Comments On Exposure Draft

Exposure Draft on Equity Method of Accounting - IAS 28, Investments in Associates and Joint Ventures (revised 202x)

Question 1—Measurement of cost of an associate

Comment-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.

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

Comment-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; 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.

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

Comment- Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinues recognizing 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, recognizes any losses not recognized 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.

Question 4—Transactions with associates.

Comment- 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).

Question 5—Impairment indicators (decline in fair value) .

Comment-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.

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

Comment-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.

Question 7—Disclosure requirements.

Comment- For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venture 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.

Question 8—Disclosure requirements for eligible subsidiaries.

Comment -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

Question 9—Transition.

Comment -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

Question 10—Expected effects of the proposals.

Comment - Agree

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