with the **Ind AS 27 approaches**, disallowing the equity method in separate financial statements. Instead:

- Require investments in subsidiaries, joint ventures, and associates to be measured either at cost or fair value, providing preparers with a straightforward and consistent framework.
- Offer enhanced guidance on reconciling differences between separate and consolidated financial statements for jurisdictions where users may expect alignment.

Adopting this approach would simplify financial reporting, enhance comparability, and better align separate financial statements with their intended purpose. It would also ensure greater consistency with global best practices, particularly in jurisdictions that have successfully implemented the Ind AS framework.

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.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

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Unique Point of View



The proposed amendments to **IFRS 12** and **IAS 27** enhance transparency by addressing user needs for detailed disclosures about equity-method investments.

These proposals reflect feedback from users of financial statements, who indicated a need for greater transparency to assess earnings quality, sustainability of transactions, and the timing and uncertainty of future cash flows. This is particularly beneficial as it improves the utility of financial statements for decision-making by investors and other stakeholders.

We believe the proposed amendments enhance the utility of financial statements by aligning disclosure requirements with the evolving needs of users. Specifically:

Support for Proposed Disclosures: The additional information—such as reconciliations of carrying amounts, gains or losses on downstream transactions, and contingent consideration details—aligns with the broader goals of improving transparency and enabling better user analysis.

Consistency Across Standards: Extending the proposed disclosures to both associates and joint ventures promotes consistency, which is critical for comparability. Similarly, requiring disclosure of gains or losses on downstream transactions in separate financial statements ensures coherence with the equity method's application.

Practical Considerations: While some aspects, such as upstream transaction disclosures, are excluded due to cost concerns, we agree that the proposals balance preparer costs with user benefits effectively.

For subsidiaries accounted for using the equity method in separate financial statements, requiring disclosure of downstream transaction gains or losses is particularly beneficial. It provides important insights into the parent's standalone financial performance without imposing significant costs.

The proposal to recognize full gains or losses in transactions between parents and subsidiaries in separate financial statements may increase discrepancies between separate and consolidated financial statements. This could complicate reporting for entities in jurisdictions with strict dividend distribution requirements. IASB should encourage the development of clear disclosure frameworks to reconcile separate and consolidated financial statements, ensuring that users and regulators can interpret differences effectively.

We believe while the general disaggregation principle in **IFRS 18/IAS 1** suffices, the IASB could consider issuing guidance or examples to ensure consistency in practice, especially for entities with large portfolios of equity-method investments.

Question 8 – Transition



The IASB is proposing to require an entity:

- (a) to apply retrospectively the requirement to recognize the full gain or loss on all transactions with associates or joint ventures;
- (b) to apply the requirements on contingent consideration by recognizing 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.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Uniquus Point of View



We broadly **agree with the IASB's proposed changes**, as they aim to enhance comparability, transparency, and alignment with the principles of IFRS. However, we believe certain areas could be refined to balance the objectives of improved financial reporting and practical challenges faced by preparers. Below is our evaluation and recommendations:

Retrospective adjustments for gains or losses and contingent consideration may demand access to historical data that could be incomplete or unreliable. We recommend providing additional transition relief for retrospective application, such as using a simplified approach (e.g., estimating historical data based on available information) where detailed data is unavailable.

The fair value measurement of **Contingent consideration** at the transition date may involve significant estimation, particularly for older transactions where observable inputs are limited. We recommend IASB provides clarification on the methodology for fair value estimation, allowing preparers to use practical expedients where observable data is unavailable.

The exemption from **IAS 8** paragraph 28(f) disclosure for current period disclosures may limit users' understanding of the impact of changes. We recommend preparers to require key qualitative disclosures about the nature of changes and their expected impact in the current period, without overburdening preparers.

While we support the IASB's efforts to improve the equity method's transparency and comparability, additional refinements could address preparers' challenges and ensure the proposals are both practical and effective. Balancing user needs with preparer feasibility is critical for successful adoption.

Question 9 - Expected effects of the proposals

We generally agree with the IASB's analysis in paragraphs BC217–BC229 regarding the expected effects of the proposed amendments. The analysis demonstrates a balanced consideration of the likely benefits and costs of the proposals, which aim to address current inconsistencies, improve comparability, and enhance financial reporting quality. However, we highlight specific aspects where additional clarity or refinement would further strengthen the analysis and recommendations.

- While the IASB anticipates minimal implementation costs for many entities, the need for fair value measurement of additional interests or previously held interests may pose challenges, particularly for entities with limited historical data or observable inputs.
- Entities may face challenges in transitioning to new policies, such as the inclusion of deferred tax effects in the carrying amount of investments or applying fair value measurements for contingent consideration. The IASB's expectation of lower ongoing costs may not materialize in all jurisdictions with varying levels of sophistication in financial reporting.
- The requirement for a reconciliation of the carrying amount of investments, while useful, may impose additional costs on preparers, particularly smaller entities with limited resources. Allow proportional disclosures based on the materiality of investments, ensuring that the reporting burden is scalable to the size and complexity of the entity.

The IASB's analysis of the expected effects provides a thorough and well-reasoned foundation for the proposed amendments. While we agree with the analysis overall, addressing the concerns around implementation challenges, transition costs, and specific disclosure requirements would strengthen the alignment between the proposals' intended benefits and their practical application. Balancing these aspects will ensure that the proposals are both effective and feasible for preparers and users across diverse jurisdictions.

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