20 January 2025

Dr Andreas Barckow
Chair
International Accounting Standards Board
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Via online submission: www.ifrs.org

Dear Andreas

Exposure Draft: Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

Overall feedback

We support the IASB's efforts to address application challenges and reduce diversity in practice through the narrow-scope amendments to IAS 28 *Investments in Associates and Joint Ventures* (IAS 28) contained in the ED.

However, as recognised within the ED itself, these amendments represent only a small portion of the daily challenges practitioners face when applying the equity method of accounting as set out in IAS 28. We acknowledge the decision by the IASB to develop this narrow scope project as a means to address some of these issues, but remain of the view that a comprehensive review of IAS 28 is needed to provide an effective long-term solution to the existing reporting challenges.

We are therefore taking this opportunity to provide feedback on both the content of the ED and on the broader issues that remain unresolved.

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Our views on the current proposals

We agree that the amendments proposed in the ED will contribute towards enhancing the consistency and clarity around the equity method of accounting, simplifying and clarifying important areas where significant diversity in practice exist.

However, we have identified several areas for improvement, particularly when the requirements of other standards such as IFRS 3 *Business Combinations* (IFRS 3) are being used as a reference point. As a result, we have concerns that, without modification, some proposals could be overly costly to implement or have unintended consequences.

In addition, the rationale for the treatment in some of the Illustrative Examples is not always explained fully. Therefore it may be challenging to apply the same rationale to other fact patterns, which may inadvertently perpetuate diversity in practice rather than reducing it.

We have detailed these suggested improvements in our responses to consultation questions in the **Attachment**.

Our views on the broader issues

While we view the proposals in the ED as a positive initial step, we believe that a holistic, principles-based solution is needed to address several fundamental challenges associated with the equity method of accounting.

Evaluating the ED highlights that key principles underlying the equity method of accounting remain insufficiently defined in IAS 28. This makes it challenging to resolve conceptual issues or ensure effective interactions between IAS 28 and other standards such as IFRS 3, IFRS 10 *Consolidated Financial Statements* (IFRS 10), and IAS 36 *Impairment of Assets* (IAS 36). This also contributes to fundamental misunderstandings about the nature of equity accounting among stakeholders of all types.

For example, there appears to be an implicit assumption that associates are businesses, making IFRS 3 and IFRS 10 the default reference accounting standards. However, our feedback indicates that acquisition of associates can be via the acquisition of assets or businesses, resulting in significant diversity in practice when applying the equity method of accounting. Since it is unclear whether equity accounting is a measurement basis or a quasi-consolidation method it is difficult to determine an appropriate and consistent approach.

We therefore believe that only a holistic, principles-based solution will address the broader challenges associated with the equity method of accounting, providing clear guidance for stakeholders, and enhance the overall consistency and quality of financial reporting.

As noted in the CPA Australia submission in response to the 2015 IASB Agenda Consultation and in our joint response to Question 8 of the IFRS 10, 11 and 12 post-implementation review, we have consistently called for a comprehensive review of the equity

method of accounting to be completed. We therefore recommend that the project be included in the next IASB Agenda Consultation so that all stakeholders can express their views on the need for and urgency of a comprehensive review of IAS 28.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Ram Subramanian at ram.subramanian@cpaaustralia.com.au (CPA Australia) or Amir Ghandar at amir.ghandar@charteredaccountantsanz.com (CA ANZ).

Yours sincerely

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Attachment

Responses to consultation questions

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.

We agree with the proposed clarifications in the ED regarding the measurement of the cost of an associate or joint venture upon obtaining significant influence, and the proposed accounting treatment for contingent consideration. However, our stakeholders have indicated that there are practical challenges and complexities associated with these matters. Much of this complexity is due to the application of the IFRS 3 approach to the accounting for associates, when investments in associates represent a distinct category of assets where the concept of control does not apply. Furthermore, there is ambiguity regarding whether the

equity method of accounting is intended as a measurement basis or as a single-line consolidation method, which adds additional complexity to these decisions.

We therefore recommend that the IASB clarifies the principles and rationale underlying the selective application of IFRS 3 requirements. It is crucial that the final standard articulates why certain principles from other accounting standards are applied to some transactions but not others. Specifically, we suggest providing additional guidance to address the following issues:

Contingent consideration

Our feedback is that the proposed contingent consideration requirements, based as they are on the requirements of IFRS 3, may lead to unintended consequences and practical challenges in scenarios where associates are not businesses.

Transaction costs

The ED does not address the treatment of transaction costs, which we consider an important issue requiring clarification given the different requirements in IFRS 3 and in the July 2009 IFRIC Agenda Decision concerning acquisition costs. We recommend that the IASB provide additional guidance on this matter.

Recognition of deferred tax

Our stakeholder feedback indicates that there is diversity in practice in the way the deferred tax effect of fair value adjustments is accounted for at the initial recognition of the investment. This is because some entities apply the deferred tax exemption at the initial recognition; treating the investment as an asset acquisition rather than a business acquisition due to the lack of clarity on this matter referred to above.

In principle, we agree that deferred tax effects related to fair value adjustments should be included in the carrying amount of an investment in an associate upon initial recognition. We also agree that paragraph 23 of the ED now appropriately clarifies this requirement. However again there is a need to clarify why the IFRS 3 principles have been applied in reaching this decision and how and why the deferred tax aspects are dealt with as the level of the investment changes.

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.

Do you agree with these proposals?

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

In general, we support the IASB's efforts to clarify the accounting treatment of subsequent changes in ownership interest of an associate while retaining significant influence. However, some stakeholder feedback suggests that the proposed 'layered' approach could be both costly and complex in scenarios involving multiple simultaneous transactions or numerous transactions within a single year.

While we understand the rationale for the proposed approach, as outlined in paragraphs BC20–24 of the Basis for Conclusions, we are concerned that adopting a full purchase price allocation approach, similar to IFRS 3, for each change in ownership interest, may not be a pragmatic and cost-effective solution.

Similarly, we are concerned that the proposed requirement to recognise deferred tax on each 'layer' of a new acquisition upon attaining significant influence will be costly and complex, and without clear rationale in these circumstances.

To address the above concerns, we recommend that the IASB provide further clarification on how the proposals should be applied to complex ownership changes involving multiple simultaneous transactions. Such explanations should explicitly recognise that the carrying amount of investments in associates will now include elements such as goodwill, deferred tax impacts on fair value adjustments, and contingent consideration that are not readjusted under the 'layering' approach. Similarly, the impacts on these balances should be identified where changes in ownership interest result in the loss of significant influence and the 'single unit' approach is applied.

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.

We support the proposals to clarify the accounting treatment when the carrying amount of an investment in an associate is reduced to nil.

Stakeholder feedback indicates that the process for recognising previously unrecognised losses after an investment has been reduced to nil, and subsequently begins generating profits, requires further clarification. We recommend that the IASB provides additional clarity on the rationale for prioritising profit or loss over other comprehensive income, when reversing losses as outlined in paragraph 51 of the ED.

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.

We agree with the proposed amendments to recognise the full gains and losses resulting from all 'upstream' and 'downstream' transactions with associates. These proposals will simplify the accounting for such transactions, reduce compliance costs and minimise diversity in practice.

However, the proposal to release all upstream and downstream gains and losses on initial adoption of the amending standard lacks a robust conceptual basis and so this decision needs additional justification. Additionally, the decision to address concerns about the risk of non-arm's length transactions involving joint ventures solely through disclosure requirements again exposes the challenges associated with a lack of sound principles to underpin the application of these requirements to joint ventures. Our stakeholders also have concerns about implementing this change retrospectively (see our response to Question 9).

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.

Our feedback suggests that the proposed changes to the wording in paragraph 41C may alter the timing and nature of impairment assessments. Impairment indicators are regarded as triggers for impairment testing rather than matters for consideration and so the removal of the reference to a timeframe, such as "significant or prolonged" introduces ambiguity regarding the period over which impairment indicators should be evaluated. We recommend that paragraph 57, and the associated paragraphs (BC101–102) in the Basis for Conclusions, be expanded to provide additional clarity on this matter.

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

We do not have any comments on this question as the use of equity accounting by parents in separate financial statements is uncommon in Australia and New Zealand.

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.

We agree that the additional disclosures on matters (a) to (d) above will assist users to better understand the nature of these equity accounting transactions. We also support the additional disclosure concerning downstream transactions by a parent using the equity method of accounting.

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).

Australia and New Zealand do not apply IFRS 19 presently, so we have not commented on these proposals.

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.

The feedback we received highlights significant concerns with the complexity of the proposed transition requirements. In particular:

- Entities may not have sufficiently detailed historical records of the remaining portions of previously restricted gains or losses from transactions with associates to enable as simple an adjustment as the IASB has presumed, making retrospective application challenging and so prospective application would be preferred.
- The transition paragraphs imply that the deferred tax effects arising from fair value adjustments should be adjusted prospectively. However, our stakeholders have highlighted that this approach could result in accounting mismatches, since the adoption of the 'layered' approach will now include a deferred tax impact, while previously held balances may not due to the diversity in practice we have highlighted in our responses to Questions 1 and 2.

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?

As highlighted in our responses to Questions 1, 2 and 9, we are concerned that the IASB's current proposals will have greater impact than expected and that the IASB's cost/benefit assessment is incomplete in these areas without further consideration of these issues.

Question 11—Other comments

a) 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?

b) 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)?

a) We agree that the Illustrative Examples are a helpful means of explaining many of the clarifications being introduced by this ED. However, we are concerned that without a clearer articulation of the principles supporting these illustrations, there is a risk of over reliance on these examples in a rules-based manner which may inadvertently perpetuate diversity in practice rather than reducing it. There is therefore a greater need to more clearly articulate the principles upon which these illustrative examples are based.

   We also have a specific concern about the content of Illustrative Example IE2 Example 1 Part 1, which states: *"In accordance with IFRS 9 Financial Instruments, Entity A measures the investment at fair value and … Entity A recognises the change of CU300 in the fair value of the financial asset in profit or loss."* However, IFRS 9 Financial Instruments also permits the classification of fair value changes through other comprehensive income (FVTOCI). As such, the wording in this example could be misleading and may require modification for greater clarity.

b) We support the proposed restructure of IAS 28 as our feedback is that it is helpful in making the standard more understandable.