Equity Method of Accounting, IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

Feedback to respondents – EFRAG Final Comment Letter

March 2025

This Feedback Statement has been compiled by the EFRAG Secretariat to summarise the main comments received by EFRAG on its draft comment letter and explain how those comments were considered by EFRAG during its technical discussions leading to the publication of its final comment letter. The content of this Feedback Statement does not constitute any form of advice or opinion and does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG.

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Introduction

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft *IASB/ED/2024/7 Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)* ('the ED') on 20 January 2025. This feedback statement summarises the main comments received on EFRAG's draft comment letter and explains how those comments were considered by EFRAG during the technical discussions that preceded the publication of EFRAG's final comment letter.

Background to the ED

Over the years, the IFRS Interpretations Committee has received numerous requests to clarify various aspects of accounting under the equity method in IAS 28 *Investments in Associates and Joint Ventures.* In 2014, based on feedback to its 2011 agenda consultation, the IASB started a research project on the equity method. After a pause in 2016, to allow for and consider feedback to the PIRs of IFRS 10—*Consolidated Financial Statements*, IFRS 11—*Joint Arrangements*, and IFRS 12—*IFRS 12 Disclosure of Interests in Other Entities*, the IASB restarted the project in October 2020. In April 2023, the IASB moved the equity method project from its research to a standard-setting workplan. On 19 September 2024, the IASB published the ED, and it was open for comment until 20 January 2025.

When deciding the scope of the project (in October 2020 and 2022), the IASB considered whether to undertake a fundamental review of the equity method or focus on application questions. The IASB decided not to undertake a fundamental review of the equity method, which:

- would have required the IASB to consider whether the equity method should continue to be used and, if so, for which types of investments in other entities. The IASB noted that in developing the Conceptual Framework for Financial Reporting (Conceptual Framework), it did not consider whether and how the economic entity perspective or the reporting entity concept could affect the use of the equity method; and

- might have resulted in fundamental changes to the equity method. The IASB noted that the equity method is well established and that any fundamental change would require significant stakeholder support.

The IASB decided instead to focus on developing answers to application questions. Hence, the ED proposes amendments to reduce diversity in practice in the application of IAS 28 and enhance its understandability, improve comparability as well as improve the disclosure requirements in IFRS 12 and IAS 27 *Separate Financial Statements* to complement the proposed amendments to IAS 28. Further details are available on the IASB website.

EFRAG's draft comment letter

EFRAG's Draft Comment Letter (DCL) was published on 12 November 2024 and was open for comments until 6 January 2025. In its DCL, EFRAG considered the ED's proposed amendments to be a positive step towards addressing existing application challenges, reducing diversity in practice in the application of IAS 28 requirements, enhancing the understandability of these requirements, and improving comparability of reported information. In particular, EFRAG supported several of the ED's proposals, including the measurement of cost of an associate or joint venture, treatment of gains or losses from transactions with an investee (associate or joint venture), disclosure requirements and impairment indicators.

At the same time, EFRAG pointed to several areas where further simplification, clarifications and amendments are necessary. Specifically, EFRAG noted the need for simplification of the proposed layered approach (which required a full-fledged purchase price allocation-PPA) applicable for the acquisitions of additional ownership interests while retaining significant influence. EFRAG suggested two simpler alternatives (a modified-PPA approach and a cost-accumulation approach). EFRAG did not support the ED's proposals related to other changes in ownership interest and instead called for a holistic, principle-based solution and exclusion from scope if it was not possible to develop such a solution. EFRAG also called for further clarification of the ED's proposals related to the recognition of losses when the carrying amount of the investment has been reduced to nil (i.e. recognition of each component of comprehensive income).

EFRAG noted there were mixed views among stakeholders on the ED's proposals related to separate financial statements' treatment of investments in subsidiaries. EFRAG sought further feedback from constituents on this matter, including on the alternative view expressed in the ED. EFRAG also noted that there were mixed views among stakeholders on the ED's proposed transition requirements related to the treatment of contingent consideration and previously unrecognised gains or losses from transactions with investees and therefore sought constituents' suggestions for alternative approaches.

Comments received from respondents

EFRAG received and considered 16 comment letters. Two additional letters were received after the EFRAG FRB approved the final comment letter. Therefore, in line with EFRAG's due process, these two letters were not considered for EFRAG's FCL but, along with the 16 comment letters that were considered, they are posted on EFRAG's website.

The comment letters received were from national standard setters, business associations, accountancy, preparer and user professional organisations, preparers, an enforcer, and academic institutions (see Appendix 1). The Table below summarises the terms used to describe the comment letter feedback.

Terms used to describe comment letter respondents	**Number of entities as a %**	**Comment letters received**
Most	>75%	12-15
Majority	>50-75%	8-11
Many	20-50%	4-7
Some, others, a few	<20%	2- 3

* The % is based on either the total number of entities or the entities that provided feedback

Outreach feedback

In addition, EFRAG conducted targeted outreach meetings after the publication of its DCL on 12 November 2025. During these meetings, EFRAG discussed and sought feedback on the ED's proposals and the position in its DCL. These meetings were held with the following groups and stakeholders:

(a) EFRAG IAWG on 13 November 2024;

(b) EFRAG Academic Panel on 25 November 2024;

(c) EFRAG User Panel on 28 November 2024;

(d) EFRAG TEG-CFSS on 3 December 2024; and

(e) several other stakeholders (a preparer, EFFAS and Accountancy Europe).

EFRAG's final comment letter

EFRAG's Final Comment Letter (FCL) was published on 20 January 2025, after considering the feedback received and based on the discussions/decisions made at the EFRAG FR TEG and FRB joint meeting held on 15 January 2025 to recommend and approve the FCL. In the FCL, EFRAG agreed with many of the ED's proposals and considered them to be a positive step towards reducing the existing diversity in practice, but EFRAG also had significant concerns with several of the proposals. EFRAG suggested that the simplification principle be applied more broadly than was the case in the ED. Based on the feedback from stakeholders, EFRAG recommended that the IASB include and seek views on a fundamental review of the equity method as a possible candidate for the future IASB workplan in its forthcoming agenda consultation.

EFRAG supported the following proposals in the ED:

- <u>measurement of cost of an associate or joint venture:</u> EFRAG generally supported the ED's proposals;
- <u>transactions of an investor/reporting entity with associates and joint ventures requiring full recognition of related gains or losses:</u> EFRAG considered that the proposal would result in desirable consistency while providing a simplified and less costly solution compared to the other alternatives considered by the IASB. However, EFRAG expressed some concerns about restructuring opportunities and earnings management and, as noted below, recommended enhanced disclosures to alleviate this concern. EFRAG also asked for clarification on whether sidestream transactions are in the scope of the ED;
- <u>disclosures:</u> EFRAG supported the ED's proposed disclosures, balancing the need for these disclosures in light of the ED's proposals for transactions with associates or joint ventures against the concerns voiced by some stakeholders about the cost and sensitivity of the proposed disclosures of gains or losses from downstream transactions. EFRAG suggested expanding the disclosures to encompass upstream and sidestream transactions. In tandem, EFRAG suggested steps to alleviate stakeholder concerns (i.e. aggregating the disclosure of gains or losses of immaterial investments and introducing a sensitivity carveout);
- <u>impairment indicators:</u> EFRAG supported the ED's proposals related to indicators of impairment of associates or joint ventures.

EFRAG highlighted key concerns and made the following suggestions.

- <u>measurement of cost of an associate or joint venture (transaction costs treatment):</u> EFRAG recommended clarifying the appropriate accounting treatment for transaction costs;
- <u>acquiring additional ownership interest while retaining significant influence (layered approach):</u> While agreeing with the treatment of each additional acquired ownership interest as a separate unit of account, EFRAG disagreed with a full-fledged PPA for each layer due to its complexity and cost. EFRAG suggested a modified-PPA approach as a starting point for further simplification;
- <u>other changes in ownership interest while retaining significant influence:</u> Due to the associated cost and complexity, EFRAG disagreed with the ED's

proposal and recommended that the IASB develop a holistic, principle-based solution that encompasses all non-exchange transactions and events within an investee that result in changes in ownership and/or the investor's claims on the investee's resources;

- <u>recognition of the investor's share of losses:</u> EFRAG supported the ED's proposed exclusion of 'catch-up' losses from the cost of acquiring additional ownership interests when the carrying amount of the associate or joint venture is nil due to the investor's share of losses. However, EFRAG recommended that the IASB prohibit the recognition of goodwill for the acquired additional ownership interest/investment if the latter is a de facto funding or bail-out arrangement. EFRAG also noted several areas where the proposals need further clarification and enhancement;

- <u>separate financial statements:</u> EFRAG supported the ED's proposed application of a single equity method across IFRS Accounting Standards except for the recognition of full gains or losses from all transactions with subsidiaries (including sidestream transactions). EFRAG also suggested that the IASB clarify whether the ED's proposals for the equity method are applicable when an investment is measured at cost in separate financial statements;

- <u>transition requirements:</u> EFRAG agreed with the proposed transition requirements except for the proposal in paragraph C4 of the ED to require retrospective application of the remaining portion of a previously restricted gain or loss arising from transactions with associates or joint ventures. EFRAG asked for clarification on the transition requirements for contingent consideration and some other specific aspects of the proposed transition requirements.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

Overall comments on the ED proposals

EFRAG's tentative position in the DCL

In its DCL, EFRAG acknowledged that the primary focus of the ED was not to perform a fundamental revision of the equity method but rather to address existing application questions. EFRAG noted that, based on the feedback received at the time of the DCL, stakeholders considered the ED's proposals to be a positive step that would reduce diversity in practice and meet other intended objectives. Further, EFRAG noted that instead of having mutually exclusive underpinnings, depending on the nature of the transaction or event, the equity method can be a hybrid approach encompassing the features of both a consolidation approach and a measurement method.

At the same time, EFRAG observed that some of the ED proposals are significant changes to the current practice (i.e. full gain or loss recognition on transactions with associates or joint ventures) and that the simplification principle is only selectively applied to some of the proposed solutions (e.g. transactions with investees) and it should be broadened and applied on other proposals (e.g. the layered approach).

Outreach and comment letter feedback to the DCL

Outreach feedback

The call for a fundamental review of the equity method was aired in some of the discussions during outreach (e.g. at the EFRAG FR TEG-CFSS and academic panel meetings). The findings[1] of a multiple-stakeholder survey conducted by academics from three Spain-based universities were presented to the academic panel. These

EFRAG's response to the feedback to the DCL

EFRAG's final position

Based on stakeholders' feedback and the discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG largely retained its tentative position expressed in the DCL by agreeing with some of the ED's proposals and noting that these were a positive step towards reducing diversity in practice as well as calling for broadening the simplification principle across the proposals. However, EFRAG toned down its overall support and noted that it also had significant concerns with several of the proposals. Furthermore, the following suggestions that were not in EFRAG's DCL were incorporated into the FCL.

- EFRAG called for the IASB to include in the Basis for Conclusions the underpinning conceptual assumption of each of the proposals with the understanding that the equity method has hybrid features (i.e. it is both a consolidation approach and a measurement method).
- EFRAG called for the IASB to consider adding a fundamental review of the equity method (including reviewing the scope of its application and the definition of significant influence) to its upcoming agenda consultation.

[1]The survey presented at the EFRAG Academic Panel meeting in November 2024 garnered feedback from 117 respondents with diverse professional backgrounds (academics, auditors, analysts and preparers).

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
findings conveyed that stakeholders expect a fundamental review of the nature and purpose of the equity method. Moreover, during the outreach, some stakeholders (including some users) questioned the usefulness of the equity method. They considered that fair value measurement or cost measurement basis could be more suitable alternatives to the equity method. However, a few other stakeholders (including some users) affirmed the usefulness of the equity method, particularly for the acquisition of businesses that are integral to a reporting entity's operations. These stakeholders pointed to several limitations of both the fair value (too volatile) and cost (does not get updated for changes in economic circumstances) as measurement bases, and they considered the equity method to be a superior or the least-worst alternative to account for certain 'significant influence' investments. *Comment letter feedback* Many respondents considered that the current project was a unique opportunity and the right time to address the fundamental conceptual issues of the equity method (i.e. whether it is a consolidation approach or a measurement method). These respondents called for the IASB to consider adding such a project to its agenda.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

Question 1 – Measurement of cost of associate or joint venture

Proposals in the ED

The IASB is proposing that 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.

The IASB decided to propose requiring an investor or joint venturer to include in the carrying amount of its investment the deferred tax effects related to measuring its share of the associate's identifiable assets and liabilities at fair value both at obtaining significant influence and when purchasing additional ownership interest.

EFRAG's tentative positions in the DCL

EFRAG supported the measurement of the cost of an associate or joint venture at the fair value of the consideration transferred, including previously held ownership interests. However, EFRAG highlighted the following general concerns.

- *Definition of cost*: EFRAG noted the inconsistency between the definition of cost in Appendix A (which aligns with IFRS 3 *Business Combinations*) and the definition of cost in other IFRS Accounting Standards (IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40

EFRAG's response to the feedback to the DCL

EFRAG's final position

Based on the feedback received and discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG retained its DCL position in support of the ED's proposed measurement of cost of associate or joint venture. EFRAG also retained its positions calling for clarifications on (a) the definition of cost, (b) the treatment of transaction costs, (c) differences between the accounting treatment for the acquisition of assets and business, and (d) the recognition of goodwill and bargain purchase gains. For the latter, EFRAG moved its comments suggesting offsetting bargain purchase gains with previously recognised goodwill to its responses to Question 2 of the ED and, in so doing, included a banking stakeholder's concern (raised in their comment letter) about the adverse effect of goodwill on prudential capital ratios.

Based on the discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG did not include a comment letter respondent's recommendation for investor's access to information to be an additional criterion for determining significant influence. This is because the definition of significant influence was not in the scope of the ED and the investor's limited access to information was already reflected in EFRAG's concerns with several of the ED's proposals (e.g. full-fledged PPA for step acquisitions).

Measurement of previously held ownership interest on obtaining significant interest: Based on the comment letter feedback, in its FCL EFRAG recommended that the IASB clarify what is meant by the measurement (or re-measurement) of the previously held ownership interest (i.e. whether it is the remeasurement of the previously held interest after obtaining significant influence, which could include a significant influence premium, or whether it is the fair value of the previously held interest before obtaining significant influence).

Contingent consideration: In addition to comments included in the DCL, EFRAG suggested that the IASB clarify that the fair value of a liability for contingent consideration should be

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
Investment Property). EFRAG suggested the Appendix A's definition of cost be enhanced to clarify its interaction with the cost definitions or other notions of cost applied in other IFRS Accounting Standards. • *Acquisition of asset versus business*: EFRAG recommended that the IASB provide clearer guidance to distinguish between the accounting for business acquisitions and asset acquisitions, particularly given that more transactions are being classified as asset acquisitions under the revised IFRS 3 *Business Combinations* definition. The DCL included the following specific comments on the ED's proposals. • *Transaction costs*: EFRAG observed that the ED is silent on the treatment of transaction costs and that there were mixed views among stakeholders on the appropriate accounting treatment of these costs (some favoured capitalisation as proposed in the July 2009 IFRIC decision while others favoured expensing these costs as done under IFRS 3). EFRAG therefore called for clarification on the treatment of transaction costs. EFRAG suggested that these costs be included in the carrying amount of the investment (capitalised) and posed a question to constituents for their views on the matter. • *Contingent consideration*: EFRAG called for additional guidance on contingent consideration in the context of obtaining significant influence. • *Recognition of goodwill and bargain purchase gains*: EFRAG's DCL conveyed that stakeholders had mixed views with regard to the recognition of goodwill and bargain purchase gains under the equity method (i.e. significant influence but no control is obtained). EFRAG suggested that the IASB include safeguards and enhance disclosures related to bargain purchase gains, similar to IFRS 3 requirements. EFRAG noted that some stakeholders have argued that the economic value of the investment is better reflected if bargain purchase gains are first netted against the previously recognised goodwill. EFRAG posed a question to	classified in the operating category, similar to the provisions treating IFRS 3-related contingent consideration. *Deferred tax effects*: Based on the feedback received, unlike EFRAG's DCL where EFRAG did not express a position, in its FCL EFRAG supported the ED's proposals to include the carrying amount of a deferred tax asset (liability) in the carrying amount of the investment. EFRAG considered the proposal to be consistent with current practice and IFRS 3 principles and also agreed with the IASB's reasoning that it would allow a faithful representation of the tax effects.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
constituents asking for their views on whether bargain purchase gains should be offset against previously recognised goodwill. • *Deferred tax effects*: Without expressing a position, EFRAG acknowledged stakeholders' mixed views on the proposed accounting for deferred tax effects and posed a question to constituents for further views on this aspect. Some stakeholders supported the proposal as it aligns with current practice and IFRS 3 principles, while other stakeholders were against the proposal as they considered the unit of account to be the entire investment. *Outreach and comment letter feedback* *Outreach feedback* The feedback obtained through various outreach activities corroborated, to a large extent, the analysis included in EFRAG's DCL, specifically on: (a) inconsistencies in the cost definition with regard to other IFRS Accounting Standards; (b) cost and complexity associated with some of the proposals; and (c) the call for clarification of the accounting of transaction costs. Several users questioned the usefulness of recognising goodwill when an investor has significant influence. Further, some constituents suggested that the IASB enhance the definition of significant influence, noting that an investor's access to the relevant and reliable data of an investee may be one of the criteria to assess if significant influence is obtained. Some stakeholders disagreed with EFRAG's suggestion to require an offset of the bargain purchase gains against previously recognised goodwill, noting that bargain purchase gains were relatively rare in practice.	

Comment letter feedback

General comments

Most respondents welcomed the ED's proposal, noting that it aligns with the current practice and principles of IFRS 3. Many constituents questioned how to apply the proposals in situations where the investment is to acquire an ownership interest in an asset rather than business, and they gave their views on the impact of these on other areas of the ED proposals (e.g. the recognition of goodwill, contingent consideration, transaction costs). Some constituents corroborated the concerns raised in EFRAG's DCL about the ED's proposed definition of cost being different from the definition in other IFRS Accounting Standards.

Measurement of previously held ownership interest on obtaining significant interest

Some respondents asked for additional clarification in relation to the fair value measurement or re-measurement of the previously held ownership interest and the accounting consequences in case of re-measurement at the acquisition date (i.e. treatment of significant influence premium).

Transaction costs

Most respondents asked the IASB to clarify the treatment of transaction costs. A majority of the respondents gave a view on the appropriate treatment, with half supporting expensing the transaction costs and half supporting their capitalisation and inclusion in the carrying amount of the investment.

Contingent consideration

Most of the respondents agreed with the IASB's proposal and EFRAG's DCL, calling for additional clarification of certain areas. A few stakeholders stated that the subsequent changes in the fair value of the contingent consideration should be reflected in the carrying amount of the investment to better align with the definition of the cost of an asset.

Recognition of goodwill and bargain purchase gains

Many respondents disagreed with the recognition of goodwill or bargain purchase gain for the acquisition of an asset and asked the IASB to clarify whether this was

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
required. However, some respondents noted that the general practice was to recognise goodwill or bargain purchase gain for asset acquisitions as well. One respondent supported the IASB's proposal to not offset a bargain purchase gain against previously recognised goodwill, whereas three respondents disagreed with the proposal, noting that the economics of the investment would be better reflected if there were an offset. A banking sector organisation highlighted that goodwill has a negative effect on prudential ratios, making it desirable to offset a bargain purchase gain against previously recognised goodwill. Some respondents reiterated the comment included in EFRAG's DCL regarding the clarification of the measurement period and the need for additional safeguards in case of a bargain purchase gain. Deferred tax effects Most respondents supported the ED's proposal albeit some concerns about the associated application complexity were raised by some respondents. Some stakeholders expressed doubts about the recognition of deferred tax effects when an entity acquires an associate or a joint venture which does not represent a business in accordance with IFRS 3.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

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

Proposals in the ED

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'.

EFRAG's response to the feedback to the DCL

EFRAG's final position

Purchase of additional interest while retaining significant influence

Based on the comment letter feedback and discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG unambiguously disagreed with the ED's proposal requiring a full-fledged PPA for each acquisition of additional ownership interest while retaining significant influence (i.e. due to its cost, complexity, information access challenges, and questionable usefulness).

On the alternatives to the proposed full-PPA layered approach, in its FCL, EFRAG suggested the modified-PPA approach (one of the alternatives proposed in EFRAG's DCL) could be considered by the IASB as a starting point for the recommended simplification, as it was conceptually consistent with the ED's proposals. Though a comment letter respondent suggested the alternative modified-PPA be only considered as part of a reporting entity's materiality judgement, this suggestion was not included in the FCL, as it would not resolve the complexity of the proposed layered approach and could compound the problem of diversity in practice.

In its FCL, EFRAG also noted that the suitability of the other alternative in EFRAG's DCL (cost-accumulation approach) and another alternative proposed in comment letter feedback (assuming goodwill to be the difference between the fair value of consideration and the investor's share of the book value of net assets of the investee) could be considered if a fundamental review of the equity method is undertaken in the future.

As noted earlier, EFRAG's comments related to the offset of bargain purchase gain with previously recognised goodwill were moved from EFRAG's response to Question 1 to its response to Question 2 of the ED and, in so doing, included was banking stakeholders' concern about the adverse effect of goodwill on banking prudential capital ratios raised in their comment letter feedback.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

(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'.

EFRAG's tentative position in the DCL

Purchase of additional interest while retaining significant influence

EFRAG acknowledged the IASB's reasoning for treating each additional acquisition of ownership interest while retaining significant influence as a separate unit of account without remeasuring previously held interests. However, EFRAG questioned the appropriateness of using a different unit of account for purchasing additional ownership interest and disposing of ownership interest while retaining significant influence. Further, EFRAG expressed concerns about the cost, complexity and usefulness of the proposed approach. EFRAG suggested that the IASB reassess the cost-benefit balance and consider simplified alternatives. EFRAG's DCL proposed two potential ways of simplifying the proposals: Alternative 1 – using adjusted PPA information from when significant influence was first obtained or Alternative 2 – cost accumulation approach, assuming the fair value of the consideration equals the share of the net assets. EFRAG's DCL sought constituents' views on these two possible alternative solutions (i.e. a modified-PPA approach, and a cost-accumulation approach).

Disposing of ownership interest while retaining significant influence

EFRAG supported measuring the disposed portion as a percentage of the carrying amount but noted that in some cases a specific identification method may better reflect economic reality. EFRAG noted this was the case for the following situations: a) where ownership interests in the associate or joint venture are related to different classes of ordinary shares; or b) when the acquisition and disposal happen within a short period; or c) if individual entities are part of a consolidated group and each of them owns a proportion of ownership interest and one of them disposes their ownership interest while retaining significant influence.

EFRAG's response to the feedback to the DCL

Disposing of ownership interest while retaining significant influence

Based on the comment letter feedback, in its FCL, EFRAG retained its DCL position supporting the ED's proposal for disposing ownership interest while retaining significant influence. EFRAG noted the potential misrepresentation of the economics of the investment due to the respective differences in the units of account used for acquisitions and disposals while retaining significant influence. EFRAG acknowledged there were circumstances where specific identification would be necessary and EFRAG retained the fact patterns mentioned in the DCL where this was suitable. However, in addition, EFRAG also noted the specific identification would potentially reduce comparability between entities, create structuring opportunities, and be inconsistent with a consolidation approach that assumes the group is a single economic entity. Finally, EFRAG asked for the IASB to clarify how the share of net assets disposed is determined and called for more guidance on equity instruments with different economic rights (preference shares).

Other changes of ownership interest while retaining significant influence

Based on the comment letter feedback and discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG retained its DCL position disagreeing with the ED's proposal and calling for the IASB to develop a principle-based solution. EFRAG deleted the suggestion made in its DCL that these could be scoped out of the amendments. In addition, EFRAG pointed to several areas not addressed in the ED and where clarification was required (e.g. what is encompassed within broad economic ownership, the applicability of ED's proposals for transactions with non-controlling interests within investees and for the issuance of hybrid instruments, and the calculation of the share of net assets).

Other changes of ownership interest while retaining significant influence

EFRAG recommended that unless a holistic, principle-based approach can be developed, these should be excluded from the amendments due to complexity and potential cost.

Outreach and comment letter feedback

Outreach feedback

Stakeholders raised significant complexity and cost related to a full-fledged PPA at each additional acquisition and questioned the reliability of the exercise considering that the investor sometimes has limited access to the investee's internal data.

Stakeholders also questioned how to apply the proposals related to other changes in ownership interest to the transactions with non-controlling interests within the investee's group.

Mixed views were provided with regard to EFRAG's suggested alternative solutions to the layered approach.

Comment letter feedback

Purchase of additional ownership interest while retaining significant influence

Most respondents supported the ED's proposal to not remeasure previously held ownership interest during step acquisitions while retaining significant influence. At the same time, most respondents expressed significant concerns with the ED's requirement to perform a purchase price allocation exercise (PPA) for each additional acquisition (layered approach). This is due to the disproportionate cost and complexity of this approach.

On the other hand, a few respondents noted that application challenges are inherent to the equity method rather than primarily emanating from the layered approach. They suggested that the IASB further explore whether there are frequent material changes in an investor's ownership interest in an associate, which lead to a high degree of complexity and pose significant difficulties in

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
obtaining the necessary data for accounting purposes. An assessment of the prevalence of these situations can help determine a proportionate level of complexity and relevance of the solution provided. There was both support for and reservations against the two possible alternatives proposed in EFRAG's DCL (i.e. a modified-PPA approach and a cost-accumulation approach). The modified-PPA approach was not considered suitable for acquisitions that occurred many years ago while the cost-accumulation approach's subsequent measurement basis was not clear. Moreover, it would need a change in the ED's initial measurement and may be de facto an alternative to rather than a variant of the equity method. One stakeholder suggested a third alternative while another stakeholder noted that one of EFRAG's suggested alternatives could be further improved and suggested some adjustments. One respondent noted that both alternatives could be applied as part of the application of materiality considerations only and should therefore not be framed as alternatives. <u>Disposing of an ownership interest while retaining significant influence</u> Some respondents supported the ED proposals and a few asked for additional clarifications. Some respondents observed, however, that there are situations in which a specific identification method would be more appropriate and simpler to apply, for example (a) when an investment is held by various entities within a group and only one entity disposes of its ownership interest or (b) when the purchase and subsequent disposal occur within narrow time windows. On the other hand, one respondent noted that a specific identification method would potentially reduce comparability, create structuring opportunities and be inconsistent with a consolidated entity view that treats the group as a single economic entity. <u>Other changes in ownership interest while retaining significant influence</u> Many respondents provided comments on the ED proposal for other changes in ownership interest. Half of them disagreed with the ED's proposals noting that (a)	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
the economic substance of other changes was different from the transactions in which an investor actively takes part, (b) the requirement to perform a separate PPA for each deemed acquisition is overly burdensome, and (c) ensuing financial information is not useful to users. The other half of these respondents either supported or did not disagree with the proposals but requested additional clarifications, including, amongst others: (a) whether and how to apply the proposals for changes involving non-controlling interest within the investee or share buy-backs; (b) whether the proposals are only applicable to ordinary shares or also other hybrid instruments, having, for example, impacts on dividends but not on voting rights; and (c) whether the concept of 'changes in ownership interest' refers to direct ownership only or is meant to capture the broader term of 'economic ownership'.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

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

Proposals in the ED

The IASB is proposing that 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; and

(b) recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income.

EFRAG's tentative position in the DCL

Losses not recognised and purchase of an additional interest

EFRAG acknowledged that the ED's proposal not to offset losses of previously held ownership interest against the cost of an additional ownership interest acquired aligns with the layered approach. However, EFRAG expressed concern that recognising additional goodwill when the investee has negative net assets could misrepresent the economic reality of an investment, and it recommended that the IASB prohibit goodwill recognition when the investment's carrying amount is reduced to nil due to losses. EFRAG also suggested that the IASB explicitly state that when an entity purchases an additional ownership interest while having unrecognised losses, the entity needs to assess whether this additional investment represents an implicit funding of the associate or joint venture and if this is indicative of an existing constructive obligation, whereby the unrecognised losses ought to be recognised as required by paragraph 47 of the ED.

Recognition of each component of total comprehensive income

EFRAG expressed overall support but also requested clarification on comprehensive income component recognition and guidance on profit recognition order (in profit or loss and OCI) when investors resume recognising their share of investee profits.

EFRAG's final position

Losses not recognised and purchase of an additional interest

Based on the feedback received and the discussion at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG retained its DCL position supporting the exclusion in the cost of additional ownership interest while retaining significant influence. However, EFRAG noted that the recognition of goodwill for investees with negative net assets is not appropriate only in certain circumstances (i.e. where an additional investment is a de facto funding or bail-out arrangement) rather than in all circumstances as had been framed in the DCL. EFRAG noted that expensing goodwill (rather than including it in the carrying amount) in the mentioned circumstances would be aligned with offsetting bargain purchase gains against previously recognised goodwill (as suggested by EFRAG in response to Question 2).

Recognition of each component of comprehensive income

Based on the feedback received and discussions at the EFRAG FR TEG and FRB joint meeting, unlike in its DCL, EFRAG did not express support for this ED proposal but retained the call for the IASB to clarify numerous areas of the proposal highlighted by comment letter respondents.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
Outreach and comment letter feedback *Outreach feedback* No feedback was obtained during the outreach activities. *Comment letter feedback* Losses not recognised and purchase of an additional interest The proposal to not recognise a 'catch-up' of unrecognised losses when additional ownership interests in an associate are purchased generally received support from many respondents. However, a majority of respondents commenting on the proposal noted that recognising additional goodwill when the carrying value of the investment is zero, particularly when the net assets value of the investee is negative, does not faithfully represent the investment's economic reality, is inconsistent with the prudence principle and does not provide useful information to users, many of whom do not deem the goodwill recognised from the equity method accounting to be meaningful. Further, some respondents suggested that the IASB add explicit guidance requiring the investor to assess whether the additional purchase is a funding arrangement/bail-out, which creates a constructive obligation. Recognition of each component of comprehensive income There was broad support from respondents for the proposed requirements related to the recognition of the investor's share of losses in the components of total comprehensive income. However, all the respondents who commented on this topic suggested that further clarification and examples were necessary to ensure the consistent application of these requirements in practice. While respondents supported the ED's proposals to recognise and present separately the share of the investee's profit or loss and the share of the investee's other comprehensive income, they sought clarification on several implementation aspects, including:	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
• the order of profit recognition when an investor resumes recognising its share of the associate's profits; • handling insufficient profits to offset prior losses; • monitoring unrecognised losses globally or by component; and • priority between recyclable and non-recyclable OCI components. Some respondents also questioned the usefulness of recognising the share of losses equal to the share of OCI profits, thereby maintaining the net investment amount at zero, citing complexity and limited benefits.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

Question 4 – Transactions with associates and joint ventures

Proposals in the ED

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.

EFRAG's tentative position in the DCL

EFRAG supported the IASB's proposal to recognise in full the gains or losses from transactions with associates and joint ventures, noting, however, that the proposal represented a significant change to the existing requirements in IAS 28. While acknowledging concerns about potential structuring opportunities and earnings management — particularly in transactions with joint ventures — EFRAG noted that these concerns could be mitigated through enhanced disclosures. EFRAG recommended that the IASB provide additional guidance or illustrative examples to clarify the treatment of transactions that lack commercial substance, especially in the context of subsidiaries accounted for under the equity method in separate financial statements.

Outreach and comment letter feedback

Outreach feedback

The findings of the earlier noted multi-stakeholder survey conducted by academics from three Spain-based universities showed strong support for the ED proposal to recognise full gains and losses from all transactions with equity-accounted investments. Those in support considered that the ED proposal supports the view that the equity method is more akin to a valuation approach rather than a one-line consolidation method.

EFRAG's response to the feedback to the DCL

EFRAG's final position

Based on the feedback received, in its FCL EFRAG retained its tentative position supporting the proposals. However, based on concerns expressed about the risk of restructuring opportunities and earnings management, EFRAG called for additional disclosures to alleviate this risk. In addition, based on the feedback, EFRAG recommended that the IASB clarify whether sidestream transactions are within the scope of the proposal and, if so, that disclosure of any gains or losses arising from such transactions be required.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
EFRAG CFSS members agreed with the ED proposal but noted concerns regarding restructuring opportunities and earnings management, particularly for transactions with joint venturers. *Comment letter feedback* The majority of respondents agreed with the ED proposal and EFRAG's preliminary position for similar reasons to those of EFRAG in its DCL (it resolves practical issues, it reduces practical complexity, associates and joint ventures are not within the boundaries of a group, and it improves consistency with other IFRS Accounting Standards). The following observations/concerns were noted. (a) Respondents noted that the proposal represented a significant change to the current practice under IAS 28 (and in some cases, local regulations) that might go beyond the primary objective of answering application questions about how to apply the equity method, and they suggested a more fundamental review of the equity method. (b) Like EFRAG, most respondents (including a regulator and a user organisation) highlighted concerns with possible structuring opportunities and earnings management, particularly for transactions with joint ventures in which the joint venturers share joint control and transactions within larger groups where entities in the financial statements of sub-groups are associates of the ultimate (same) parent company. Some of these respondents suggested improved and more transparent disclosure requirements to mitigate this concern, including disclosure of gains and losses arising from all transactions between a parent and its equity-accounted investees (upstream and sidestream intercompany transactions). (c) One respondent considered upstream and sidestream transactions equally relevant, noting that these transactions are not mentioned in the ED, and therefore it is unclear how these kinds of transactions would be impacted by the proposals.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

Question 5 – Impairment indicators (decline in fair value)

Proposals in the ED

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.

EFRAG's tentative position in the DCL

EFRAG supported the IASB's proposals to amend the impairment indicators in IAS 28. It agreed with replacing 'cost' with 'carrying amount', as this aligns the impairment assessment with IAS 36 and provides more relevant information to users. While EFRAG acknowledged mixed views among stakeholders on removing the 'significant or prolonged' decline criterion, it supported the removal to alleviate application difficulties and reduce diversity in practice. EFRAG noted that concerns about increased impairment testing frequency and potential volatility in earnings can be mitigated, as impairment would only occur when the recoverable amount is less than the carrying amount, and testing would occur as frequently as for other assets. EFRAG also agreed with adding guidance that fair value information can be obtained from transactions involving additional ownership interests. Finally, EFRAG recommended that IAS 28 simply reference the impairment requirements in IAS 36 without repeating the impairment indicators to maintain consistency and avoid redundancy.

EFRAG's final position

Based on feedback received, in its FCL EFRAG retained its DCL position in support of the ED's proposal and its recommendation on the placement of impairment guidance (i.e. refer to IAS 36 without repeating the guidance in IAS 28). In addition, EFRAG called for clarification of the treatment of reversal of impairment loss under IAS 28.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
Outreach and comment letter feedback *Outreach feedback* EFRAG CFSS members expressed broad support for the position included in the EFRAG DCL related to impairment indicators as proposed in the ED. Furthermore, members commented that the ED was not sufficiently clear on the extent to which recognised impairment losses on investments accounted for using the equity method should be reversed and, if so, on what basis. *Comment letter feedback* Below is a summary of feedback on the ED proposals. (a) All respondents who commented on the proposal to replace 'cost' with 'carrying amount' agreed with it. (b) The majority of respondents supported the proposal to consider indicators to determine the observable fair value of investment. (c) Many respondents supported the removal of the reference to 'significant or prolonged' decline in fair value. However, some respondents considered that deleting this term would increase the frequency of impairment testing and trigger frequent impairments and impairment reversals, which would result in increased volatility and higher costs for preparers. (d) Some respondents provided further suggestions on how the impairment requirements in IAS 28 could be improved.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

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

Proposals in the ED

The IASB is proposing to retain paragraph 10 of IAS 27 and to leave it unchanged, meaning that the proposals in the ED would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

An alternative view expressed by IASB member Mr Tadeu Cendon suggests adding an option to IAS 27 that would allow a parent to apply the equity method for investments in subsidiaries consistently with the procedures used in consolidated financial statements, eliminating gains or losses from transactions with subsidiaries and remeasuring interests upon changes in control.

EFRAG's tentative position in the DCL

EFRAG cautiously supported the IASB's proposal to apply a single equity method across consolidated and separate financial statements. While acknowledging mixed stakeholder views, EFRAG agreed that using the same equity method is consistent with viewing investments in subsidiaries in separate financial statements as assets controlled by the investor, focusing on the performance of the investment. EFRAG noted concerns about the increasing differences between consolidated and separate financial statements due to the proposals and recommended that these differences be addressed in a future project on IAS 27 rather than through amendments to IAS 28. EFRAG also highlighted stakeholder concerns[2] regarding the treatment of transaction costs and the definition of 'cost' in the context of investments measured at cost in separate financial statements. EFRAG suggested that the IASB clarify whether the definition of 'cost' and the proposals related to contingent

EFRAG's final position

Based on the feedback received, in its FCL EFRAG supported the ED's proposed application of a single equity method across IFRS Accounting Standards except for the recognition of full gains or losses from transactions with equity-accounted subsidiaries in separate financial statements. This was a modification from EFRAG's DCL, where EFRAG had cautiously supported the ED's proposal with no exception but had aired some stakeholders' disagreement with the application of the ED's proposals for transactions with equity-accounted subsidiaries in separate financial statements.

In its FCL, EFRAG indicated that its call for an exception for the recognition of full gains or losses from transactions with equity-accounted subsidiaries was informed by stakeholders' concerns about structuring and earning management. EFRAG noted that the disclosures were necessary but not sufficient to mitigate this concern. EFRAG also noted stakeholders' observations that, in some jurisdictions, local regulations require entities to use separate financial statements for dividend distribution. Hence, there would be the risk of entities declaring dividends based on 'unrealised gains' from transactions with subsidiaries. Further, based on the discussions/decisions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG recommended that, to better understand the potential consequences of the proposed amendments, the IASB further engage with stakeholders in the jurisdictions where the equity method is used to account for subsidiaries in entities' separate financial statements.

EFRAG's FCL retained the call made in EFRAG's DCL for the IASB to clarify the applicability of the equity method proposals for investments that are measured at cost in separate financial statements.

[2] Stakeholders also expressed concern with inconsistencies in the definition of cost in Appendix A and across various IFRS Accounting Standards (see response to Question 1 of the ED).

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
consideration, step acquisitions and loss of control of a subsidiary can be extended to investments in subsidiaries measured at cost in separate financial statements. To help formulate its recommendations for the possible next steps to be taken by the IASB, EFRAG sought constituents' views on whether to recommend that the IASB (a) explore the alternative view proposed by Mr Cendon to add an option to IAS 27 to allow a parent to apply the equity method for investments in subsidiaries consistently with the procedures used when preparing consolidated financial statements and (b) require entities with equity-accounted subsidiaries in separate financial statements to provide a reconciliation between amounts in consolidated and separate financial statements. *Outreach and comment letter feedback* *Outreach feedback* EFRAG User Panel members supported having one definition of the equity method for both consolidated and separate financial statements. A few EFRAG CFSS members highlighted significant concerns with applying the proposal for full recognition of gains and losses to subsidiaries accounted for under the equity method in separate financial statements. *Comment letter feedback* Most respondents who commented on this question agreed with the IASB's proposals, mainly because entities in their jurisdiction were not impacted by the proposal (or significantly impacted), and considered that having a single equity method (consolidated and separate financial statements) was easier to understand.	Based on the comment letter feedback and the discussions/decisions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG noted the call from some stakeholders for the IASB to rethink its reasons for not requiring the remeasurement of previously held interest during the step acquisition (or loss of control) of a subsidiary. These stakeholders considered loss of control as an economic event that warranted a change in the accounting, and their views aligned with Mr Cendon's alternative view. Based on the comment letter responses to EFRAG's question to constituents in its DCL, EFRAG's FCL did not include the suggested possible next steps[3] that were included in EFRAG's DCL as possible recommendations to the IASB.

[3] The possible next steps not included in the FCL were for the IASB to explore whether (a) an option should be added to IAS 27 allowing equity-accounted subsidiaries to be accounted for the same way across consolidated and separate financial statements and (b) a reconciliation explaining differences between consolidated and separate financial statements should be required for equity-accounted subsidiaries in separate financial statements.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
A few respondents expressed significant concerns with the proposal to recognise full gains and losses arising from transactions with equity-accounted subsidiaries in separate financial statements. One respondent strongly opposed the proposal to recognise gains and losses on transactions with subsidiaries in separate financial statements. This respondent stated that, in their jurisdiction, entities have the option to apply the equity method in separate financial statements – with mandatory elimination of intra-group results. This respondent recommended that the IASB prescribe an alternative treatment when applying the equity method for subsidiaries in separate financial statements, which would require the elimination of gains and losses as currently required by IAS 28. This respondent considered that: (a) subsidiaries are fundamentally different from transactions with associates and that the full recognition of gains and losses could potentially lead to transactions that do not reflect the economic substance, creating the risk of structuring opportunities and earnings management; and (b) additional disclosures will not be sufficient to mitigate this risk and recommended to prescribe an alternative treatment when applying the equity method for subsidiaries in separate financial statements. This alternative treatment should eliminate gains and losses as currently required by paragraph 28 of IAS 28. Another respondent was concerned that the ED did not address investments measured at cost in separate financial statements. This respondent noted that in their jurisdiction entities also apply IFRS Accounting Standards to separate financial statements, and most entities measure investments in subsidiaries, associates and JVs at cost in their separate financial statements. Hence, it was crucial to clarify how to account for investments measured at cost. Some respondents answered EFRAG's questions to constituents on the use of the equity method in separate financial statements. In their feedback, it was noted that the equity method is not widely used in the EU (cost was more common). There was also no support expressed for the suggestions in EFRAG's DCL for a) a reconciliation	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
between amounts in consolidated and separate financial statements; and b) having an option for recognition of gains and losses on transactions with equity-accounted investees in separate financial statements.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

Question 7 – Disclosure requirements

Proposals in the ED

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.

EFRAG's tentative position in the DCL

EFRAG welcomed the IASB's proposed disclosure requirements, particularly the reconciliation between opening and closing carrying amounts of equity-accounted investments, though recommended requiring further disaggregation of information for material investments. EFRAG expressed mixed views from preparers of financial statements in relation to the required reconciliation, with some preparers noting that such reconciliations were already widely provided, while others raised concerns about the cost and complexity of the required disclosures. Additionally, EFRAG suggested that the IASB provide clarification on several aspects, including the interaction with other requirements of IFRS 12 and the scope of gains or losses from transactions with investees and other changes, and recommended including new

EFRAG's final position

Based on the feedback received, in its FCL EFRAG retained its DCL position supporting the ED's proposed disclosures. However, EFRAG also noted that some stakeholders had concerns with the disclosures of gains or losses from downstream transactions albeit there was support from other stakeholders. To alleviate concerns noted earlier on transactions with investees (see Question 4), EFRAG also suggested expanding the disclosures to encompass upstream and sidestream transactions.

Based on the discussions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG suggested steps to alleviate stakeholder concerns related to the sensitivity of information (i.e. aggregating the disclosure of gains or losses of immaterial investments, and introducing a sensitivity carveout).

In addition, EFRAG's FCL included a suggestion made by a respondent that 'changes in ownership interest should be disaggregated in acquisitions, disposals and other changes in ownership interest'.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
disclosure requirements for bargain purchase gains similar to IFRS 3 requirements to enhance transparency. *Outreach and comment letter feedback* *Outreach feedback* No feedback on the specific disclosure proposals was obtained during the outreach. A meeting with a user organisation focused on the areas where they had concerns. They aired no concerns with the disclosures and thus implicitly supported them. Furthermore, during the outreach to the User Panel conducted before the publication of EFRAG's DCL (see link), users supported the proposed disclosures. *Comment letter feedback* Many respondents expressed general support for enhancing the disclosure requirements for investments accounted for using the equity method. However, one of these respondents considered that the disclosure requirements should only be provided individually for material investees, and immaterial investees should be aggregated. Some respondents were concerned with the cost and burden of producing the disclosures, and these respondents had particular concerns with the disclosures of gains or losses from downstream transactions. They considered that IAS 24 *Related Party Disclosures* suffices for these transactions. A respondent suggested that changes in ownership interest be disaggregated into those arising from acquisitions, disposals and other changes in ownership interest.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

Question 8 – Disclosure requirements for eligible subsidiaries

Proposals in the ED

The IASB is proposing amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* 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.

EFRAG's tentative position in the DCL

EFRAG noted that the reconciliation between the opening and closing carrying amounts of investments would be valuable for users of financial statements of subsidiaries without public accountability. It acknowledged that this information is typically available at the subsidiary level, especially for those applying the equity method, which reduces the cost of obtaining this information from the parent entity. EFRAG has received feedback indicating that disclosures about contingent consideration are beneficial for users who rely on subsidiary-level reports for decision-making.

Outreach and comment letter feedback

Outreach feedback

No feedback was obtained on disclosures for eligible subsidiaries through outreach activities.

EFRAG's response to the feedback to the DCL

EFRAG's final position

Based on the feedback received, in the FCL there was no change to EFRAG's position expressed in its DCL.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
Comment letter feedback The feedback received on this question was limited and mostly supportive of the proposals and EFRAG's DCL position. However, one respondent considered the proposed disclosure to be inconsistent with the objective of IFRS 19 *Subsidiaries without Public Accountability: Disclosures.*	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

Question 9 – Transition

Proposals in the ED

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.

EFRAG's tentative position in the DCL

EFRAG generally agreed with the proposed transition requirements except for the retrospective application of recognising full gains or losses on transactions with associates and joint ventures. Based on mixed stakeholder feedback with some concerned about not reflecting gains or losses at the time of realisation, EFRAG recommended that the IASB consider prospective application for pre-existing transactions. Additionally, EFRAG asked for clarification on whether an impairment test is required when increasing an investment's carrying amount during transition, suggesting it be mandatory to avoid future impairments from past adjustments affecting profit and loss.

EFRAG's final position

Based on the feedback received, EFRAG retained its DCL position (i.e. supporting the proposals except for the unrecognised gains and losses arising from past transactions, which EFRAG recommended be applied prospectively). EFRAG also asked for clarification on whether paragraph C4 of the ED is intended to require a full or a modified retrospective approach.

Furthermore, based on the discussions/decisions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG recommended that, should the IASB either require or permit the retrospective application of paragraph C4, it also introduce a requirement for an impairment test of the carrying amount of the related investment at the transition date.

In addition, EFRAG asked the IASB to clarify (a) the proposed transition requirements in paragraph C6 with respect to contingent consideration (i.e. the requirement applies only to any remaining unrecognised contingent consideration that was either not recognised or was recognised on a basis other than fair value) and (b) the application of prospective requirements for investments measured at nil at the date of transition.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL

Outreach and comment letter feedback

Outreach feedback

A preparer representative who reached out to the EFRAG Secretariat expressed significant concern about the retrospective application of the unrecognised gains and losses arising from past transactions with associates and joint venturers. This preparer, who has been only partially recognising the gains and losses under IAS 28, noted that it would be difficult to explain to management and investors why they are recognising a significant gain in retained earnings at the transition date and the possibility of other consequences, including tax issues.

Comment letter feedback

Respondents provided mixed views on the proposed transition requirements. Some supported the IASB proposals, others supported EFRAG's preliminary view and one respondent preferred to have prospective application for all the proposals.

However, more than half of respondents agreed with EFRAG's position in its DCL (EFRAG agreed with the proposed transition requirements except for the proposal to apply retrospectively the proposal for full gains and losses).

Some respondents, while not disagreeing with EFRAG's preliminary view, asked for clarification on the following aspects of the proposed transition requirements:

(a) how the proposed prospective transition requirements in paragraph C3 of the ED would apply to investments measured at nil at the transition date and subsequent periods, for which the investor ceased to recognise losses; and

(b) how unrecognised gains and losses could be accounted for prospectively.

Regarding (a) above, one respondent raised the following questions on the transition of unrecognised losses.

(a) Should the amount of unrecognised losses be reset to nil at the transition date?

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
(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? One respondent noted that there was strong disagreement with the lack of a requirement or even the possibility of performing an impairment test at the transition date. Based on feedback received from some respondents, it seems unclear whether paragraph C4 is intended to require a full retrospective or whether it is a modified retrospective approach.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

Question 10 – Expected effects of the proposals

Proposals in the ED

Expected effects on information reported in the financial statements (addressed in paragraph BC 221)

The IASB explains the following.

- The main effects will arise because the proposals in the ED might require an entity to change their accounting policies (for example, changes in ownership interest, recognition of losses and transactions with equity-accounted investees). The other effect will arise from the additional proposed disclosure requirements.
- With regard to the proposals on the accounting for deferred taxes and contingent consideration, the IASB notes that although approaches in practice vary, it is common for entities to apply a similar approach to that required by IFRS 3 for business combinations.
- Concerning the impairment proposals, the IASB notes that the proposals do not change the way an entity tests equity-accounted investees for impairment.

Expected user benefits (addressed in paragraphs BC222–BC 223)

The IASB explains the following user benefits.

- Users will benefit from more comparable information given that the proposals in the ED address aspects of the equity method for which there is currently no guidance or where current guidance is inconsistent with other IFRS Accounting Standards.
- Users will also benefit from the proposed disclosure requirements which ought to provide a better understanding of transactions with equity-accounted investees.

Expected costs (addressed in paragraphs BC 224–229)

- Expected cost reduction: The IASB considers that the proposals will reduce costs to preparers, auditors and regulators by providing answers to application

EFRAG's final position

Based on the feedback received, in the FCL there was no change to EFRAG's position expressed in its DCL.

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	**EFRAG's response to the feedback to the DCL**
questions arising in practice for entities applying the equity method. The IASB also notes that some other proposals (for instance the proposals on full recognition of gains and losses for transactions with associates and joint venturers) will be less costly to apply than the current requirements / current accounting policies in place (as tracking of the unrealised gain or loss will no longer be required). • <u>Expected cost increases:</u> The IASB acknowledges that entities will need to change their current accounting policies to apply many of the proposals and will also need to provide additional disclosures. For example, the IASB notes that the proposal to measure the investor's additional share of the associate's identifiable assets and liabilities at their net fair value and include the related deferred tax effects when purchasing an additional interest in an associate may be more costly than what entities currently do. *EFRAG's tentative position in the DCL* EFRAG acknowledged that while the proposals would increase comparability and transparency for users, stakeholders expressed significant concerns about the cost and complexity of implementing several key proposals. These included the layered approach for additional ownership interests, accounting for ownership changes without exchange transactions, increased frequency of impairment testing and new disclosure requirements. EFRAG noted that it would further evaluate the cost-benefit balance based on constituents' feedback and ongoing outreach. *Outreach and comment letter feedback* *Outreach feedback* No feedback was obtained during the outreach activities. *Comment letter feedback* Some respondents commented on this question. Most of them agreed with EFRAG's assessment of the cost and complexity of several aspects of the ED proposals, including the layered approach, other changes in ownership, frequent impairment testing and additional disclosures. Some respondents pointed to the significant	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL	EFRAG's response to the feedback to the DCL
implementation cost and/or operational complexity associated with the ED proposals.	

EFRAG's tentative views expressed in the draft comment letter (DCL) and feedback to the DCL

EFRAG's response to the feedback to the DCL

Question 11 – Other comments

EFRAG's tentative position in the DCL

EFRAG recommended expanding and integrating the underlying principles of IAS 28 into the Standard's requirements and suggested revising certain definitions to avoid circular references. Additionally, EFRAG highlighted stakeholder concerns about the interaction between IAS 28 and IFRS 18 *Presentation and Disclosure in Financial Statements*, particularly regarding the classification of income and expenses from equity-accounted investments. Stakeholders, especially from the banking and insurance sectors, have raised issues about the fair value option criteria in paragraph 18 of IAS 28, suggesting that it be based on investment characteristics rather than entity structure to better reflect entities' classification of operating activities under IFRS 18 requirements.

Outreach and comment letter feedback

Outreach feedback

EFRAG IAWG members expressed concerns in relation to IFRS 18 transition requirements, stating that current paragraph 18 of IAS 28 is subject to interpretation, resulting in diversity in practice, and does not cater to indirect insurance contracts accounted under the general model or premium allocation approach.

Comment letter feedback

Some respondents commented on this question. Several respondents addressed the interaction with IFRS 18 and raised issues pertinent to the banking and insurance sector.

One respondent suggested repositioning paragraph 35 regarding the continued application of the equity method when an investment changes between associate and joint venture, noting that its current placement could restrict its scope.

EFRAG's final position

Based on the feedback received, in its FCL EFRAG incorporated additional considerations related to the expansion and clarification of the scope of current paragraph 18 of IAS 28.

Based on the discussions/decisions at the EFRAG FR TEG and FRB joint meeting to approve the FCL, EFRAG suggested that the IASB introduce a general option in IAS 28 allowing an entity to account for the associates and joint ventures at FV through PL available at the inception of the contract (and upon transition to amended IAS 28). This would cater to insurance contracts accounted for under the general model or premium allocation approach as well as to any other industries or situations where an accounting mismatch may arise.

Appendix 1: List of respondents by country and by type

Table 1: List of respondents

Name of respondent[4]	***Country***	***Type / Category***
REPSOL	Spain	Preparer
Accountancy Europe (AcE)	Europe	Professional Organisation
Autorité des Normes Comptables (ANC)	France	National Standard Setter
BusinessEurope (BE)	Europe	Preparer Organisation
Rådet för hållbarhets- och Finansiell Rapportering – Swedish Corporate Reporting Board (SCRB)	Sweden	National Standard Setter
Organismo Italiano di Contabilità (OIC)	Italy	National Standard Setter
Austrian Financial Reporting Advisory Committee (AFRAC)	Austria	National Standard Setter
Norsk RegnskapsStiftelse – Norwegian Accounting Standards Board (NASB)	Norway	National Standard Setter
Raad voor de Jaarverslaggeving – Dutch Accounting Standards Board (DASB)	Netherlands	National Standard Setter
Allianz	Germany	Preparer
European Securities and Markets Authority (ESMA)	Europe	Regulator/enforcer
European Savings and Retail Banking Group (ESBG)	Europe	Preparer Organisation
European Federation of Financial Analysts Societies (EFFAS)	Europe	User Organisation
Universidad Complutense de Madrid (UCM)	Spain	Academic
Instituto de Contabilidad y Auditoria de Cuentas (ICAC)	Spain	National Standard Setter
Danish Accounting Standards Committee (DASC)	Denmark	National Standard Setter

[4] Respondents whose comment letters were considered by the EFRAG FRB before finalisation of the comment letter.