Comments on Exposure Draft—Equity Method of Accounting (IAS 28)

General Overview

The proposed amendments to IAS 28 aim to enhance clarity and comparability in applying the equity method and address practical challenges faced by preparers. Additionally, the inclusion of disclosure requirements in IFRS 12 and IAS 27 is a significant step toward improving transparency for users of financial statements. Below are detailed responses and recommendations for the proposed changes.

1. Application of the Equity Method

Proposal: The amendments provide clarity on applying the equity method for changes in ownership interest, transactions between investors and associates, and other complexities.

Comments:

•Support: The proposed guidance on handling changes in ownership without loss of significant influence or joint control addresses a significant gap and reduces diversity in practice.

•Recommendations:

- Provide examples illustrating common scenarios, such as partial disposal and equity adjustments during remeasurement events.
- Include guidance on aligning IAS 28's equity method with fair value-based adjustments in IFRS 9 for consistency.

2. Disclosure Requirements

Proposal: Introduce new disclosure requirements in IFRS 12 and IAS 27 to enhance the information available about investments in associates and joint ventures.

Comments:

•Support: Enhanced disclosures provide critical insights into the entity's share of profits, OCI, and other movements in associates' net assets.

•Recommendations:

- Expand disclosure requirements for contingent liabilities and unrecognized losses in associates and joint ventures.
- Require sensitivity analysis to better reflect exposure to risks associated with such investments.

3. Measurement and Presentation

Proposal: Address inconsistencies in measuring equity-accounted investments, especially during step acquisitions and partial disposals.

Comments:

•Support: The standardized approach to measure step acquisitions ensures alignment with IFRS 3 principles.

•Recommendations:

- Clarify the treatment of goodwill and other adjustments during step acquisitions to prevent double counting.
- Provide a reconciliation format for movements in equity-accounted investments, ensuring comparability.

4. Transition Requirements

Proposal: Retrospective application of the amendments to ensure comparability.

Comments:

- Support: Retrospective application supports consistency across reporting periods.
- Recommendations:
- Offer a simplified approach for first-time adopters to ease transition burdens, particularly for SMEs.

Other Comments

- Alignment with IFRS 10: The interaction between IAS 28 and IFRS 10 regarding control and significant influence could be further elaborated for clarity.
- Digital Reporting Implications: Encourage alignment of the new disclosure requirements with XBRL taxonomy for seamless integration into digital reporting frameworks.

Conclusion

The amendments represent a significant step toward improving the practical application of IAS 28 and fostering consistency. By addressing the recommendations above, the IASB can further enhance the clarity and utility of the equity method for preparers and users alike.