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# IASB/ ED/2024/7 Equity Method of Accounting

IAS 28 Investments in Associates and Joint Ventures (revised 202x)

Exposure Draft issued by the IASB in September 2024

Comments from ACCA
17 January 2025

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# GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for the Equity Method of Accounting – IAS 28 *Investments in Associates and Joint Ventures* (revised 202x). Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments on the proposed amendments are as follows:

We commend IASB for significantly amending the IAS 28 to answer application questions relating to accounting for investments in associates and joint ventures (and investments in subsidiaries in separate financial statements) using the equity method. Reorganising the standard has also improved its understandability.

We anticipate the proposed new and amended requirements will reduce diversity in practice and reducing the need for entities to develop own accounting policies, which collectively leads to providing more comparable information to users.

We'd like to highlight some areas for improvement to support consistent application of the proposed requirements.

The use of different units of account throughout the draft standard to account for essentially the same investee – ie in determining the cost of investment in an associate or joint venture, changes in ownership interest while retaining significant influence, and when performing an impairment test – needs to be reviewed. Switching between different units of account throughout the revised IAS 28 will be very confusing for the whole spectrum of stakeholders, and potentially costly to apply.

While the definition of cost in Appendix A is helpful, there is room for better clarity.

The proposal to identify the fair value of identifiable assets and liabilities in an equity-accounted associate (often called purchase price allocation ('PPA')) presents several drawbacks. This stems from determining the unit of account for investment in an associate which also raises doubts about the appropriateness of accounting for the temporary differences arising from the fair value adjustments on the associate's assets and liabilities (ie the deferred tax effects). Accounting for the deferred tax effects on adjusted assets and liabilities upon achieving significant influence and for subsequent reporting periods for what would essentially be a single line item in the financial statements seems excessive. The relevance of recognising goodwill or bargain purchase gains in the context of equity-accounted associates is also questionable.

The proposed approach to account for an increase in ownership interest while retaining significant influence creates multiple layers of investments, albeit for the same associate. Requiring an entity to perform PPA for each layer of investment, at the point of purchasing additional ownership interest and subsequent measurement, would complicate the accounting of the investment in an associate or joint venture. Accordingly, we are not in favour of extending the proposed approach to account for other changes that increase ownership interests (ie deemed purchases). This approach would be burdensome and costly to operate on an ongoing basis and may result in higher audit costs. Further, there are doubts about whether users of the entity's financial

statements need such granular information in making decisions. See our comments in questions 1 and 2.

Not requiring an entity to deduct its unrecognised share of losses from the carrying amount of newly acquired ownership interest in the same investee at the date of purchase is a step in the right direction. However, this creates a conundrum when the entity recognises goodwill in its newly acquired ownership interest when its net investment in the same associate has become negative (ie there are unrecognised losses). This adds to our concern at the proposal to perform PPA on equity-accounted investments and recognising goodwill within the carrying amount of the investment or to recognise bargain purchase gains. See our comments in questions 3.

We are supportive of rephrasing and clarifying the requirement to assess whether the net investment in an associate or joint venture might be impaired, revising the indicator of impairment by replacing ‘cost’ with ‘carrying amount’, as well as removing the ‘significant or prolonged decline in fair value’ criterion.

Eliminating the conflict between IFRS 10 and IAS 28 on the accounting for the sale or contribution of a subsidiary to its associate is a step in the right direction.

Applying one version of the equity method in both the consolidated and separate financial statements of an entity is desirable. However, we have a few concerns that need to be resolved. See our comments in question 6.

Lastly, we are supportive of enhancing the disclosure requirements to provide information that helps users understand the underlying transactions, the related amounts and the measurement uncertainty.

Our detailed responses to the specific questions asked and suggestions for improvements are set out below.

# RESPONSES TO SPECIFIC QUESTIONS RAISED

**PROPOSED AMENDMENTS TO IAS 28**

**QUESTION 1 – MEASUREMENT OF COST OF AN ASSOCIATE (APPENDIX A AND PARAGRAPHS 13, 22, 26 AND 29 OF [DRAFT] IAS 28 (REVISED 202X))**

Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:

a) whether to measure any previously held ownership interest in the associate at fair value; or
b) whether and if so how to recognise and measure contingent consideration.

The IASB is proposing an investor:
a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.
b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:
   i) not remeasure contingent consideration classified as an equity instrument; and
   ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

**ACCA response**

Overall, we suggest the IASB simplify the measurement of cost for investment in associates, by measuring the cost as defined in Appendix A of this ED, and adjusting the definition of cost to take into consideration subsequent increase in ownership interests (see our comment in Q2) and clarifying the treatment of acquisition-related costs. Details are set out below.

**Definition of cost**
We note the definition of 'cost' in Appendix A of this ED resembles 'consideration transferred' in IFRS 3[1]. To support consistent application of the requirements in this ED and to avoid diversity in practice, we suggest the IASB clarifies in Appendix A:
- the composition of 'consideration transferred' as used in this ED, and

[1] Similar to 'consideration transferred' in paragraph 37 of IFRS 3 but lacks the explanation in part of paragraphs 37 and 38 of IFRS 3.

- the accounting treatment for acquisition-related costs (also often called transaction costs).

We note that IFRS 3 requires acquisition-related costs to be expensed in the periods in which the costs are incurred and the services are received, except for the costs to issue debt or equity securities which are accounted for in accordance with IAS 32 and IFRS 9[2]. We suggest applying the same approach in IAS 28 as they typically relate to separate transactions in which the entity pays for services received and the benefits obtained are already consumed[3].

**Measurement of cost**
We support the proposal that clarifies the measurement of cost of an associate when an entity obtains significant influence, including measuring any previously held interest in the associate at fair value. We support the rationale that upon obtaining significant influence, the fair value of the financial asset given up at the date of obtaining significant influence represents part of the consideration transferred for the investment in an associate.

We also support the proposed recognition approach and the proposed initial and subsequent measurement approaches for contingent consideration.

**Purchase price allocation (PPA) and accounting for goodwill and bargain purchase gains**
The proposal to identify the entity's share of the fair value of the associate's identifiable assets and liabilities and the accounting for either goodwill as part of the carrying amount of its investment, or bargain purchase gains in profit or loss are consistent with the extant IAS 28[4]. This approach indicates the equity method is akin to the acquisition method in IFRS 3. We note the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence over an associate or joint control of a joint venture[5].

However, we have doubts about the usefulness of identifying the fair value of identifiable assets and liabilities (hereafter referred to as 'purchase price allocation') in an equity-accounted associate. This concern stems from the identification of the unit of account for investment in an associate. Paragraph 22 of this ED indicates the unit of account is the investment as a whole[6]. The individual assets and liabilities of an associate are not consolidated into the entity's financial statements, unlike a subsidiary. The entity's share of the fair value of the assets and liabilities forms part of the carrying amount of the entity's investment in the associate[7], which appears to be describing the carrying amount only.

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[2] Paragraph 53 of IFRS 3.
[3] Paragraph BC366 in the Basis for Conclusions of IFRS 3.
[4] Paragraph 32 of the extant IAS 28.
[5] Paragraph 55 of IAS 28 in this ED [or paragraph 26 of extant IAS 28].
[6] Paragraphs BC34 of this ED notes that viewing the investment in an associate as a single unit of account would be more consistent with the principles underlying IAS 28. While paragraph BC35(b) of this ED notes the IASB has considered that investment in an associate is usually managed as a single asset.
[7] Paragraph 23 of IAS 28 in this ED.

Further, we have doubts about the relevance of recognising goodwill or bargain purchase gains in the context of equity-accounted associates where only significant influence is obtained but the entity has no control over the investee (unlike a subsidiary). As the goodwill forms part of the carrying amount of the entity's investment in the associate, we question the rationale for spending an entity's finite resources on identifying this notional amount.

If the IASB proceeds with the proposal, we suggest the IASB incorporates safeguards for the recognition of bargain purchase gains, similar to those in paragraph 36 of IFRS 3. While these safeguards promote faithful representation of the bargain purchase gains, they inevitably hike the cost and effort for recognising bargain purchase gains in equity-accounted investments.

We also have doubts about whether users of the entity's financial statements need such granular information in making decisions, and linked to that, question whether the cost and effort of providing such granular information would exceed the benefit of its provision.

Therefore, we are not supportive of the proposed requirement to identify the fair value of identifiable assets and liabilities in an associate (or 'purchase price allocation'). We suggest the IASB remove the requirement to perform PPA for equity-accounted investment in associates.

**Deferred tax effects**
As mentioned earlier, the unit of account for investment in an associate should be the investment as a whole. Based on this understanding, deferred tax would apply only if the tax base and the cost of investment differ. Following our earlier concern about the appropriateness of performing PPA on equity-accounted associates, we are also concerned about the appropriateness of accounting for the temporary differences arising from the fair value adjustments of the associate's assets and liabilities.

We have doubts about whether users of the entity's financial statements need such granular information in making decisions. Such granular information may serve niche groups of users, rather than the majority of primary users. Considering that a preparer would need to account for the deferred tax effects upon achieving significant influence and for subsequent reporting periods, the cost and effort to account for the deferred tax effects for what would essentially be a single line item in the financial statements seem excessive.

Therefore, we are not supportive of the proposed inclusion of deferred tax effects arising from the fair value adjustments of the associate's identifiable assets and liabilities in the carrying amount of the investment.

**Implications on subsequent measurement**
The proposed requirement to perform PPA would further complicate subsequent measurement of the investment in an associate. An entity would need to adjust its share of the associate's profit or loss for the changes that it made to the carrying amount of the associate's identifiable assets and liabilities, including the related

deferred tax effects[8], ie recalculating the depreciation or amortisation expense based on the fair value that it has allocated to the assets, and recalculating the interest expense of liabilities that it has adjusted the fair value. When coupled with the proposed requirements in paragraphs 30 and 31 of this ED, an entity would need to keep several sets of accounts for each layer of investments in the same underlying associate (see our comments in Q2). This approach is unnecessarily complicated, burdensome to preparers and would be costly to operate on an ongoing basis.

## QUESTION 2 – CHANGES IN AN INVESTOR'S OWNERSHIP INTEREST WHILE RETAINING SIGNIFICANT INFLUENCE (PARAGRAPHS 30–34 OF [DRAFT] IAS 28 (REVISED 202X))

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

a) the purchase of an additional ownership interest in the associate;
b) the disposal of an ownership interest (partial disposal) in the associate; or
c) other changes in the investor's ownership interest in the associate.

The IASB is proposing to require that an investor:

a) at the date of purchasing an additional ownership interest in an associate:
   i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred;
   ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and
   iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss.

b) at the date of disposing of an ownership interest:
   i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and
   ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss.

c) for other changes in its ownership interest in an associate:
   i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'.
   ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'.

Paragraphs BC20–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals.

[8] Paragraph 28 of IAS 28 in this ED.

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

**ACCA response**

We note different units of account are used across proposals for the accounting of purchasing additional ownership interests and the disposal of ownership interests while retaining significant influence. We find this approach confusing and it will not be beneficial for the wide spectrum of stakeholders including preparers, auditors, investors and regulators. Our comment for each event is set out below.

**Purchasing additional ownership interest while retaining significant influence**
We have concerns about the proposal to recognise each purchase of additional ownership interest while retaining significant influence and measuring it at the fair value of the consideration transferred, without remeasuring existing ownership interests in the same associate[9]. This creates multiple layers[10] of investments, albeit for the same associate.

We also have concerns about requiring an entity to perform PPA for each layer of investment while retaining significant influence[11]. For example, an entity that purchases three separate additional ownership interests, over a period of five years while retaining significant influence would have to do three times of PPA (at the time of purchasing each portion of additional ownership interest). It's possible that the fair value of the associate's identifiable assets and liabilities would be different for each layer of additional ownership interests. It would be inherently complicated for a preparer to adjust its share of the associate's profit or loss for each layer of ownership interests – to recalculate the depreciation or amortisation expense for the related assets, or interest expense for related liabilities – all for the same associate. Besides, the goodwill for each layer forms part of the carrying amount of the investment in associates instead of a separate line item in the financial statements.

This proposal is complex and would be burdensome for preparers, and potentially incurring higher cost for preparation and audit costs.

Further, an entity would face practical challenges and probably additional costs in determining whether an insignificant purchase of additional interest in an associate (ie an additional layer) is material to justify performing another PPA. If the IASB proceeds with this proposal, we suggest explaining, in the basis for conclusions, the IASB's thoughts on the treatment for insignificant purchases.

On the other hand, if an entity is only required to perform PPA when it first achieves significant influence but not thereafter when purchasing additional ownership interests while retaining significant influence, this approach will be simpler to apply. However, the entity's share of the associate's profit or loss will be adjusted for only one layer of the entity's ownership interests in the associate. The different treatments for each layer will be confusing to users. We do not recommend this approach.

[9] Paragraph 30 of IAS 28 in this ED.
[10] For ease of reference, each purchase of additional ownership interests in the associate is referred to as one layer.
[11] Paragraphs 30 and 31 of IAS 28 in this ED.

In connection to our comments in Q1, we have doubts about the usefulness of performing a PPA for each layer, and we are not convinced that the benefit of this proposed approach will outweigh the associated costs. We suggest the IASB remove the requirement to perform PPA for equity-accounted investment in associates.

**Disposal of ownership interest while retaining significant influence**
We support the proposed approach to account for disposal of a part of ownership interests while retaining significant influence in the associate. It also indicates the unit of account is the investment as a whole. The proposed approach is also simpler in comparison to the approach proposed for additional ownership interests.

**Other changes in ownership interest while retaining significant influence**
Other changes that increase ownership interest
Considering our criticism of the proposed approach to account for additional ownership interests while retaining significant influence (as mentioned above), we are not supportive of extending the approach to other changes that increase ownership interests (ie deemed purchases)[12]. We believe that doing so will increase the complexity and cost of accounting for deemed purchases, ie the entity will be 'forced' to perform PPA for an additional layer and recalculate its share of the associate's profit or loss for that layer, each time its associate redeems its own equity instruments. If an associate redeems its own equity instruments several times, that will create several layers.

Other changes that reduce ownership interest

We are supportive of extending the proposed approach to account for disposal of an ownership interest while retaining significant influence on other changes that result in a decrease in its ownership interest (ie deemed disposals)[13].

**Accounting procedures**
We suggest the IASB reviews the relevance of retaining paragraph 55 of this ED[14]. In Q1, we raised doubts about applying concepts underlying the procedures used in accounting for the acquisition of a subsidiary on the accounting for obtaining significant influence over an associate. Having significant influence does not amount to having control. Further, we note that the proposed procedures to account for an increase in ownership interest while retaining significant influence (ie the layers) is inconsistent with the consolidation procedures described in IFRS 10. Therefore, paragraph 55 of this ED may create confusion and diversity in practice when entities interpret the paragraph differently. If the IASB proceeds with the proposal, we suggest amending the paragraph to require entities to apply requirements in IAS 28 first before referring to IFRS 10, ie 'Apart from the procedures that have been specified in this standard, many of the procedures […]'.

[12] Paragraph 34(a) of IAS 28 in this ED.
[13] Paragraph 34(b) of IAS 28 in this ED.
[14] We note the IASB has reproduced paragraph 26 of the extant IAS 28 without any changes. First part of paragraph states, *'Many of the procedures that are appropriate for applying the equity method are similar to the consolidation procedures described in IFRS 10'*.

## QUESTION 3 – RECOGNITION OF THE INVESTOR'S SHARE OF LOSSES (PARAGRAPHS 49–52 OF [DRAFT] IAS 28 (REVISED 202X))

Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses.

However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

a) on purchasing an additional ownership interest, recognises any losses not recognised as a 'catch up' adjustment by deducting those losses from the cost of the additional ownership interest; or
b) recognises separately its share of each component of the associate's comprehensive income.

The IASB is proposing an investor:

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

Paragraphs BC47–BC62 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

**ACCA response**

We are supportive of not requiring an entity that has not recognised its share of an associate's losses to recognise those losses by reducing the carrying amount of newly acquired ownership interest at the date of that purchase[15].

We note the IASB's view that deducting the entity's share of losses not recognised from newly acquired ownership interest could imply that the investment is impaired, and the existence of unrecognised losses does not necessarily mean the investment is impaired[16]. However, this may create a conundrum when the entity recognises goodwill in its newly acquired ownership interest when its net investment in the same associate has become negative (ie there are unrecognised losses). This adds to our concern at the proposal for requiring entities to perform PPA and recognising goodwill within the carrying amount of the investment or to recognise bargain purchase gains.

If the IASB proceed with the proposal, we suggest the IASB clarify whether entities that purchase additional ownership interests while having unrecognised losses are

[15] Paragraph 49 of IAS 28 in this ED.
[16] Paragraph BC53 of this ED.

required to assess whether it has created a constructive obligation to provide funding to the associate, and thus should continue recognising its share of losses[17].

We also support requiring entities to hold back from recognising their share of the associate's profit until the entity has absorbed all its share of losses that were not recognised previously[18].

We find the proposal to recognise separately an entity's share of the associate's profit or loss, and its share of the associate's other comprehensive income is consistent with current practice in accordance with the extant IAS 28. However, the proposal in paragraph 51 of IAS 28 in this ED appears to have established a sequence (or order) in recognising an entity's share of profit or loss and other comprehensive income. This is complicated and it's not helped by the example in paragraph 52 of IAS 28 in this ED. In that example, an entity that has reduced its net investment to nil recognises a loss of CU100 in profit or loss and a profit of CU100 in other comprehensive income, just so the net investment remains nil. This treatment appears to contradict the sequence established in paragraph 51 of IAS 28 in this ED and the requirement to stop recognising losses when net investment has been reduced to nil[19]. We suggest the IASB reconsider the usefulness of the sequence in paragraph 51 and enhance the example in paragraph 52 to illustrate a share of loss and other comprehensive loss.

## QUESTION 4 – TRANSACTIONS WITH ASSOCIATES (PARAGRAPH 53 OF [DRAFT] IAS 28 (REVISED 202X))

Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary.

The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.

Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal.

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

[17] Paragraph 47 of IAS 28 in this ED.
[18] Paragraph 48 of IAS 28 in this ED.
[19] Paragraph 45 of IAS 28 in this ED.

**ACCA response**

We are supportive of the proposal for an entity to recognise in full the gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates[20]. This approach eliminates the conflict between IFRS 10 and IAS 28 on the accounting for the sale or contribution of a subsidiary to its associate. An entity does not have control over its associates and the elimination of gains or losses on transactions with associates should not be required. Therefore, we also support deleting paragraph B99A and Example 17 of IFRS 10.

This simplified approach would be beneficial to preparers. It would reduce the cost and effort that was previously required to eliminate unrealised gains or losses and track these amounts until they are realised.

We are supportive of the safeguard in paragraph 54 of this ED that prevents the recognition of gains or losses on contribution of non-monetary assets to an associate in exchange for that associate's equity instruments that lacks 'commercial substance'.

**QUESTION 5 – IMPAIRMENT INDICATORS (DECLINE IN FAIR VALUE) (PARAGRAPH 57 OF [DRAFT] IAS 28 (REVISED 202X))**

Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition.

The IASB is proposing:

a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';
b) to remove 'significant or prolonged' decline in fair value; and
c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 Impairment of Assets.

Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

[20] Paragraph 53 of IAS 28 in this ED.

**ACCA response**

We are supportive of rephrasing the requirement to assess whether the net investment in an associate might be impaired and aligning the wording with the requirements in IAS 36[21]. It also clarifies that an entity must consider, as a minimum, the list of indications of impairment[22], thus removing doubt about whether some or all indicators need to be assessed.

We support revising the indicator of impairment by replacing 'cost' with 'carrying amount'[23]. However, this highlights another conundrum in relation to unit of account. The proposed paragraph 57(h) indicates the entire carrying amount of an entity's investment in an associate is viewed as a single unit of account, rather than the multiple layers (or different units of account) when accounting for additional ownership interests in an associate. Switching between different units of account throughout the revised IAS 28 will be very confusing for the whole spectrum of stakeholders.

We also support removing the 'significant or prolonged decline in fair value' criterion in the extant IAS 28 to remove the need for significant judgement in assessing whether a decline in fair value is considered 'significant or prolonged'. The inclusion of three examples where fair value might be observed is helpful.

We believe the proposed amendments to requirements for impairment testing would collectively better support entities in identifying objective evidence of impairment compared to requirements in the extant IAS 28.

Finally, the reorganised requirements in the proposed revised IAS 28 relating to impairment is easier to read and should support application.

## APPLICATION OF THE PROPOSED REQUIREMENTS TO INVESTMENTS IN SUBSIDIARIES TO WHICH THE EQUITY METHOD IS APPLIED IN SEPARATE FINANCIAL STATEMENTS

### QUESTION 6 – INVESTMENTS IN SUBSIDIARIES TO WHICH THE EQUITY METHOD IS APPLIED IN SEPARATE FINANCIAL STATEMENTS

Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements.

The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal.

[21] Paragraphs 56 and 57 of IAS 28 in this ED.
[22] Paragraph 57 of IAS 28 in this ED.
[23] Paragraph 57(h) of IAS 28 in this ED.

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

**ACCA response**

We support the proposal to apply the same equity method to account for investments in subsidiaries in the entity's separate financial statements (if the entity chose that option) – essentially one version of the equity method for both consolidated and separate financial statements. Introducing two versions of the equity method would introduce unnecessary complexity. However, we wish to highlight a few concerns that need to be addressed by the IASB.

**The concept of control and remeasuring retained interest**

The IASB's decision to apply the same equity method to account for an investment in a subsidiary[24] is premised upon the investment being accounted for as an asset controlled by the investor (the parent entity) rather than as an entity under the parent's control. This is an important distinction that separates the treatment of the same investee in the parent entity's consolidated and separate financial statements. However, the definition for 'control of an investee' in IAS 27 is the same as the definition in IFRS 10[25]. Therefore, the objective[26] of IAS 27 and the definition of control in IAS 27 should be reviewed for better clarity and alignment with the IASB's view in this ED.

This conundrum reappears when the IASB decided[27] to propose requiring a parent that obtains control of an associate or a joint venture and continues to account for the investment in the subsidiary using the equity method in its separate financial statements not to remeasure its previously held interest[28]. The IASB also decided to propose the same approach for the reverse situation[29]. We're rather confused by the IASB's rationale[30] to justify this approach that appears to contradict its earlier stance. By the same logic, the rationale should have been 'the entity (parent) retains control of the asset in these scenarios despite a higher or lower amount of ownership of that asset'.

**Reiterating concerns about the proposed equity method**

The potential drawbacks (concerns) about the proposed requirements in this ED that we have highlighted in Q1 and Q2 would similarly apply to an investment in a subsidiary that is equity-accounted in the separate financial statements, that is

- creating multiple layers of investments arising from the increase in ownership interests
- the burden of performing PPA for each layer

[24] Paragraph BC113 of this ED.
[25] Paragraph 5 of IAS 27.
[26] Paragraph 1 of IAS 27.
[27] Paragraph BC131 of this ED.
[28] Paragraph 10A of IAS 27 in this ED.
[29] Paragraph 10B of IAS 27 in this ED.
[30] Paragraph BC132(a) of this ED states *'although obtaining control of a subsidiary changes the relationship between the parent and its former associate or joint venture, the parent does not change its accounting method in its separate financial statements. The absence of a change to its accounting method suggests the parent should not remeasure its previously held interest and the same rationale applies in the reverse situation'*.

- the unclear treatment for acquisition-related costs

**Definition of cost**
To avoid confusion, we suggest the IASB clarify that an entity should apply the definition of 'cost of the associate or joint venture' in Appendix A of this ED instead of the 'cost'[31] in IAS 27 when it accounts for its investment in a subsidiary using the equity method in its separate financial statements.

## PROPOSED AMENDMENTS TO IFRS 12 AND IAS 27—DISCLOSURE REQUIREMENTS

### QUESTION 7 – DISCLOSURE REQUIREMENTS (PARAGRAPHS 20(C), 21(D)–21(E) AND 23A–23B OF IFRS 12 AND PARAGRAPH 17A OF IAS 27)

The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose:

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

The IASB is also proposing an amendment to IAS 27 to require a parent—if it uses the equity method to account for its investments in subsidiaries in separate financial statements—to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.

Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

**ACCA response**

We are supportive of all the proposed disclosures.

If the IASB proceeds with requiring entities to recognise bargain purchase gains, we suggest requiring entities to disclose the amount of any gain recognised, the line item in the statement of comprehensive income in which the gain is recognised, and the reasons why the transaction resulted in a gain[32].

[31] Paragraph 10 of IAS 27.
[32] Paragraph B64(n) of IFRS 3 requires the disclosure of this information for bargain purchase gains that are recognised from the acquisition of a subsidiary.

## PROPOSED AMENDMENTS TO IFRS 19

### QUESTION 8 – DISCLOSURE REQUIREMENTS FOR ELIGIBLE SUBSIDIARIES (PARAGRAPHS 88(C), 91A AND 240A OF IFRS 19)

IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards.

As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries.

The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:

a) to disclose information about contingent consideration arrangements; and
b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.

Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).

**ACCA response**

We are supportive of the proposed disclosures and concur with the IASB's rationale in providing the disclosures relating to contingent consideration arrangements and gains or losses resulting from an entity's 'downstream' transactions with its associates or joint ventures[33].

We also concur with the IASB's rationale for not requiring an eligible subsidiary to disclose a reconciliation between the opening and closing carrying amount of its investments in joint ventures and associates[34].

If the IASB proceeds with requiring entities to recognise bargain purchase gains, we suggest requiring an eligible subsidiary to disclose information that we have suggested in Q7. We believe such information would help users disaggregate bargain purchase gains from other gains from transactions with third parties.

[33] Paragraphs BC176(a) and BC176(b) of this ED.
[34] Paragraphs BC177 of this ED.

## OTHER MATTERS

### QUESTION 9 – TRANSITION (PARAGRAPHS C3–C10 OF [DRAFT] IAS 28 (REVISED 202X))

The IASB is proposing to require an entity:

a) to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures;
b) to apply the requirements on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date—generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments in associates or joint ventures accordingly; and
c) to apply prospectively all the other requirements from the transition date.

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

Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB's rationale for these proposals.

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

**ACCA response**

**Modified retrospective approach**

We note the proposal to apply new or modified requirements prospectively from the transition date (modified retrospective approach) instead of applying a full retrospective approach. We are supportive of this approach and concur with the IASB's rationale[35]. We support not requiring entities to disclose the information required by paragraph 28(f) of IAS 8 (or paragraph 178(f) of IFRS 19, for eligible subsidiaries)[36]. We believe the proposed approach would provide relevant comparative information to users and the cost to provide the comparative information would not outweigh the benefits.

**Gain or loss on transactions with associates or joint ventures**

We support the proposed retrospective application of the requirement to recognise the remaining portion of all previously restricted gain or loss in the opening balance of retained earnings at the transition date[37]. We also support the proposed flexibility for entities that present more than one period of comparative information[38]. The proposed relief from restating any additional prior periods presented is welcomed.

[35] Paragraph BC181 of this ED.
[36] Paragraph C10 of IAS 28 in this ED.
[37] Paragraph C4 of IAS 28 in this ED.
[38] Paragraphs C9(a) and C9(b) of IAS 28 in this ED.

**Contingent consideration**
We support the proposed approach to recognise and measure contingent consideration on the transition date[39]. We also support not remeasuring existing contingent consideration that had been recognised as an equity instrument[40].

**Clarifying the impairment assessment for increase in carrying amount**
We suggest the IASB clarify that an entity is required to perform an impairment test on its net investment in an associate or joint venture when it increases the carrying amount of that associate or joint venture at the transition date[41], only when there is objective evidence that net investment in an associate or joint venture might be impaired[42]. Different interpretations of paragraph C8 may lead to diversity in practice. The cost would outweigh the benefits of performing the impairment test if there is no indication of impairment at the transition date.

**All other requirements**
We support the proposal to apply all other requirements prospectively from the transition date.

## QUESTION 10 – EXPECTED EFFECTS OF THE PROPOSALS

Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?

**ACCA response**

We anticipate the proposed amendments would provide users with more comparable information as many of the proposals answer application questions relating to the accounting for investments in associates and joint ventures (and investments in subsidiaries in separate financial statements) using the equity method. We anticipate the proposed requirements would reduce diversity in practice.

On the other hand, we have highlighted our concerns where the cost and effort to apply some of the proposed requirements proposed in Q1 and Q2 may outweigh the benefits. Please refer to our comments in Q1 and Q2.

[39] Paragraphs C6 and C8 of IAS 28 in this ED.
[40] Paragraph C7 of IAS 28 in this ED.
[41] Paragraph C8 of IAS 28 in this ED.
[42] Paragraph BC202 of this ED.

## QUESTION 11 – OTHER COMMENTS

Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft? Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?

**ACCA response**

Various units of account were used throughout the draft standard – ie in determining the cost of investment in an associate or joint venture, changes in ownership interest while retaining significant influence, and when performing an impairment test – though all relating to the same associate or joint venture. This approach is confusing and potentially costly to apply.