International Accounting Standards
Board (IASB)
30 Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

20 January 2025

Dear Member of the Board,

Re: Exposure Draft 2024/7 - Equity Method of Accounting

BusinessEurope welcomes the opportunity to comment on the proposed amendments to IAS 28 (ED). We appreciate the Board's efforts to clarify and improve IAS 28. However, overall, we would have preferred that the IASB review holistically IAS 28 and clarify the character of the equity method in principle. Hence, we believe that the Board should schedule a deeper review of IAS 28 in the near future, e.g. following the next agenda consultation.

We agree with the Board's proposals on the measurement of the cost of an associate or joint venture at initial recognition.

We further agree with the proposal regarding the treatment of gains and losses from transactions between the investor and the associate or joint venture. We believe that the partial elimination has been subject to judgement to a certain extent and the proposal will simplify the application of the equity method.

With regard to subsequent changes in the relative shareholdings with or without an exchange transaction, we disagree with the proposals. In particular, the requirement to treat increases in [relative] shareholdings as acquisitions and to perform a purchase price allocation is costly and does not provide significant benefits.

We further disagree with deleting the term "significant and prolonged decline" as we expect a higher frequency in necessary valuations to be performed and are concerned that the proposals may lead to more impairments and subsequent reversals that might deteriorate the usefulness of the information provided.

Our responses to the specific questions raised in the ED are included in the Appendix below. If you wish to discuss any of these comments further, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser

APPENDIX

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 to measure the cost of an associate or joint venture at the fair value of the consideration transferred, including previously held interests in the investee where the equity method has not been applied at that point in time (that is, the investor has not obtained significant influence or joint control over the investee before).

We suggest that the Board should clarify whether transaction costs are to be included in the cost of an associate. While IFRS 3 is explicit on accounting for transaction costs (I.e. IFRS 3 requires transaction costs to be expensed directly and not to be included in the consideration transferred), other standards such as IAS 16 or IFRS 9 (for financial instruments not measured at fair value through profit or loss) consider the transaction costs as part of the costs and thus the initial carrying amount.

We further agree with the Board's proposal to measure contingent consideration at its fair value and include it in the cost of the investment on the acquisition date.

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.

a) We note that the requirement for a purchase price allocation (PPA) at initial recognition of an associate or joint venture (i.e. on the date of obtaining significant influence or joint control) follows the consolidation perspective of the equity method. Correspondingly, we believe that subsequent purchases should be treated analogous to subsequent changes to subsidiaries with non-controlling interests (NCI). This means that for subsequent purchases, no new PPA should be necessary and instead, the amounts determined within the initial PPA with subsequent adjustments for amortization, depreciations, impairments etc. should be used and scaled up to reflect the new share of the investor in the net assets of the associate or joint venture. Any resulting positive difference would be allocated to the goodwill contained in the carrying amount of the associate or joint venture.

   Therefore we disagree with the Board's proposal to include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities. In our view, the information value from the repeated PPA would be less than the cost involved to prepare it, particularly considering the difficulty which an investor may have in accessing and gathering the required information.

b) We agree with the Board's proposal on the disposal of ownership interests while maintaining significant influence or joint control.

c) We disagree with the Board's proposal regarding increases in the ownership interests occurring without the investor buying shares. According to the Board's proposal, if an investee performs a share buyback and the investor having significant influence does not participate (and therefore has an increasing relative equity share without purchasing additional shares), the investor would be required to perform a PPA (or potentially multiple PPAs if the share buyback extends over a long period). Such PPAs are very costly and sometimes face legal obstacles regarding access to the investee's information. We ask the Board to carefully reconsider the proposal for this expensive method as we estimate that the benefit for users will be very limited. Instead, relying on the initial PPA seems far more appropriate.

For decreases in relative ownership shares without selling shares we note that the proposals are aligned with the widespread practice of recognizing dilution gains or losses. However, we ask the Board to clarify whether or not such changes should result in a classification of any accumulated currency translation adjustment (CTA) to profit or loss, and that IFRS 5 should not apply in such cases, because the application of IFRS 5 would require an actual sale of interests in the investee in a "sale transaction" (see paragraph 6 of IFRS 5).

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 agree with the Board's proposal.

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.[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.

[2] This Invitation to Comment describes the requirement in paragraph 28 of IAS 28 that is currently in effect. The IASB amended that requirement when it issued Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) in 2014, but the effective date of those amendments has been deferred indefinitely.

We agree with the Board's proposal.

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.

We agree with the clarification to assess the fair value of the investment against the carrying amount instead of its initial cost.

However, we disagree with the proposal to delete the term "significant or prolonged decline". Market volatility may lead to short term movements of share prices resulting in market valuation being below the carrying amount of the investment. Deleting the term "significant or prolonged decline" would require companies to measure the recoverable amount at a higher frequency with potentially frequent impairments and impairment reversals.

We therefore suggest to maintain "significant or prolonged decline" within IAS 28 to reduce the valuation efforts and avoid unnecessary volatility in the carrying amount of the investments.

Application of the proposed requirements to investments in subsidiaries to which the equity method is applied in separate financial statements

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.

We agree with the Board's proposals.

Proposed amendments to IFRS 12 and IAS 27—Disclosure requirements

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 disagree with the disclosure requirement for gains and losses from downstream transactions, as outlined in Question 7 of the ED. This requirement introduces additional effort, which contradicts the relief provided by the full recognition of gains and losses. In its Basis for Conclusions (BC111), the IASB argues that the disclosure of gains and losses from downstream transactions might help users assess whether these transactions are undertaken at arm's length and discover potential structuring activities. We point out that the disclosure requirements of IAS 24 are already sufficient for this objection and recommend the scope of this ED should not overlap with other standards. We are concerned about the related cost and complexity of detailed tracking of

transactions with associates and joint ventures despite little benefit for users. Therefore, we ask the IASB to reconsider the cost/benefit trade-off associated with this proposed disclosure.

Further, for individual material associates or joint ventures, we are concerned that providing information on the gains and losses combined with the disclosures required by IAS 24 may disclose sensitive information on the transfer prices for the transactions between the investor and its associate or joint venture, jeopardizing the competitiveness of the entities.

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).

We have no comments on question 8.

Other matters

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.

With regard to the realization in full of gains and losses from transactions with at-equity accounted investments, we note that the respective gains are currently eliminated against the carrying amount of the investee, thereby lowering the carrying amount. Retrospective application of the elimination requirements (i.e. no eliminations) would increase the carrying amount and might lead to (retrospective) impairments. The transition requirements should be amended to foresee that any resulting impairment charge should be recognized in retained earnings in the opening balance of the investor. Alternatively, the Board could explore to apply the proposed amendments only prospectively to new upstream and downstream transactions after the date of initial application, with no subsequent reversal of eliminated gains (i.e. those eliminated amounts related to prior period transactions would be ignored in future periods).

Regarding the proposed prospective application of the amendments to the "significant or prolonged" criteria, we are concerned that this will lead to "day one" impairments being recognized in profit or loss just after the initial application of the amendments. While the proposed amendments to the elimination requirements would be applied retrospectively and thereby increasing the carrying amount of the investments, the proposed impairment requirements would be applied prospectively. This may lead to situation where the increased carrying amount is higher than the fair value at the time of initial application. This might, in turn, lead to immediate "day one" impairments. We believe that, since the increase in the carrying amount is based on past events (i.e. downstream transactions), the resulting impairments should also be recognized in the opening balance retained

earnings to ensure a useful depiction of the reporting entity's profitability in the period following initial application.

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 outlined in our response to question 2 above, we disagree with the Board's assessment of the costs and benefits of repeated PPAs being conducted when an investor's share of equity increases, particularly when such an increase is due to a "deemed acquisition" (for example, due to a share buyback in which the investor did not participate). We consider that this requirement is excessively burdensome with little information value for investors and we urge the Board to drop this from the proposed amendments.

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)?

We have no other comments.