RÅDET FÖR HÅLLBARHETS- OCH FINANSIELL RAPPORTERING

The Swedish Corporate Reporting Board
RFR-rs 2024:08

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

Stockholm 20 December 2024

Dear Mr. Barckow,

Re: ED Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures

The Swedish Corporate Reporting Board is responding to your invitation to comment on the *Exposure Draft*: Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures.

The IASB is seeking to resolve practical issues related to the application of IAS 28 mainly as a response to questions raised by different stakeholders. While we appreciate the effort to address these questions to clarify and simplify the application of the equity method, we would have preferred a more fundamental overview of IAS 28 addressing whether the equity method is a consolidation method or a measurement method. This would have provided a conceptual foundation for assessing the proposed changes. Without clarity as to the conceptual nature of the equity method we find it difficult to appropriately address and respond to some of the proposed amendments, for example on how to account for transactions with associates.

However, from a practical perspective, balancing information needs of users against the cost for preparers we are generally supportive of the proposed targeted changes but has identified certain areas which require additional attention or where we do not support the IASB's proposed adjustments. Our reflections and comments are provided below.

Areas where we support the proposals

- *The recognition of the investor's share of losses (Question 3)*

  Although we agree with the proposals in question 3, we would recommend the IASB to also clarify that it is not allowed to recognise additional goodwill when the carrying value is zero due to the investor's share of losses.

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- *Transactions with associates (Question 4)*

  Even though we find it is difficult to respond to this question, as it is not clarified whether the equity method is a consolidation or a measurement method, we support the proposed changes. We think it will align how different types of transactions with associates are accounted for as well as it will simplify the practical application.

- *A decline in the fair value of the investment as an impairment indicator (Question 5)*

  We agree with the proposal.

Areas with specific concerns regarding the proposals

- *A comprehensive overview would be preferred*

  A fundamental question which is not discussed in the ED is the characteristics of the equity method. There is an existing debate whether to see the equity method as either a consolidation or a measurement method. The equity method shares several characteristics with the acquisition method applied in IFRS 3 and IFRS 10, i.e., being a consolidation method in one line. Some changes or clarifications proposed in the ED strengthen this view, e.g., the measurement of cost. Other proposed changes points in the opposite direction such as the proposal regarding transactions with associates.

  Formally, associates and joint ventures are not part of the group under IFRS accounting standards. Moreover, the forthcoming changes in IFRS 18, define the profit share from associates and joint ventures as a part of the investing category and not operating. Arguably, these combined observations question the treatment of associates and joint ventures using the equity method as a consolidation method in favor of being a measurement method. If it is a measurement method, it is not necessary to allocate the cost to different components of net assets and goodwill and make new allocations when additional ownership interest is obtained.

  We believe that a holistic approach to the equity method in the ED would have helped developing the targeted improvements and justified technical merits of the proposed amendments.

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- *The definition of cost:*

  The proposal in the ED regarding the measurement of cost of an associate resembles the definition of consideration transferred in IFRS 3. The proposed definition differs from the general definition of cost, which for example normally includes transaction cost. We believe that a clarification of cost would facilitate the application of the cost measure regarding the equity method. Our view is that transaction costs should be included in the cost of the investment of an associate. We are also of the view that changes in fair value on contingent consideration after initial recognition should be recognised as an adjustment to the cost of the associate. This follows the general definition of the cost of an asset.

- *Acquiring additional ownership interest while retaining significant influence:*

  Given the resemblance to the consolidation method, the Board agrees that the proposed approach is a reasonable view by the IASB. However, the discussion above regarding viewing the equity method as a measurement method opens for other reasonable views. Furthermore, the Board questions the proposed purchase price allocation for each additional acquisition from a cost and complexity perspective.

- *Disclosure requirements:*

  We argue that the disclosure requirements should only be provided individually for material associates and joint venture and in aggregate for individually immaterial associates and joint ventures.

- *Transition:*

  We agree with the proposed transition requirements except for the proposal to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates and joint ventures. The practical obstacles to fulfilling this requirement might be substantial and thereby very costly.

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If you have any questions concerning our comments, please address our Executive member Fredrik Walméus by e-mail to: fredrik.walmeus@radetforrapportering.se.

Stockholm, 20 December 2024

Yours sincerely

Fredrik Walméus
Executive Board Member

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