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RO n°1

IASB - Mr Andreas Barckow
IASB Chair
Columbus Building
7 Westferry Circus - Canary Wharf
London E14 4HD

Paris, 10 January 2025

Exposure Draft Equity Method of Accounting

Dear Chair,

The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IASB to comment on its Exposure Draft published on 19 September 2024 on the Equity Method of Accounting.

Despite some uncertainties on the treatment of certain application difficulties, the equity method is perceived as useful by a large number of stakeholders within the ANC's jurisdiction. The IASB's objective of completing the guidance on this method, its approach of selecting application difficulties and proposing practical solutions to reduce diversity in practice are thus welcome. The selected application difficulties are relevant and the absence of differentiation between associates and joint ventures appears to be an appropriate assumption for the considered situations, without being established as an overarching principle.

Most selected application issues share a common underlying constraint: the investor's absence of control over the investee limits the scope of accounting information available, especially where the investor only has significant influence over the investee. It is therefore essential that this constraint be integrated to strike a balance between the conceptual quality of a solution and its practical workability.

The ANC considers that the IASB succeeded in striking that balance for most of its proposals, except for step acquisitions while applying the equity method. The requirement for an investor to perform a measurement exercise of the investee's assets and liabilities each time it acquires an additional interest while applying the equity method illustrates how the conceptual merits of a proposal may result in excessive implementation difficulties. The ANC therefore recommends that the measurement exercise be performed when the equity method is applied for the first time and that the values assigned to assets and liabilities at that time be retained for subsequent steps, adjusted for any amortisation, depreciation and/or subsequent changes, for as long as the equity method is applied (paragraphs 5-9).

The ANC observes that accounting for an investor's losses in an investee whose carrying amount is reduced to nil is a source of uncertainty and diversity in practice and welcome the IASB's proposals to address this issue. However, the ANC encourages the IASB to clarify the interaction between the requirement to continue separately recognising an investee's share of profit or loss and its share of other comprehensive income while maintaining the carrying amount to nil and the provisions of paragraph 48 that require to start recognising profit when the investor's share in that profit exceeds any previously unrecognised losses (paragraphs 20-28).

The ANC also supports the IASB's proposal to recognise in full gains and losses on "upstream" and "downstream" transactions (paragraphs 29-31), but expresses reserves on the proposal to disclose all gains and losses on "downstream" transactions, and believes that the scope of eligible transactions should be clarified (paragraph 37).

Finally, the ANC considers that a few clarifications should be made as part of the solutions proposed in the Exposure Draft, for example on the accounting for expenditures directly attributable to obtaining significant influence (paragraph 3), or the recognition of other changes in interest (paragraphs 16-19).

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

Robert Ophèle
ANC Chair

Exposure Draft Equity Method of Accounting
ANC Comment Letter - Appendix

The Appendix is structured as follows:
. Question 1 - Measurement of cost of an associate (paragraphs 1-4);
. Question 2 - Changes in an investor's ownership interest while retaining significant influence (paragraphs 5-19);
. Question 3 - Recognition of the investor's share of losses (paragraphs 20-28);
. Question 4 - Transactions with associates (paragraphs 29-31);
. Question 5 - Impairment indicators (decline in fair value) (paragraph 32);
. Question 6 - Investments in subsidiaries to which the equity method is applied in separate financial statements (paragraph 33);
. Question 7 - Disclosure requirements (paragraphs 34-40);
. Question 8 - Disclosure requirements for eligible subsidiaries (paragraph 41);
. Question 9 - Transition (paragraphs 42-43);
. Question 10 - Expected effects of the proposals (paragraphs 44-45); and
. Question 11 - Other comments (paragraphs 46-54).

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.

1. The ANC supports the IASB's proposal to measure the cost of an associate, when the equity method is applied for the first time, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. The ANC also supports the proposal derived from IFRS 3 to recognise contingent consideration as part of the consideration transferred, to measure it at fair value and to recognise subsequent changes in contingent consideration liabilities in profit or loss.

2. The ANC notes that several proposals in the Exposure Draft, particularly on the measurement of cost of an associate, are analogising principles contained in IFRS 3. While the ANC recommends that such an approach also be applied to the measurement period (paragraph 4), the treatment applicable to expenditures directly attributable to obtaining significant influence should be made more explicit (paragraph 3).

3. Firstly, some of the ANC's stakeholders observed that Appendix A of draft IAS 28 (revised 202x) defines the cost of an associate as the "fair value of the consideration transferred, including the fair value of any previously held ownership interest" without any reference to expenditures directly attributable to obtaining significant influence. In their view, the absence of explicit reference indicates that such expenditures should be expensed in profit or loss, as for acquisition-related costs in paragraph 53 of IFRS 3. By contrast, other stakeholders noted that in their view, including expenditures directly attributable to obtaining significant influence in the cost of an associate, would comply with the proposed definition of the cost of an associate in Appendix A. These stakeholders also observed that this approach would be consistent with the Interpretations Committee's decision issued in July 2009, clarifying that any directly attributable expenditures to obtain significant influence were included in the cost of an investment in an associate, as well as the definition of cost in IAS 16, IAS 38 and paragraph 6.5 of the Conceptual Framework. These different readings indicate that divergent practices are likely to emerge under the current drafting. The ANC thus recommends that the IASB clarifies its intention on this issue, while ensuring that the concept of cost be consistently defined within IFRS Accounting Standards.

4. Secondly, since the fair value measurement of identifiable assets and liabilities on obtaining significant influence or joint control is similar to the IFRS 3 measurement requirement on obtaining control, extending the measurement period guidance into draft IAS 28 (revised 202x) by incorporating a paragraph similar to paragraph 45 of IFRS 3 would be useful.

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.

Purchase of an additional ownership interest (step acquisition)

5. The ANC supports most of the IASB's proposals related to step acquisitions, in particular: (a) recognising any additional ownership interest and measuring it at the fair value of the consideration transferred; (b) not remeasuring at fair value any previously held interest upon acquisition of an additional ownership interest; and (c) recognising goodwill as part of the investment's carrying amount, or any gain on bargain purchase in profit or loss.

6. However, most of ANC stakeholders expressed concerns about the requirement to perform a purchase price allocation exercise for each additional tranche while applying the equity method (layered approach), as they expect this exercise to be as difficult and costly to implement, as it was concluded for step acquisitions while an investor obtains control over an investee, (paragraph BC328 of the Basis for Conclusions on IFRS 3). These stakeholders stressed that the investor does not control the investee and may therefore have limited access to the information needed to carry out the purchase price allocation exercise and, subsequently, to recognise the resulting adjustments to the associate's or joint venture's assets and liabilities when picking up its share of profit or loss. These stakeholders also noted that the relevance of the information resulting from the performance, at each step, of a purchase price allocation exercise would not necessarily be proportionate to the costs incurred.

7. Besides, some stakeholders noted that under the IASB's proposal on step acquisitions, an investor would be required to reset to nil any investee's item of other comprehensive income recognised in its financial statements, when the equity method is applied for the first time and for any subsequent additional layer. These stakeholders observed that such periodic resets would create major practical difficulties, on their capacity to identify and track, within the other comprehensive income and profit or loss reported by the investee, the portion that should be recycled from the perspective of the investor.

8. In addition to the above recognition issues, some stakeholders noted that the layered approach is adding complexity to the implementation of the requirements in paragraphs 21(b)(ii) and B12-B13 of IFRS 12 to disclose summarised financial information on current and non-current assets and liabilities of joint ventures and associates. Applying the layered approach would end in presenting amounts of assets and liabilities arising from a compilation of several values and result in little if any usefulness for users.

9. After examining the above arguments, the ANC considers that, despite its conceptual merits, the IASB's proposal on step acquisitions is likely to give rise to practical difficulties and heterogeneous implementation results. The ANC thus recommends the IASB not to require remeasuring an investee's assets and liabilities at each acquisition of an additional ownership interest and instead, that a purchase price allocation exercise be performed only once, when the equity method is applied for the first time. The value assigned to these assets and liabilities, adjusted for any depreciation, amortisation, impairment and/or subsequent changes since that date, would be retained for each subsequent acquisition.

10. Finally, the ANC recommends that the IASB requires, upon recognition of a gain on bargain purchase: (a) when significant influence is obtained, to carry out additional checks on an associate's assets and liabilities, similar to those required by paragraph 36 of IFRS 3; and (b) upon subsequent acquisitions, to verify whether there is any indication of impairment.

Partial disposals

11. The ANC supports the IASB's proposal to analyse the investment as a single unit of account upon a partial disposal, which generally reflects the way investments are managed.

12. However, the ANC recommends that draft paragraph 32(b) be more explicit about how the share of the net assets disposed of is determined. Such a clarification would be particularly useful where the disposed portion of the investment comprises multiple layers from past acquisitions, meaning multiple layers of amounts attributed to an investee's identifiable assets and liabilities when additional interest was acquired.

13. For example, a 40% investment in an associate may be the result of a first tranche of 30% acquired in N-5, when the investor obtained significant influence, and of a second tranche of 10% acquired in N-2. The share of net assets comprised in the investment is the aggregate of the proportionate share in the value attributed to the assets and liabilities measured within the first tranche, plus the proportionate share of the value assigned to the assets and liabilities measured within the second tranche. In N, if the investor decides to dispose of 15% of the investment, how should that divestment impact the net assets' carrying amount included in the investment's carrying amount? The way in which the residual 25% of net assets is determined is essential, as it affects the subsequent adjustments that the investor will apply to the investee's profit or loss when applying the equity method.

14. The ANC encourages the IASB to improve the clarity of draft paragraph 32(b) and to create an example to illustrate how such type of partial disposals should be accounted for (paragraph 47). The ANC is taking advantage of this Comment Letter to draw the IASB's attention to the fact that the alternative solution proposed in paragraph 9 on accounting for step acquisitions, i.e., to perform a purchase price allocation exercise only when the equity method is applied for the first time, would make it possible to circumvent the application difficulty arising from partial disposals comprising multiple layers.

15. Besides, some stakeholders pointed out, among the arguments used by the IASB to justify the relevance of a single unit of account for partial disposals, that paragraph BC35(a) on partial disposals suggests that an investment is viewed as a single unit of account, on the basis that it comprises instruments with the same economic rights. Some readers may consider that this argument implicitly suggests that the equity method only applies to equity instruments with the same economic rights, which conversely would exclude other types of equity instruments giving access to different economic rights, e.g., preference shares entitling to a remuneration representing a percentage of the preference shares' nominal amount. This argument, while being relevant to justify the single unit of account approach in a partial disposal, could also be interpreted as an indicator of the scope of the instruments to which the equity method should be applied. If this is the IASB's intention, this fact should be clearly stated, and the scope section of draft IAS 28 (revised 202x) should state which instruments are eligible to the equity method of accounting, and which fall within the scope of IFRS 9.

Other changes

16. The ANC supports the IASB's proposal to recognise increases and decreases in ownership interest of an investor in an associate as a result of the redemption or issuance of equity instruments by the associate, respectively as deemed acquisitions or deemed disposals of interest while applying the equity method.

17. The IASB's proposals relating to other changes do not specifically state whether they address the situations where an investee's net asset changes as a result of a transaction with non-controlling interests within the investee, without changing the investor's direct ownership interest in the investee. For example, an investor owns 40% of an associate that is a group with its own subsidiaries. The associate sells 20% of a wholly-owned subsidiary and recognises a gain in equity, in accordance with IFRS 10. Should the investor recognise that transaction as a deemed disposal, which would require transferring its share of the gain recognised in equity in the investee's financial statements, to the investor's consolidated statement of profit or loss? More generally, should an investor account for such transactions by analogy with the proposals in the Exposure Draft, i.e., considering that a decrease (respectively an increase) in the associate's or joint venture's net assets as a result of a transaction with non-controlling interests qualifies as an additional acquisition (respectively a partial disposal) for the investor?

18. The ANC considers that the prevalence of changes in the net asset attributable to an investor without any change in the investor's direct ownership interest in an associate or joint venture deserves additional clarifications from the IASB. If however the IASB were deciding to confine its proposal to the two fact patterns considered in the Exposure Draft, the ANC would recommend replacing the term "other changes" with a more restrictive term, such as "dilutions and anti-dilutions", in order to avoid any risk of confusion with situations that the IASB decided not to address.

19. The ANC also notes that the calculation of an investee's net assets is not explicitly addressed in draft IAS 28 (revised 202x). As a consequence, stakeholders need to refer to other standards, such as IAS 1, which explains in the footnote to an illustrative example how such a calculation should be made when non-controlling interests are present. The ANC thus considers that the calculation of an investor's share of net assets in an investee would be usefully clarified by: (a) relocating into draft IAS 28 (revised 202x) footnote (a) of section "Part I: Illustrative presentation of financial statements" in IAS 1; and (b) addressing the consequences of an investee issuing an instrument that does not affect the investor's percentage of interest.

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.

Acquisition of additional interest following a period of unrecognised losses

20. The ANC supports the IASB's proposal that the carrying amount of any additional ownership interest should not be reduced at the date of acquisition of that additional interest by the amount of any prior losses not previously recognised.

Recognition of an investor's share of losses in an investee

21. The ANC welcomes the IASB's objective to clarify how an investor recognises its share of losses in an investee, which is a source of application uncertainties and diversity. While recognising that the objective of the clarifications is not to provide answers to all possible situations, the ANC recommends that the IASB assesses the most critical areas identified below (paragraphs 22-28) and the usefulness of expanding Illustrative Example 3 in draft paragraph IE4 (paragraph 49).

22. The areas identified by the ANC for which the IASB's proposals would benefit from further clarifications are illustrated on the basis of the following example. An investor is holding a 25% interest in an investee accounted for at CU100 at the beginning of Year N. Each individual column to the right of Year N figures a possible development in Year N+1, analysed along four sections presented in rows: the entity's total comprehensive income in Section 1, the investor's share in the entity's total comprehensive income in Section 2, the investor's cumulative share in the entity's total comprehensive income in Section 3, and the carrying amount recognised by the investor in Section 4 (paragraph 23).

23. The base case in Year N illustrates draft paragraphs 45 and 51. The investor's share of total comprehensive income is a loss of CU135 that exceeds the carrying amount of the investment of CU100 at the beginning of Year N. The investor's share of losses is recognised first in profit or loss for CU60, then in other comprehensive income for an amount capped at CU40, the recognition of losses being discontinued as soon as the carrying amount of the investment is reduced to nil. At the end of Year N, the investor's share of losses not recognised amounts to CU35.

	Year N	Continuation in Year N+1	
	Base Case	Variation A	Variation B
Section 1. Total comprehensive income for the period - Entity at 100%	**(540)**	**(600)**	**(600)**
Profit or loss	(240)	(1 000)	400
Other comprehensive income	(300)	400	(1 000)
Section 2. Total comprehensive income for the period - Investor's 25% share	**(135)**	**(150)**	**(150)**
Profit or loss	(60)	(250)	100
Other comprehensive income	(75)	100	(250)
Section 3. Accumulated total comprehensive income - Investor's 25% share			
Opening	100	(35)	(35)
Profit or loss	(60)	(250)	100
Other comprehensive income	(75)	100	(250)
Closing	(35)	(185)	(185)
Section 4. Associate's carrying amount			
Opening	100	0	0
Recognised share in profit or loss	(60)	(100)	100
Recognised share in other comprehensive income	(40)	100	(100)
Closing	0	0	0

24. Variations A and B in Year N+1 illustrate paragraph 52 on the basis of a total comprehensive loss of CU150: Variation A presenting a loss of CU250 in profit or loss and a profit of CU100 in other comprehensive income, and Variation B presenting a profit of CU100 in profit or loss and a loss of CU250 in other comprehensive income. In Variations A and B, the investor continues to recognise separately, in accordance with draft paragraph 52, its share of the investee's profit or loss and other comprehensive income. In Variation B, the CU250 loss in other comprehensive income is capped at CU100 to avoid the carrying amount of the investment becoming negative.

25. In practice, the cap applied to the other comprehensive amount in Variation B requires differentiating between recognised and unrecognised components. Should the recognition follow a certain order of priority between recyclable and non-recyclable components of other comprehensive income? Or should an allocation rule be applied on a proportionate basis between all components of other comprehensive income? In other words, should the different natures of losses be considered when determining which losses should be recognised? It should be noted that this question arises when the investee incurs losses beyond the investment's carrying amount, but also when the investee becomes profitable again. At that point, should prior unrecognised losses be considered when determining how to account for the comprehensive income of the period or should the history of losses simply be disregarded?

26. The ANC notes that paragraph 51 clarifies the priority of profit or loss over other comprehensive income, where both of these are losses, as explained in paragraph BC61(c) of the Basis for Conclusions on the Exposure Draft. Considering that priority, the ANC recommends that the IASB investigates the possibility of providing a practical answer on how components of other comprehensive income should be subsequently recognised.

27. Variation C illustrates draft paragraph 48, where the investor's share in total comprehensive income is a profit or CU25, that is insufficient to fully offset the investor's prior unrecognised share of losses of CU35. At the end of Year N+1, the investor's unrecognised share of losses amounts to CU10. ANC stakeholders observed that draft paragraph 48 may be read in two different ways when applied to this situation: either the investor recognises no share of profit or loss and no share of other comprehensive income (Variation C1), or the investor recognises a share of profit or loss (+ CU15) and a share of other comprehensive income (- CU15) (Variation C2), which would result in a disconnection between the latter and the amount of other comprehensive amount generated over the period (+ CU10).

	Year N	Continuation in Year N+1	
	Base Case	Variation C1	Variation C2
Section 1. Total comprehensive income for the period - Entity at 100%	**(540)**	**100**	**100**
Profit or loss	(240)	60	60
Other comprehensive income	(300)	40	40
Section 2. Total comprehensive income for the period - Investor's 25% share	**(135)**	**25**	**25**
Profit or loss	(60)	15	15
Other comprehensive income	(75)	10	10
Section 3. Accumulated total comprehensive income - Investor's 25% share			
Opening	100	(35)	(35)
Profit or loss	(60)	15	15
Other comprehensive income	(75)	10	10
Closing	(35)	(10)	(10)
Section 4. Associate's carrying amount			
Opening	100	0	0
Recognised share in profit or loss	(60)	0	15
Recognised share in other comprehensive income	(40)	0	(15)
Closing	0	0	0

28. The ANC recommends clarifying how draft paragraph 48 should be applied, especially whether unrecognised losses should be monitored globally, i.e., at the level of total comprehensive income, or differentiated between the amounts arising from profit or loss and from the various recyclable and non-recyclable components of other comprehensive income. On this issue as on the previous one, the IASB should be particularly careful to avoid excessive complexity.

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.

29. The ANC welcomes the solution proposed by the IASB to resolve the conflict between paragraph 28 of IAS 28 and paragraphs 25 and B97-B99 of IFRS 10, by requiring in draft paragraph 53 that gains and losses arising from "upstream" and "downstream" transactions with associates and joint ventures be recognised in full.

30. The ANC supports the justification of the proposed solution, as outlined in paragraphs BC77 and BC79 of the Basis for Conclusions on the Exposure Draft, according to which the obligation to eliminate gains and losses within the consolidated financial statements should only apply to transactions between a parent and the entities that are part of the group as defined by IFRS 10, i.e., including subsidiaries and excluding other investees such as associates and joint ventures.

31. The proposed solution is also welcomed from a practical point of view and in terms of cost/benefit ratio. In particular, the preparers consulted by the ANC noted that the elimination currently required by paragraph 28 of IAS 28 is generally monitored through manual journal entries and that the change in requirement should not give rise to material costs to modify consolidation systems.

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.

32. The ANC agrees with the proposed terminology changes in IAS 28, consistent with the replacement of IAS 39 by IFRS 9. The indicators provided to help assess fair value are useful and reasonable.

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.

33. The ANC is not commenting this issue.

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.

34. The ANC is supportive of the IASB's proposals to amend disclosures in IFRS 12 to require a reconciliation between the opening and closing carrying amount of investments, which is already common practice in the ANC's jurisdiction, as well as information about contingent consideration arrangements mirroring IFRS 3 requirements. The ANC draws the IASB's attention on the comments provided hereafter on disclosures on gains and losses on "downstream" transactions (paragraphs 35-37) and bargain purchase gains (paragraphs 38-40).

Gains and losses on "downstream" transactions

35. Many stakeholders consulted by the ANC expressed discomfort about the arguments put forward in paragraph BC144 of the Basis for Conclusions on the Exposure Draft, to justify the relevance of the IASB's proposal to disclose gains and losses resulting from an investor's "downstream" transactions with its associates or joint ventures. On the one hand, the arguments exposed in paragraph BC144(a)-(b), stating that users need that information to assess earnings quality and adjust these in their analysis if they so wish, seems to cast a doubt on the relevance of the accounting solution retained by the IASB, by conceding that the proposed solution may not satisfactorily depict the underlying transaction in all cases. On the other hand, the argument in paragraph BC144(c), stating that users need to know the gains and losses to assess the reasonableness and sustainability of underlying transactions, goes beyond current IAS 24 requirements in terms of related party disclosures.

36. The ANC considers that disclosing "gains and losses" on "downstream" transactions should correspond to types of transactions for which a specific user need has been identified. For example, while it seems likely that users will be interested in gains and losses on infrequent transactions, such as certain disposals of assets or businesses, it would be useful to reassess whether such an expectation also exists for recurring transactions, such as sales of inventories or service contracts.

37. In addition, the notion of "gains and losses" commonly refers to a net amount being the difference between a sale price or the remeasurement amount of one or several items reported in the statement of financial position, such as an asset or a business, and their carrying amounts. That notion of "gains and losses" is however more difficult to assess for certain types of transactions entered into by an investor and an investee, such as lease payments or interest payments. This observation raises the question as to whether such transactions are scoped in the IASB's disclosure proposal and whether it is the IASB's intention to encompass all types of "downstream" transactions including those cited above. The IASB should clarify whether the scope of the disclosures on "downstream" transactions that are relevant for users should be narrower and would not apply to *all* "downstream" transactions. The ANC therefore encourages the IASB to re-examine the scope of disclosures on "downstream" transactions in the light of the needs expressed by users.

Bargain purchase gains

38. Paragraph BC139 of the Basis for Conclusions on the Exposure Draft explains that not proposing new disclosure requirements for the purchase or disposal of an ownership interest in an associate, while applying the equity method, is consistent with existing disclosure requirements applying to investments in associates.

39. The ANC welcomes the IASB's objective of maintaining consistency between the requirements applicable to investments in associates. However, several issues addressed in this project call for overarching consistency across IFRS requirements, independently of an investor's level of power. In this respect, the consistency sought with IFRS 3 on several proposals in the Exposure Draft could be considered as well for bargain purchase gain. The disclosure of the amount and reasons of a bargain purchase gain required by paragraph B64(n) of IFRS 3 in the context of obtaining control, is also useful in a context of significant influence or joint control. The ANC therefore suggests the IASB to propose disclosing a bargain purchase gain when significant influence is obtained or retained. Such a proposal would be consistent with the requirement to disclose a reconciliation between the opening and closing carrying amount of investments, in which such a change is apparent.

40. The ANC is not commenting the IASB's proposals to amend disclosures in IAS 27.

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).

41. The ANC is not commenting this issue.

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.

42. The ANC considers that most of the transition provisions proposed by the IASB strike an appropriate balance with the retrospective application principle, through several relief measures designed to address complexity and cost constraints, as well as the risks of hindsight and unavailable information. This comment applies in particular to: (a) the retrospective restatement of gains and losses on transactions with associates or joint ventures; (b) the fair value measurement at the transition date of any contingent consideration liability; (c) the prospective adjustment from the transition date of all the other proposals, in particular those on the measurement of cost of an associate; and (d) the reliefs from restating any additional prior periods presented and from disclosing information required by paragraph 28(f) of IAS 8.

43. However, the ANC considers that it would be useful to specify how the transition relief provided in draft paragraph C3 of Appendix C to apply prospectively the proposals to all transactions other than those specifically described in draft paragraphs C4-C8, also applies to investments measured at nil at the transition date, and for which the investor ceased to recognise losses. Considering the diversity of accounting policies that currently prevails on the issue of unrecognised losses, guidance on how to address it after the transition date would be useful. For example, it would be useful to clarify how amounts of an investor's unrecognised losses determined under its current accounting policy should be treated as at the transition date and after: (a) Should the amount of unrecognised losses be reset to nil at the transition date? (b) Should that amount continue to be monitored under the current accounting policy, which would result in two accounting policies being applied in parallel? (c) Should the amount of unrecognised losses be recalculated retrospectively, and if so, how should it be allocated between profit or loss and the recyclable and non-recyclable components of other comprehensive income? As pointed out in Question 3, while believing that this issue is key to help preparers in transitioning to the new requirements, the ANC suggests the IASB to be particularly careful to avoid excessive complexity when determining the appropriate transitional provision.

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?

44. The ANC has no observation to report on the IASB's analysis of expected effects of the proposals, especially in terms of changes in existing accounting policies and disclosures, reduction of diversity and implementation costs.

45. In particular, the ANC confirms that the approach proposed by the IASB for step acquisitions will result in a significant change compared with current practice, which generally consists in retaining, for each subsequent acquisition, the values assigned to assets and liabilities when the equity method is applied for the first time.

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)?

Draft amendments to other IFRS Accounting Standards

46. The ANC has no observation on the draft amendments to other IFRS Accounting Standards as a consequence of issuing draft IAS 28 (revised 202x), listed in Appendix D.

Illustrative examples

47. The ANC welcomes the principle of a walk-through illustrative example to outline the consequences in terms of recognition, measurement and disclosures of a step acquisition, while obtaining and retaining significant influence. The proposed Illustrative Example 1 in draft paragraph IE2 appropriately illustrates the complexity of implementing the layered approach and confirms the need for an alternative solution, such as that proposed by the ANC, that could combine conceptual robustness, practical applicability and cost/benefit ratio (paragraph 9). The ANC encourages the IASB to add an additional step to this walk-through example to illustrate how a partial disposal should be accounted for (paragraph 14).

48. The ANC concurs with the IASB that other changes in ownership interest belong to the proposals in the Exposure Draft where illustrative examples are useful. The IASB developed Illustrative Example 2, in draft paragraph IE3, to illustrate a decrease in the investor's ownership interest in application of draft paragraph 34(b). The ANC considers that it would also be useful to illustrate an increase in the investor's ownership interest in application of draft paragraph 34(a), especially to illustrate how consideration transferred should be determined in that instance.

49. Illustrative Example 3 in draft paragraph IE4 explains how an investor applies draft paragraphs 50 and 51 of draft IAS 28 (revised 202x) to recognise its share in an investee's losses over two periods. The ANC suggests expanding the fact pattern to illustrate additionally how the investor would measure its share in the investee over a third period, in which the investor would apply draft paragraph 48 to recognise a profit exceeding its share in prior losses, and clarify the priority order between profit or loss and other comprehensive income in that instance.

50. Based on the initial "Year N Base Case" commented in Question 3, Variations D and E presented hereafter correspond to continuations in Year N+1 that would be useful to add to Illustrative Example 3: a profit of CU40 made up of two positive components in profit or loss and other comprehensive income in Variation D; and a profit or CU75 made up of two components with opposite signs – a profit of CU100 in profit or loss and a loss of CU25 in other comprehensive income in Variation E1, and a loss of CU25 in profit or loss and a profit of CU100 in other comprehensive income. These examples also confirm the need for clarification expressed in Question 3 on the way the various recyclable and non-recyclable components of other comprehensive should be monitored over time.

	Year N	Continuation in Year N+1		
	Base Case	Variation D	Variation E1	Variation E2
Section 1. Total comprehensive income for the period - Entity at 100%	**(540)**	**160**	**300**	**300**
Profit or loss	(240)	100	400	(100)
Other comprehensive income	(300)	60	(100)	400
Section 2. Total comprehensive income for the period - Investor's 25% share	**(135)**	**40**	**75**	**75**
Profit or loss	(60)	25	100	(25)
Other comprehensive income	(75)	15	(25)	100
Section 3. Accumulated total comprehensive income - Investor's 25% share				
Opening	100	(35)	(35)	(35)
Profit or loss	(60)	25	100	(25)
Other comprehensive income	(75)	15	(25)	100
Closing	(35)	5	40	40
Section 4. Associate's carrying amount				
Opening	100	0	0	0
Recognised share in profit or loss	(60)	5	65	(25)
Recognised share in other comprehensive income	(40)	0	(25)	65
Closing	0	5	40	40

Re-ordering of requirements

51. The ANC supports the most of IASB's proposals to re-order the requirements, as set out in draft IAS 28 (revised 202x), while raising the comment hereafter.

52. Draft paragraph 35 explains that an investor continues to apply the equity method if an investment in an associate becomes an investment in a joint venture or *vice versa*. The proposed re-ordering places draft paragraph 35 in the section on *Other changes in ownership interest*, which seems to restrict its scope to deemed acquisitions or deemed disposals of interest, whereas this requirement applies to all cases of changes in ownership interest. The ANC therefore suggests positioning current draft paragraph 35 before paragraph 30, between the general heading *Changes in ownership interest* and the sub-heading *Purchasing an additional ownership interest*.

Interactions with IFRS 18

53. The ANC suggests that the IASB considers the possibility of consequential amendments to IFRS 18, to clarify the presentation of certain types of income and expenses from investments in associates and joint ventures. In particular, the ANC encourages the IASB to provide guidance on how to present changes in fair value of contingent consideration liabilities related to acquisitions of associates and joint ventures (paragraph 1), and gains on bargain purchases (paragraph 5).

54. Paragraph 50 of IFRS 18 requires an entity with a specified main business activity to classify in the operating category some income and expenses that would have been classified in the investing or financing category if the activity were not a main business activity. This paragraph is intended to address the concerns of entities whose financing and investing activities are their main business activities, for example banks and insurers. This requirement applies in particular to investments in associates and joint ventures that an entity elects to measure at fair value through profit or loss in compliance with current paragraph 18 of IAS 28 (see paragraph 55 of IFRS 18). The ANC notes that paragraph 18 of IAS 28 was not revised as part of the equity method of accounting project and invites the IASB to do so, to ensure that its scope be consistent with the types of investments targeted by paragraph 50 of IFRS 18.