



International Accounting Standards Board
(IASB)

commentletters@ifrs.org

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Comments on IASB/ED/2024/7 Equity Method of Accounting - IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

FAR, the Institute for the Accountancy Profession in Sweden, is responding to IASB's invitation to comment on the IASB/ED/2024/7 Equity Method of Accounting - IAS 28 *Investments in Associates and Joint Ventures* (revised 202x).

Summary of FAR's comment letter response

In general, FAR supports the IASB's proposed amendments to IAS 28 that will clarify the application of IAS 28 requirements and help reduce the diversity in practice. FAR considers the proposed amendments to be helpful and lead to more comparable and understandable information for users of financial statements in a cost-effective approach.

For further details of our responses, please see Appendix 1.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'P. Lundqvist', is written over a light blue horizontal line.

Pernilla Lundqvist
Chairman Accounting Practices Committee

Appendix 1

FAR's responses on the Questions addressed in the Exposure Draft

Question 1— Measurement of cost of an associate

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

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

The IASB is proposing an investor:

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

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

Do you agree with these proposals?

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

FAR's response

FAR generally supports the IASB's proposal on the measurement of the cost of an associate.

However, the Exposure Draft (ED) as well as the current version of IAS 28 does not clearly address the treatment of transaction costs for acquiring significant influence. This kind of acquisitions often involves considerable transaction costs, including financial, legal, and operational due diligence. According to the *July 2009 IFRIC update* these types of costs was to be included in the acquisition costs, however the changes proposed in this ED raises the question how to treat the transaction costs with the changed definition of measurement of the cost of an associate.

Question 2 — Changes in an investor's ownership interest while retaining significant influence

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

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

The IASB is proposing to require that an investor:

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

Do you agree with these proposals?

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

FAR's response

FAR supports the IASB's proposals.

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

Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

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

The IASB is proposing an investor:

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

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

Do you agree with these proposals?

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

FAR's response

FAR supports the IASB's proposals.

Question 4 — Transactions with associates

Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate.² This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

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

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

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

Do you agree with this proposal?

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

FAR's response

FAR supports the IASB's proposal to require that an investor recognises the full gains or losses from its 'upstream' and 'downstream' transactions with its associates and joint ventures. This would eliminate the conflict with IFRS 10 on the accounting for the sale of a subsidiary. It would also make it easier and a more consistent application for preparers to be in line with the requirements in IAS 28 since the information about gains or losses from especially 'upstream' transactions can be difficult to obtain.

Question 5 — Impairment indicators (decline in fair value)

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

The IASB is proposing:

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

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

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

Do you agree with these proposals?

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

FAR's response

FAR supports the IASB's proposal of changes to impairment of and investment in associates or joint ventures. The changes would make it easier to apply which would be helpful in application for the preparers to assess when there is need for an impairment.

Question 6 — Investments in subsidiaries to which the equity method is applied in separate financial statements

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

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

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

Do you agree with this proposal?

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

FAR's response

FAR has chosen not to respond to this question.

Question 7 — Disclosure requirements

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

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

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

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

Do you agree with these proposals?

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

FAR's response

FAR generally supports the IASB's proposals for additional disclosure requirements.

However, as we understand it the disclosure requirements for gains or losses from 'downstream' transactions with its associates or joint ventures are on a consolidated level. Since the investor's share of interest in the associates can range from small to relatively large, the information about gains or losses resulting from transactions with the associates might be difficult to set in perspective of the financial result. For the disclosures to be useful for the users FAR would like to see additional

information about how much of the gains or losses that are related to the investor's share of the associates.

Another recommendation is to include disclosure requirements for bargain purchase gains similar to the related requirements under IFRS 3. Requiring the suggested disclosures would provide transparency on the reasons for the bargain purchase gains, and this would be beneficial for users of financial statements.

Question 8 — Disclosure requirements for eligible subsidiaries

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

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

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

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

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

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

Do you agree with these proposals?

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

FAR's response

FAR has chosen not to respond to this question.

Question 9— Transition

The IASB is proposing to require an entity:

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



The IASB is also proposing relief from restating any additional prior periods presented. Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals?

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

FAR's response

FAR supports the IASB’s proposal for transition requirements. The chosen approach is balanced between the benefits for the users and the cost for the preparers.

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?

FAR's response

FAR supports the IASB’s proposals.

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)?

FAR's response

FAR has no further comments.