



**IFRS<sup>®</sup>**

Accounting

September 2024

# **Exposure Draft**

IFRS<sup>®</sup> Accounting Standard

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## **Equity Method of Accounting**

*IAS 28 Investments in Associates and Joint Ventures*  
(revised 202x)

Comments to be received by 20 January 2025

**Exposure Draft**  
**Equity Method of Accounting**

*IAS 28 Investments in Associates and Joint  
Ventures (revised 202x)*

*Comments to be received by 20 January 2025*

Exposure Draft IASB/ED/2024/7 Equity Method of Accounting—IAS 28 *Investments in Associates and Joint Ventures* (revised 202x) is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **20 January 2025** and should be submitted by email to [commentletters@ifrs.org](mailto:commentletters@ifrs.org) or online at <https://www.ifrs.org/projects/open-for-comment/>.

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EQUITY METHOD OF ACCOUNTING—IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES  
(REVISED 202X)

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## Introduction

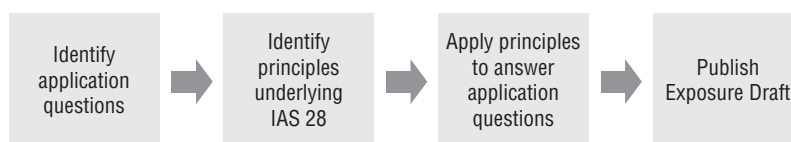
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### Why is the IASB publishing this Exposure Draft?

IN1 IFRS Accounting Standards require entities to use the equity method in their consolidated financial statements for investments in associates and joint ventures. Entities are permitted to use the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates. The requirements for applying the equity method are set out in IAS 28 *Investments in Associates and Joint Ventures*.

IN2 Stakeholders have raised questions on how to apply the equity method in particular circumstances. The International Accounting Standards Board (IASB) is seeking to resolve these application questions by identifying and applying the principles derived from IAS 28; therefore, the project has a limited scope. Figure 1 illustrates the IASB's approach.

**Figure 1—Illustration of the approach applied by the IASB to achieve its objective**



IN3 The IASB expects that answering application questions on how to apply the equity method will reduce diversity in practice and lead to more comparable and understandable information for users of financial statements.

IN4 Paragraphs BC5–BC16 of the Basis for Conclusions on this Exposure Draft further explain the IASB's objective and approach.

### Summary of the proposals in this Exposure Draft

IN5 The Exposure Draft sets out proposed amendments to IAS 28 to answer application questions about how an investor applies the equity method to:<sup>1</sup>

- (a) changes in its ownership interest on obtaining significant influence;
- (b) changes in its ownership interest while retaining significant influence, including:
  - (i) when purchasing an additional ownership interest in the associate;
  - (ii) when disposing of an ownership interest in the associate; and

<sup>1</sup> For simplicity, the summary of the proposals in the Exposure Draft refers to investments in associates. The IASB is proposing that the amendments in this Exposure Draft would also apply to investments in joint ventures and investments in subsidiaries to which the equity method is applied.

EQUITY METHOD OF ACCOUNTING—IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES  
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- (iii) when other changes in an associate’s net assets change the investor’s ownership interest—for example, when the associate issues new shares;
  - (c) recognition of its share of losses, including:
    - (i) whether an investor that has reduced its investment in an associate to nil is required to ‘catch up’ losses not recognised if it purchases an additional interest in the associate; and
    - (ii) whether an investor that has reduced its interest in an associate to nil recognises its share of the associate’s profit or loss and its share of the associate’s other comprehensive income separately;
  - (d) transactions with associates—for example, recognition of gains or losses that arise from the sale of a subsidiary to its associate, in accordance with the requirements in IFRS 10 *Consolidated Financial Statements* and IAS 28;
  - (e) deferred tax effects on initial recognition related to measuring at fair value the investor’s share of the associate’s identifiable assets and liabilities of the associate;
  - (f) contingent consideration; and
  - (g) the assessment of whether a decline in the fair value of an investment in an associate is objective evidence that the net investment might be impaired.
- IN6 The Exposure Draft also sets out proposals to improve the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to complement the proposed amendments to IAS 28, along with a reduced version of those proposed disclosure requirements for entities applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

### How to read this Exposure Draft

- IN7 As part of the IASB’s work to improve the understandability of IFRS Accounting Standards, the IASB is proposing to re-order the requirements in IAS 28. This Exposure Draft sets out a draft of a revised IAS 28 (IAS 28 revised 202x).
- IN8 To help readers evaluate the proposals in this Exposure Draft, paragraphs containing unchanged requirements are shaded in grey in the [draft] IAS 28 (revised 202x). Paragraphs are ‘unchanged’ if the only changes proposed are renumbering or editorial amendments (for example, to replace ‘entity’ with ‘investor or joint venturer’).
- IN9 A table of concordance between IAS 28 (issued version) and the [draft] IAS 28 (revised 202x) is set out on pages 44–46 of this Exposure Draft.
- IN10 A supplementary document is being made available of the [draft] IAS 28 (revised 202x) in mark-up form. The supplementary document, in addition to showing in grey text paragraphs for unchanged requirements:

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- (a) underlines new requirements;
- (b) strikes through deleted requirements; and
- (c) either underlines or strikes through amended requirements.

### **Next steps**

IN11 The IASB will consider comment letters and other feedback on the Exposure Draft and will then decide whether and if so how to proceed with the proposals in this Exposure Draft.

## Invitation to comment

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The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) specify the paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposals that is unclear or would be difficult to translate; and
- (e) include any alternative the IASB should consider, if applicable.

The IASB is requesting comments only on the proposals in this Exposure Draft. As noted in paragraph IN2, the IASB is seeking to resolve application questions on applying the equity method. Paragraphs BC5–BC14 of the Basis for Conclusions explain the project's objective and scope.

Respondents need not answer all the questions in this invitation to comment.



## Questions for respondents

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### Proposed amendments to IAS 28

For simplicity, Questions 1–5 are expressed in relation to investments in associates. References to ‘investor’, ‘associate’ and ‘significant influence’ should be read as also referring to ‘joint venturer’, ‘joint venture’ and ‘joint control’ in relation to investments in joint ventures. For investments in subsidiaries to which the equity method is applied in separate financial statements, see Question 6.

<p><b>Question 1—Measurement of cost of an associate</b></p> <p><b>(Appendix A and paragraphs 13, 22, 26 and 29 of [draft] IAS 28 (revised 202x))</b></p> <p>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:</p> <p>(a) whether to measure any previously held ownership interest in the associate at fair value; or</p> <p>(b) whether and if so how to recognise and measure contingent consideration.</p> <p>The IASB is proposing an investor:</p> <p>(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.</p> <p>(b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:</p> <p>(i) not remeasure contingent consideration classified as an equity instrument; and</p> <p>(ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.</p> <p>Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB’s rationale for these proposals.</p> <p>Do you agree with these proposals?</p> <p>If you disagree, please explain why you disagree and your suggested alternative.</p>
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**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.

**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.

**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.<sup>2</sup> 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.

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<sup>2</sup> 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.

**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.

**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.

## 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.

## Proposed amendments to IFRS 19

<p><b>Question 8—Disclosure requirements for eligible subsidiaries</b></p> <p><b>(Paragraphs 88(c), 91A and 240A of IFRS 19)</b></p> <p>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.</p> <p>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.</p> <p>The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:</p> <ul style="list-style-type: none"><li>(a) to disclose information about contingent consideration arrangements; and</li><li>(b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.</li></ul> <p>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.</p> <p>Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals.</p> <p>Do you agree with these proposals?</p> <p>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).</p>
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## 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.

### 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?

### 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)?

## Deadline

The IASB will consider all comments received in writing by 20 January 2025.

## How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email [commentletters@ifrs.org](mailto:commentletters@ifrs.org)



EXPOSURE DRAFT—SEPTEMBER 2024

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at [commentletters@ifrs.org](mailto:commentletters@ifrs.org) before submitting your letter.

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[Draft] International Accounting Standard 28 *Investments in Associates and Joint Ventures* (revised 202x) is set out in paragraphs 1–60 and Appendices A and C–D. All the paragraphs have equal authority. Paragraphs in **bold** type state the main principles. Terms defined in Appendix A are in *italics* the first time that they appear in the Standard. [Draft] IAS 28 (revised 202x) should be read in the context of its objective and the Basis for Conclusions, the *Preface to IFRS Accounting Standards* and the *Conceptual Framework for Financial Reporting*. IAS 8 *Basis of Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## **[Draft] International Accounting Standard 28 *Investments in Associates and Joint Ventures* (revised 202x)**

For ease of reading, paragraphs containing unchanged requirements are shaded in grey. Paragraphs are ‘unchanged’ if the only changes proposed are renumbering or editorial amendments (for example, to replace ‘entity’ with ‘investor or joint venturer’). A table of concordance between [draft] IAS 28 (revised 202x) and IAS 28 (issued version) is set out on pages 44–46 of this Exposure Draft.

### **Objective**

- 1 [IAS 28.1] The objective of this Standard is to prescribe the accounting for investments in *associates* and to set out the requirements for applying the *equity method* when accounting for investments in *associates* and *joint ventures*.

### **Scope**

- 2 [IAS 28.2] **This Standard shall be applied by all entities that are:**
- (a) **investors with *significant influence* over an associate; or**
  - (b) ***joint venturers* with *joint control* of a joint venture.**
- 3 [IAS 28.44] An investment in an associate or joint venture shall be accounted for in the investor’s or joint venturer’s separate financial statements in accordance with paragraph 10 of IAS 27 *Separate Financial Statements*.

### **Exemptions from applying the equity method**

- 4 [IAS 28.17] An investor or joint venturer need not apply the equity method to its investment in an associate or joint venture if it is a parent that is exempt from preparing *consolidated financial statements* by the scope exception in paragraph 4(a) of IFRS 10 *Consolidated Financial Statements* or if all the following apply:
- (a) The investor or joint venturer is a wholly owned subsidiary, or is a partially owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor or joint venturer not applying the equity method.
  - (b) The investor’s or joint venturer’s debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets).
  - (c) The investor or joint venturer did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market.

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- (d) The ultimate or any intermediate parent of the investor or joint venturer produces financial statements available for public use that comply with IFRS Accounting Standards, in which subsidiaries are consolidated or are measured at fair value through profit or loss in accordance with IFRS 10.
- 5 [IAS 28.18] When an investment in an associate or joint venture is held by, or is held indirectly through, an investor or a joint venturer that is a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the investor or joint venturer might elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*. An example of an investment-linked insurance fund is a fund held by an entity as the underlying items for a group of insurance contracts with direct participation features. For the purposes of this election, insurance contracts include investment contracts with discretionary participation features. An investor or joint venturer shall make this election separately for each associate or joint venture, at initial recognition of the associate or joint venture. (See IFRS 17 *Insurance Contracts* for terms used in this paragraph that are defined in that Standard.)
- 6 [IAS 28.19] When a portion of an investment in an associate is held indirectly through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds, the investor might elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether the venture capital organisation, or the mutual fund, unit trust and similar entities including investment-linked insurance funds, has significant influence over that portion of the investment. If the investor makes that election, it shall apply the equity method to any remaining portion of its investment in an associate that is not held through a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.
- 7 [IAS 28.36A] Notwithstanding the requirement in paragraph 44, if an investor or joint venturer that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the investor or joint venturer might, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

## Significant influence

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- 8 [IAS 28.5] If an entity holds, directly or indirectly (for example, through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if an entity holds, directly or indirectly (for example, through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the entity does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.
- 9 [IAS 28.6] The existence of significant influence by an entity is usually evidenced in one or more of the following ways:
- (a) representation on the board of directors or equivalent governing body of the investee;
  - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - (c) material transactions between the entity and its investee;
  - (d) interchange of managerial personnel; or
  - (e) provision of essential technical information.
- 10 [IAS 28.7] An entity might own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or to reduce another party's voting power over the financial and operating policies of another entity (that is, potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- 11 [IAS 28.8] In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intentions of management and the financial ability to exercise or convert those potential rights.
- 12 [IAS 28.9] An investor loses significant influence over an associate when it loses the power to participate in the financial and operating policy decisions of that associate. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual arrangement.

## The equity method

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- 13 [IAS 28.10] On obtaining significant influence or joint control, an investor or joint venturer shall recognise its investment in an associate or joint venture at the *cost of the associate or joint venture*. Thereafter, the investor or joint venturer shall recognise, as part of the carrying amount of the investment, changes in its share of the associate's or joint venture's net assets—for example:
- (a) the carrying amount of the investment is increased or decreased to recognise the investor's or joint venturer's share of the associate's or joint venture's profit or loss.
  - (b) the carrying amount of the investment is increased or decreased to recognise the investor's or joint venturer's share of the associate's or joint venture's other comprehensive income. Such changes include the revaluation of property, plant and equipment, and foreign exchange translation differences.
  - (c) distributions received from an associate or joint venture reduce the carrying amount of the investment.
- 14 [IAS 28.11] The recognition of income on the basis of distributions received might not be an adequate measure of the income earned by an investor or joint venturer on an investment in an associate or joint venture because the distributions received might bear little relation to the performance of the associate or joint venture. Because the investor has significant influence over the associate, or the joint venturer has joint control of the joint venture, it has an interest in the associate's or joint venture's performance and, as a result, the return on its investment. The investor or joint venturer accounts for this interest by extending the scope of its financial statements to include its share of the associate's or joint venture's profit or loss. As a result, application of the equity method provides more informative reporting of the investor's or joint venturer's net assets and profit or loss.

### Determining the investor's or joint venturer's ownership interest

- 15 [IAS 28.12] When potential voting rights or other derivatives containing potential voting rights exist, an investor's or joint venturer's interest in an associate or joint venture is determined solely on the basis of existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments, unless paragraph 16 applies.
- 16 [IAS 28.13] In some circumstances, an investor or joint venturer has, in substance, an existing ownership interest as a result of a transaction that currently gives it access to the returns associated with that ownership interest. In such circumstances, the proportion allocated to the investor or joint venturer is determined by taking into account the eventual exercise of those potential voting rights and other derivative instruments that currently give the investor or joint venturer access to the returns.

- 17 [IAS 28.27] A group's ownership interest in an associate or joint venture is the aggregate of the holdings in that associate or joint venture by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate or joint venture has subsidiaries, associates or joint ventures, the profit or loss, other comprehensive income and net assets taken into account in applying the equity method are those recognised in the associate's or joint venture's financial statements (including the associate's or joint venture's share of the profit or loss, other comprehensive income and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraph 7 and paragraphs 43–44).
- 18 [IAS 28.37] If an associate or joint venture has outstanding cumulative preference shares that are held by parties other than the investor or joint venturer and are classified as equity, the investor or joint venturer computes its share of profit or loss after adjusting for the dividends on such shares, whether or not the dividends have been declared.

### **Other interests in an associate or joint venture**

- 19 [IAS 28.14] IFRS 9 does not apply to interests in associates and joint ventures that are accounted for using the equity method. When instruments containing potential voting rights in substance currently give access to the returns associated with an ownership interest in an associate or joint venture, the instruments are not subject to IFRS 9. In all other cases, instruments containing potential voting rights in an associate or joint venture are accounted for in accordance with IFRS 9.
- 20 [IAS 28.14A] An investor or joint venturer also applies IFRS 9 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the investor's or joint venturer's *net investment* in an associate or joint venture. An investor or joint venturer applies IFRS 9 to such long-term interests before it applies paragraphs 45–47 and paragraphs 56–59 of this Standard. In applying IFRS 9, the investor or joint venturer does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

## **Applying the equity method**

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### **Recognition and initial measurement**

- 21 [IAS 28.16 and 28.32 Partial] **Subject to paragraphs 4–7, an investor or joint venturer shall apply the equity method from the date on which it obtains significant influence or joint control.**
- 22 [IAS 28.10 Partial] **An investor or joint venturer obtaining significant influence or joint control shall recognise its investment in an associate or joint venture and measure that investment at the cost of the associate or joint venture.**

- 23 [IAS 28.32 Partial] The carrying amount of the investment in the associate or joint venture shall include the investor's or joint venturer's share of the fair value of the associate's or joint venture's identifiable assets and liabilities, including the related deferred tax effects.
- 24 [IAS 28.32 Partial] An investor or joint venturer shall account for any difference between the cost of an associate or joint venture and its share of the fair value of the associate's or joint venture's identifiable assets and liabilities, including the related deferred tax effects, as:
- (a) goodwill; or
  - (b) a gain from a bargain purchase.
- 25 [IAS 28.32 Partial] An investor or joint venturer shall include:
- (a) goodwill as part of the carrying amount of its investment; and
  - (b) any gain from a bargain purchase in profit or loss.
- 26 An investor or joint venturer shall recognise contingent consideration as part of the consideration transferred and measure that contingent consideration at fair value. The investor or joint venturer shall classify:
- (a) as a financial liability or an equity instrument an obligation to pay contingent consideration that meets the definition of a financial instrument on the basis of the definitions of a financial liability and an equity instrument in paragraph 11 of IAS 32 *Financial Instruments: Presentation*; and
  - (b) as an asset a right to the return of previously transferred consideration.

### **Subsequent measurement**

- 27 [IAS 28.10 Partial] An investor or joint venturer shall recognise the changes in its share of the associate's or joint venture's net assets, including:
- (a) its share of the associate's or joint venture's profit or loss in its profit or loss;
  - (b) its share of the associate's or joint venture's other comprehensive income in its other comprehensive income; and
  - (c) distributions received from the associate or joint venture as a reduction of the carrying amount of the investment.
- 28 [IAS 28.32 Partial] The investor or joint venturer shall adjust its share of the associate's or joint venture's profit or loss for the changes that it made to the carrying amount of the associate's or joint venture's identifiable assets and liabilities, including the related deferred tax effects. For example, depreciation of the depreciable assets and impairment losses shall be based on the fair values of the related depreciable assets at the date the investor or joint venturer obtains significant influence or joint control. The investor or joint venturer shall not amortise goodwill included in the carrying amount of the investment (see paragraph 58).



- 29 The investor or joint venturer shall:
- (a) for contingent consideration classified as an equity instrument—not remeasure that contingent consideration, its subsequent settlement is recognised in equity; and
  - (b) for other contingent consideration—measure that contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

## **Changes in ownership interest**

### **Purchasing an additional ownership interest**

- 30 An investor or joint venturer purchasing an additional ownership interest, while retaining significant influence or joint control, shall, at the date of that purchase:
- (a) recognise that additional ownership interest and measure it at the fair value of the consideration transferred; and
  - (b) include in the carrying amount of that additional ownership interest its share of the fair value of the associate's or joint venture's identifiable assets and liabilities, including the related deferred tax effects.

- 31 The investor or joint venturer shall also apply paragraphs 24–26 to that additional ownership interest purchased.

### **Disposing of an ownership interest**

- 32 An investor or joint venturer disposing of an ownership interest, while retaining significant influence or joint control, shall, at the date of that disposal:
- (a) derecognise the disposed portion of its investment in the associate or joint venture;
  - (b) measure the disposed portion of its investment as a percentage of the carrying amount of the investment (that percentage is calculated as the disposed ownership interest divided by the total ownership interest); and
  - (c) recognise any difference between the consideration received and the disposed portion as a gain or loss in profit or loss.

- 33 [IAS 28.25] If an investor's or joint venturer's ownership interest in an associate or joint venture is decreased, while retaining significant influence or joint control, the investor or joint venturer shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that decrease in ownership interest if that gain or loss would be required to be reclassified to profit or loss on disposal of the related assets or liabilities.

### **Other changes in ownership interest**

- 34 An investor's or joint venturer's ownership interest might increase or decrease if its associate or joint venture redeems or issues equity instruments. If an investor's or joint venturer's ownership interest changes and the investor or joint venturer retains significant influence or joint control, it shall:
- (a) apply paragraphs 30–31 to an increase in its ownership interest, as if purchasing an additional ownership interest. For the purpose of applying paragraph 30(a), the investor or joint venturer shall read 'the fair value of the consideration transferred' as 'the investor's or joint venturer's share of the change in its associate's or joint venture's net assets arising from the associate's or joint venture's redemption of equity instruments'; and
  - (b) apply paragraphs 32–33 to a decrease in its ownership interest, as if disposing of an ownership interest. For the purpose of applying paragraph 32(c), the investor or joint venturer shall read 'the consideration received' as 'the investor's or joint venturer's share of the change in its associate's or joint venture's net assets arising from the associate's or joint venture's issue of equity instruments'.
- 35 [IAS 28.24] If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the investor or joint venturer continues to apply the equity method and does not remeasure the retained ownership interest.

### **Discontinuing the use of the equity method**

#### **Losing significant influence or joint control**

- 36 [IAS 28.22 Partial] An investor or joint venturer shall discontinue the use of the equity method from the date when its investment ceases to be an associate or joint venture as follows:
- (a) If the investment becomes a subsidiary, the parent shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.
  - (b) If the retained ownership interest in the former associate or joint venture is a financial asset, the entity shall measure the retained ownership interest at fair value. The fair value of the retained ownership interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The entity shall recognise in profit or loss any difference between:
    - (i) the fair value of any retained ownership interest and any proceeds from disposing of a partial ownership interest in the associate or joint venture; and
    - (ii) the carrying amount of the investment at the date the equity method was discontinued.

37 [IAS 28.22 Partial] When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

38 [IAS 28.23] Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued. For example, if an associate or joint venture has cumulative exchange differences relating to a foreign operation and the entity discontinues the use of the equity method, the entity shall reclassify to profit or loss the gain or loss that had previously been recognised in other comprehensive income in relation to the foreign operation.

### **Classifying investments as held for sale**

39 [IAS 28.20] An investor or joint venturer shall apply IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* to an investment, or a portion of an investment, in an associate or joint venture that meets the criteria to be classified as held for sale. Any retained portion of an investment in an associate or joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. After the disposal takes place, an investor or joint venturer shall account for any retained ownership interest in the associate or joint venture in accordance with IFRS 9 unless the retained ownership interest continues to be an associate or joint venture, in which case the investor or joint venturer uses the equity method.

40 [IAS 28.21] When an investment, or a portion of an investment, in an associate or joint venture previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method retrospectively as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

### **Equity method procedures**

#### **Uniform reporting periods and accounting policies**

41 [IAS 28.33] The most recent available financial statements of the associate or joint venture are used by the investor or joint venturer in applying the equity method. When the end of the reporting period of the investor or joint venturer is different from that of the associate or joint venture, the associate or joint venture prepares, for the use of the investor or joint venturer, financial statements as of the same date as the financial statements of the investor or joint venturer unless it is impracticable to do so.

- 42 [IAS 28.34] When, in accordance with paragraph 41, the financial statements of an associate or joint venture used in applying the equity method are prepared as of a date different from that used by the investor or joint venturer, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor's or joint venturer's financial statements. In any case, the difference between the end of the reporting period of the associate or joint venture and that of the investor or joint venturer shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.
- 43 [IAS 28.35] The investor's or joint venturer's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.
- 44 [IAS 28.36] Except as described in paragraph 7, if an associate or joint venture uses accounting policies other than those of the investor or joint venturer for like transactions and events in similar circumstances, adjustments shall be made to make the associate's or joint venture's accounting policies conform to those of the investor or joint venturer when the associate's or joint venture's financial statements are used by the investor or joint venturer in applying the equity method.

#### **Recognising an investor's or joint venturer's share of losses**

- 45 [IAS 28.38 Partial] **If an investor's or joint venturer's share of an associate's or joint venture's total comprehensive income is a loss that equals or exceeds its net investment in the associate or joint venture, the investor or joint venturer shall:**
- (a) **reduce that net investment to nil; and**
  - (b) **discontinue recognition of additional losses (subject to paragraph 47).**
- 46 [IAS 28.38 Partial] Losses recognised are applied to components of the investor's or joint venturer's net investment in an associate or joint venture in the reverse order of their seniority (that is, priority in liquidation).
- 47 [IAS 28.39 Partial] An investor or joint venturer shall recognise a liability for additional losses only to the extent that it has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.
- 48 [IAS 28.39 Partial] **Subsequently, if an investor's or joint venturer's share of an associate's or joint venture's total comprehensive income is a profit, the investor or joint venturer shall resume recognising its share of that profit only when that share exceeds its share of losses not recognised.**
- 49 On purchasing an additional ownership interest, an investor or joint venturer that has not recognised its share of an associate's or joint venture's losses shall not recognise those losses by reducing the carrying amount of the investment at the date of that purchase. The investor or joint venturer shall continue to apply paragraph 48 to those losses not recognised.

*Share of profit or loss and share of other comprehensive income*

50 The investor or joint venturer shall recognise separately its share of the associate's or joint venture's profit or loss and its share of the associate's or joint venture's other comprehensive income.

51 If an investor's or joint venturer's share of profit or loss and share of other comprehensive income are both losses that in aggregate equal or exceed its net investment in the associate or joint venture, the investor or joint venturer shall recognise its share of profit or loss and then its share of other comprehensive income.

52 An investor or joint venturer that has reduced its net investment to nil shall continue to recognise separately its share of an associate's or joint venture's profit or loss and its share of an associate's or joint venture's other comprehensive income, retaining a carrying amount in the net investment of nil. For example, if an investor has reduced its net investment to nil and its share of profit or loss is a loss of CU250 and its share of other comprehensive income is a profit of CU100, the investor recognises a loss of CU100 in profit or loss and a profit of CU100 in other comprehensive income.

**Transactions with associates or joint ventures**

53 [IAS 28.28] An investor or joint venturer shall recognise in full the gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates or joint ventures. 'Upstream' transactions are, for example, sales of assets from an associate to the investor or from a joint venture to the joint venturer. 'Downstream' transactions are, for example, sales or contributions of assets from the investor to its associate or from the joint venturer to its joint venture.

54 [IAS 28.30–31] If an investor or joint venturer contributes non-monetary assets to an associate or joint venture in exchange for an equity interest in that associate or joint venture, and that contribution lacks 'commercial substance' as described in IAS 16 *Property, Plant and Equipment*, the investor or joint venturer shall regard the gain or loss on that contribution as unrealised and eliminate it against the carrying amount of the investment. If, in addition to receiving an equity interest in the associate or joint venture, an investor or joint venturer receives monetary or non-monetary assets, the investor or joint venturer shall recognise in full in profit or loss the portion of the gain or loss on the non-monetary contribution relating to the monetary and non-monetary assets received.

**Other procedures**

55 [IAS 28.26] Many of the procedures that are appropriate for applying the equity method are similar to the consolidation procedures described in IFRS 10. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted on obtaining significant influence over an associate or joint control of a joint venture.

### Impairment losses

- 56 [IAS 28.40] After applying IFRS 9 to long-term interests and recognising its share of the associate's or joint venture's losses, if any, the investor or joint venturer shall apply paragraph 57 to determine whether there is objective evidence that its net investment in the associate or joint venture might be impaired.
- 57 [IAS 28.41A–41C] When determining whether there is objective evidence that the net investment in an associate or joint venture might be impaired, an investor or joint venturer shall consider, as a minimum, these indications:
- (a) significant financial difficulty of the associate or joint venture.
  - (b) a breach of contract, such as a default or delinquency in payments by the associate or joint venture.
  - (c) the investor or joint venturer granting to the associate or joint venture, for economic or legal reasons relating to the associate's or joint venture's financial difficulty, a concession that the investor or joint venturer would not otherwise consider.
  - (d) it becoming probable that the associate or joint venture will enter bankruptcy or other financial reorganisation.
  - (e) the disappearance of an active market for instruments issued by the associate or joint venture because of the associate's or joint venture's financial difficulty.
  - (f) significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate or joint venture operates.
  - (g) a downgrade of the associate's or joint venture's credit rating.
  - (h) a decline in the fair value of a net investment to less than its carrying amount. Information about the fair value might be observed from the price paid to purchase an additional ownership interest in the associate or joint venture or the price received to sell an ownership interest, or from a quoted market price for the investment.
- 58 [IAS 28.42] Because goodwill that forms part of the carrying amount of the net investment in an associate or joint venture is not recognised separately, it is not tested for impairment separately by applying the requirements for impairment testing of goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the net investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount whenever application of paragraph 57 indicates that the net investment might be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment in the associate or joint venture. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the net

investment subsequently increases. In determining the value in use of the net investment, an investor or joint venturer estimates:

- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including the cash flows from the operations of the associate or joint venture and the proceeds from the ultimate disposal of the investment; or
- (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

Using appropriate assumptions, both methods give the same result.

- 59 [IAS 28.43] The recoverable amount of an investment in an associate or joint venture shall be assessed for each associate or joint venture, unless the associate or joint venture does not generate cash inflows from continuing use that are largely independent of those from other assets of the investor or joint venturer.

## Presentation

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- 60 [IAS 28.15] Unless an investment, or a portion of an investment, in an associate or joint venture is classified as held for sale in accordance with IFRS 5, the investment, or any retained interest in the investment not classified as held for sale, shall be classified as a non-current asset and presented accordingly.

## Appendix A Defined terms

*This appendix is an integral part of the IFRS Accounting Standard.*

<b>associate</b>	[IAS 28.3] An entity over which the investor has <i>significant influence</i> .
<b>consolidated financial statements</b>	[IAS 28.3] The financial statements of a group in which assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.
<b>cost of the associate or joint venture</b>	Fair value of the consideration transferred, including the fair value of any previously held ownership interest (or any investment retained) in the <i>associate</i> or <i>joint venture</i> , measured at the date an investor obtains <i>significant influence</i> or a <i>joint venturer</i> obtains <i>joint control</i> .
<b>equity method</b>	[IAS 28.3] A method of accounting whereby the investment is initially recognised at the <i>cost of the associate or joint venture</i> and adjusted thereafter for the changes in the investor's or <i>joint venturer's</i> share of the <i>associate's</i> or <i>joint venture's</i> net assets.
<b>joint arrangement</b>	[IAS 28.3] An arrangement of which two or more parties have <i>joint control</i> .
<b>joint control</b>	[IAS 28.3] The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.
<b>joint venture</b>	[IAS 28.3] A <i>joint arrangement</i> whereby the parties that have <i>joint control</i> of the arrangement have rights to the net assets of the arrangement.
<b>joint venturer</b>	[IAS 28.3] A party to a <i>joint venture</i> that has <i>joint control</i> of that <i>joint venture</i> .
<b>net investment</b>	[IAS 28.38 Partial] The carrying amount of an investment in an <i>associate</i> or <i>joint venture</i> determined using the <i>equity method</i> together with long-term interests—that is, long-term interests that, in substance, form part of the investor's or <i>joint venturer's</i> net investment in the <i>associate</i> or <i>joint venture</i> . For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the investor's or <i>joint venturer's</i> investment in that <i>associate</i> or <i>joint venture</i> . Such items might include preference shares and long-term receivables or loans, but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans.
<b>significant influence</b>	[IAS 28.3] The power to participate in the financial and operating policy decisions of the investee but is not control or <i>joint control</i> of those policies.



[IAS 28.4] The following terms are defined in paragraph 4 of IAS 27 *Separate Financial Statements* and in Appendix A of IFRS 10 *Consolidated Financial Statements* and are used in this Standard with the meanings specified in the IFRS Accounting Standards in which they are defined:

- control of an investee.
- group.
- parent.
- separate financial statements.
- subsidiary.

## Appendix C Effective date and transition

*This appendix is an integral part of the IFRS Accounting Standard.*

### Effective date

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- C1 [IAS 28.45] An investor or joint venturer shall apply this Standard for annual reporting periods beginning on or after [Day, Month, Year]. Earlier application is permitted. If an investor or joint venturer applies this Standard for an earlier period, it shall disclose that fact in the notes.
- C2 For the purposes of the transition requirements in paragraphs C3–C10:
- (a) the date of initial application is the beginning of the annual reporting period in which an investor or joint venturer first applies this Standard; and
  - (b) the transition date is the beginning of the annual reporting period immediately preceding the date of initial application, except as specified in paragraph C9.

### Transition

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- C3 An investor or joint venturer shall apply this Standard prospectively to transactions occurring after the transition date, except as specified in paragraphs C4–C8.
- C4 An investor or joint venturer shall apply paragraph 53 retrospectively. At the transition date, the remaining portion of a previously restricted gain or loss shall be recognised in the opening balance of retained earnings in accordance with IAS 8 *Basis of Preparation of Financial Statements*.
- C5 This Standard deleted paragraph B99A of IFRS 10. An investor or joint venturer that applied paragraph B99A of IFRS 10 early shall apply paragraph C4 to any gain or loss from the remeasurement at fair value of an investment retained in a former subsidiary.
- C6 An investor or joint venturer shall recognise and measure contingent consideration (for investments in associates or joint ventures purchased before the transition date) at fair value at the transition date. The investor or joint venturer shall classify contingent consideration in accordance with paragraph 26 and recognise any corresponding adjustment to the carrying amount of its investments in associates or joint ventures at that date.
- C7 An investor or joint venturer that classified contingent consideration (for investments in associates or joint ventures purchased before the transition date) as an equity instrument, and measured that contingent consideration at fair value at the date it obtained significant influence or joint control, shall not remeasure that contingent consideration at the transition date.

- C8 If an investor or joint venturer applying paragraphs C4–C7 increases the carrying amount of its investment in an associate or joint venture and estimated the recoverable amount of that investment at the transition date, in accordance with IAS 36 *Impairment of Assets*, the investor or joint venturer shall reduce that carrying amount to that recoverable amount, if applicable. The investor or joint venturer shall recognise any impairment loss in the opening balance of retained earnings at the transition date.
- C9 An investor or joint venturer that presents more than one period of comparative information is permitted to present comparative information for any additional prior periods:
- (a) adjusted for the effects of [draft] IAS 28 (revised 202x)—the transition date would then be the beginning of the earliest adjusted comparative period presented; or
  - (b) unadjusted for the effects of [draft] IAS 28 (revised 202x)—the investor or joint venturer shall label the comparative information as unadjusted and disclose that the comparative information has been prepared on a different basis, explaining that basis.
- C10 An investor or joint venturer is not required to disclose the information required by paragraph 28(f) of IAS 8 (and an entity applying IFRS 19 *Subsidiaries without Public Accountability: Disclosures* is not required to disclose the information required by paragraph 178(f) of IFRS 19) for the current period or for any unadjusted additional prior period that the investor or joint venturer presents.

## Appendix D [Draft] Amendments to other IFRS Accounting Standards

This appendix sets out the [draft] amendments to other IFRS Accounting Standards that are a consequence of the IASB issuing the [draft] IAS 28 (revised 202x). An investor or joint venturer shall apply those amendments when it applies [draft] IAS 28 (revised 202x).

Amended paragraphs are shown with new text underlined and deleted text struck through.

The table shows how the references have been amended in other IFRS Accounting Standards.

Existing reference to	contained in	in	is amended to refer to
IAS 28 (as amended in 2011)	IFRS 10	Appendix A	IAS 28 (revised 202x)
	IFRS 11	Paragraph 25	
	IFRS 11	Appendix A	
	IFRS 11	Paragraph B11	
	IFRS 12	Appendix A	
	IFRS 12	Paragraph B15(a)	
	IAS 21	Paragraph 46	
	IAS 27	Paragraph 8	
	IAS 27	Paragraph 11	
	IAS 27	Paragraph 17	
	IAS 27	Paragraph 18	

*continued...*

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...continued

Existing reference to	contained in	in	is amended to refer to
IAS 28.3	Glossary	'associate' definition	IAS 28 (revised 202x). Appendix A
	Glossary	'consolidated financial statements' definition	
	Glossary	'equity method' definition	
	Glossary	'joint arrangement' definition	
	Glossary	'joint control' definition	
	Glossary	'joint venture' definition	
	Glossary	'joint venturer' definition	
	Glossary	'significant influence' definition	
Paragraphs 35–36 of IAS 28	IFRS 14	Paragraph B24	Paragraphs 43–44 of IAS 28 (revised 202x)
Paragraph 3 of IAS 28	IAS 27	Paragraph 5	Appendix A of IAS 28 (revised 202x)
Paragraph 17 of IAS 28	IAS 27	Paragraph 8	Paragraph 4 of IAS 28 (revised 202x)
Paragraph 18 of IAS 28	IAS 27	Paragraph 11	Paragraph 5 of IAS 28 (revised 202x)

## IFRS 9 *Financial Instruments*

Paragraphs 4.2.1(e) and 5.7.5 are amended.

### 4.2 Classification of financial liabilities

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4.2.1 An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

...

- (e) contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies or by an investor or joint venturer applying the equity method in accordance with IAS 28 (revised 202x). Such contingent consideration shall subsequently be measured at fair value with changes recognised in profit or loss.

### 5.7 Gains and losses

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...

#### Investments in equity instruments

5.7.5 At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument within the scope of this Standard that is neither held for trading, ~~nor~~ contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies nor contingent consideration recognised by an investor or joint venturer applying the equity method in accordance with IAS 28 (revised 202x). (See paragraph B5.7.3 for guidance on foreign exchange gains or losses.)

## IFRS 10 *Consolidated Financial Statements*

Paragraphs 25 and 26 are amended.

### Accounting requirements

---

...

#### Loss of control

25 If a parent loses control of a subsidiary, the parent:

...

- (b) recognises any investment retained in the former subsidiary and subsequently accounts for it and for any amounts owed by or to the former subsidiary in accordance with relevant IFRSs. That retained interest is remeasured, as described in paragraphs B98(b)(iii) ~~and B99A~~. The fair ~~remeasured~~-value at the date that control is lost shall be

regarded as the fair value on initial recognition of a financial asset in accordance with IFRS 9 or the cost on initial recognition of an investment in an associate or joint venture, if applicable.

- (c) recognises the gain or loss associated with the loss of control attributable to the former controlling interest, as specified in paragraphs B98–B99A.

26 Paragraphs B97–B99A set out guidance for the accounting for the loss of control of a subsidiary.

In Appendix B, paragraph B99A and example 17 are deleted.
---

## Accounting requirements

---

...

### Loss of control

...

B99A ~~[Deleted]If a parent loses control of a subsidiary that does not contain a business, as defined in IFRS 3, as a result of a transaction involving an associate or a joint venture that is accounted for using the equity method, the parent determines the gain or loss in accordance with paragraphs B98–B99. The gain or loss resulting from the transaction (including the amounts previously recognised in other comprehensive income that would be reclassified to profit or loss in accordance with paragraph B99) is recognised in the parent’s profit or loss only to the extent of the unrelated investors’ interests in that associate or joint venture. The remaining part of the gain is eliminated against the carrying amount of the investment in that associate or joint venture. In addition, if the parent retains an investment in the former subsidiary and the former subsidiary is now an associate or a joint venture that is accounted for using the equity method, the parent recognises the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in that former subsidiary in its profit or loss only to the extent of the unrelated investors’ interests in the new associate or joint venture. The remaining part of that gain is eliminated against the carrying amount of the investment retained in the former subsidiary. If the parent retains an investment in the former subsidiary that is now accounted for in accordance with IFRS 9, the part of the gain or loss resulting from the remeasurement at fair value of the investment retained in the former subsidiary is recognised in full in the parent’s profit or loss.~~

**Application examples**

**Example 17**

A parent has a 100 per cent interest in a subsidiary that does not contain a business. The parent sells 70 per cent of its interest in the subsidiary to an associate in which it has a 20 per cent interest. As a consequence of this transaction the parent loses control of the subsidiary. The carrying amount of the net assets of the subsidiary is CU100 and the carrying amount of the interest sold is CU70 ( $CU70 = CU100 \times 70\%$ ). The fair value of the consideration received is CU210, which is also the fair value of the interest sold. The investment retained in the former subsidiary is an associate accounted for using the equity method and its fair value is CU90. The gain determined in accordance with paragraphs B98–B99, before the elimination required by paragraph B99A, is CU200 ( $CU200 = CU210 + CU90 - CU100$ ). This gain comprises two parts:

- (a) the gain (CU140) resulting from the sale of the 70 per cent interest in the subsidiary to the associate. This gain is the difference between the fair value of the consideration received (CU210) and the carrying amount of the interest sold (CU70). According to paragraph B99A, the parent recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in the existing associate. This is 80 per cent of this gain, that is CU112 ( $CU112 = CU140 \times 80\%$ ). The remaining 20 per cent of the gain ( $CU28 = CU140 \times 20\%$ ) is eliminated against the carrying amount of the investment in the existing associate.
- (b) the gain (CU60) resulting from the remeasurement at fair value of the investment directly retained in the former subsidiary. This gain is the difference between the fair value of the investment retained in the former subsidiary (CU90) and 30 per cent of the carrying amount of the net assets of the subsidiary ( $CU30 = CU100 \times 30\%$ ). According to paragraph B99A, the parent recognises in its profit or loss the amount of the gain attributable to the unrelated investors' interests in the new associate. This is 56 per cent ( $70\% \times 80\%$ ) of the gain, that is CU34 ( $CU34 = CU60 \times 56\%$ ). The remaining 44 per cent of the gain CU26 ( $CU26 = CU60 \times 44\%$ ) is eliminated against the carrying amount of the investment retained in the former subsidiary.

In Appendix C, paragraph C1C is deleted.

**Effective date**

- ...
- C1C ~~[Deleted]Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28), issued in September 2014, amended paragraphs 25–26 and added paragraph B99A. An entity shall apply those amendments prospectively to transactions occurring in annual periods beginning on or after a date to be determined by the IASB. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.~~



**[Draft] Amendments to IFRS 12 *Disclosure of Interests in Other Entities***

Paragraphs 20 and 21 are amended. New text is underlined and deleted text is struck through.

Paragraphs 23A–23B, the heading before paragraph 23B and paragraph C1E are added. For ease of reading these paragraphs and headings have not been underlined.

**Interests in joint arrangements and associates**

20 An entity shall disclose information that enables users of its financial statements to evaluate:

- (a) the nature, extent and financial effects of its interests in joint arrangements and associates, including the nature and effects of its contractual relationship with the other investors with joint control of, or significant influence over, joint arrangements and associates (paragraphs 21 and 22); ~~and~~
- (b) the nature of, and changes in, the risks associated with its interests in joint ventures and associates (paragraphs ~~23–23A~~); ~~and~~
- (c) changes in the carrying amount of investments in joint ventures and associates accounted for using the equity method (paragraph 23B).

**Nature, extent and financial effects of an entity's interests in joint arrangements and associates**

21 An entity shall disclose:

...

- (d) gains or losses from other changes in its ownership interest (in accordance with paragraph 34 of IAS 28) of joint ventures or associates accounted for using the equity method.
- (e) gains or losses from 'downstream' transactions with its joint ventures and associates accounted for using the equity method.

...

**Risks associated with an entity's interests in joint ventures and associates**

...

23A For a joint venture or associate accounted for using the equity method, an entity shall disclose for contingent consideration arrangements:

- (a) in the period in which the entity obtains significant influence or joint control, or purchases an additional ownership interest:

- (i) the amount recognised at the date the entity obtains significant influence or joint control, or purchases an additional ownership interest;
  - (ii) a description of the arrangement and the basis for determining the amount of the payment; and
  - (iii) an estimate of the range of outcomes (undiscounted) or, if a range cannot be estimated, that fact and the reasons why a range cannot be estimated. If the maximum amount of the payment is unlimited, the entity shall disclose that fact; and
- (b) for each subsequent reporting period until the entity collects or settles that contingent consideration or it is cancelled or expires:
- (i) any changes in the amounts recognised, including any differences arising upon settlement;
  - (ii) any changes in the range of outcomes (undiscounted) and the reasons for those changes; and
  - (iii) the valuation techniques and key model inputs used to measure contingent consideration.

### **Changes in the carrying amounts of investments in joint ventures and associates**

- 23B An entity shall disclose a reconciliation between the opening and closing carrying amount of investments accounted for using the equity method, separately disclosing:
- (a) the share of the profit or loss of associates and joint ventures accounted for using the equity method;
  - (b) the share of the other comprehensive income of associates and joint ventures accounted for using the equity method;
  - (c) distributions received from the associate or joint venture;
  - (d) impairment losses; and
  - (e) changes in ownership interest, including those related to investments in which an investor or joint venturer obtains (or loses) significant influence or joint control.

### **Effective date and transition**

---

- ...
- C1E [Draft] IAS 28 (revised 202x), issued in [Month, Year], amended paragraphs 20 and 21 and added paragraphs 23A–23B. An entity shall apply those amendments when it applies [draft] IAS 28 (revised 202x).
- ...

**[Draft] Amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures***

Paragraph 88 under the subheading IFRS 12 *Disclosure of Interests in Other Entities* is amended. New text is underlined and deleted text is struck through.

Paragraph 91A under the subheading IFRS 12 and paragraph 240A under the subheading IAS 27 *Separate Financial Statements* are added. For ease of reading these paragraphs and headings have not been underlined.

**IFRS 12 *Disclosure of Interests in Other Entities***

...

**Interests in joint ventures and associates**

88 An entity shall disclose, for each joint venture and associate that is material to the reporting entity:

- (a) ...; ~~and~~
- (b) ...; and
- (c) gains or losses from 'downstream' transactions with that joint venture and associate accounted for using the equity method.

...

91A For a joint venture or associate accounted for using the equity method, an entity shall disclose for contingent consideration arrangements:

- (a) in the period in which the entity obtains significant influence or joint control, or purchases an additional ownership interest:
  - (i) the amount recognised at the date the entity obtains significant influence or joint control, or purchases an additional ownership interest;
  - (ii) a description of the arrangement; and
  - (iii) the basis for determining the amount of the payment; and
- (b) for each subsequent reporting period until the entity collects or settles that contingent consideration or it is cancelled or expires:
  - (i) any changes in the amounts recognised, including any differences arising upon settlement; and
  - (ii) the valuation techniques and key model inputs used to measure contingent consideration.

**IAS 27 *Separate Financial Statements***

240A A parent that uses the equity method to account for its investments in subsidiaries in accordance with paragraph 10(c) of IAS 27 shall disclose gains or losses resulting from 'downstream' transactions with its subsidiaries.

**[Draft] Amendments to IAS 27 *Separate Financial Statements***

Paragraphs 10A–10B, 17A and 18K are added. For ease of reading these paragraphs have not been underlined.

**Preparation of separate financial statements**

---

- ...
- 10A If an entity obtains control of an associate or joint venture and continues to account for the investment in the subsidiary using the equity method, the entity (parent) shall not remeasure its previously held equity interest.
- 10B If an entity loses control of a subsidiary and continues to account for any investment retained in that former subsidiary using the equity method, the entity shall not remeasure the retained investment.

**Disclosure**

---

- ...
- 17A A parent that uses the equity method to account for its investments in subsidiaries in accordance with paragraph 10(c) shall disclose gains or losses from ‘downstream’ transactions with its subsidiaries.

**Effective date and transition**

---

- ...
- 18K [Draft] IAS 28 (revised 202x), issued in [Month, Year], added paragraphs 10A–10B and 17A. An entity shall apply those amendments when it applies [draft] IAS 28 (revised 202x).

**Table of concordance**

This table shows how the contents of [draft] IAS 28 (revised 202x) and IAS 28 (issued version) correspond. Paragraphs are treated as corresponding if they broadly address the same matter although the requirements might differ.

IAS 28 (issued version) paragraph	[Draft] IAS 28 (revised 202x) paragraph
1	1
2	2
3	Appendix A – Defined terms
4	
5	8
6	9
7	10
8	11
9	12
10	13, 22 and 27
11	14
12	15
13	16
14	19
14A	20
15	60
16	21
17	4
18	5
19	6
20	39
21	40
22	36–37
23	38
24	35
25	33
26	55
27	17
28	53
29	-

*continued...*

EQUITY METHOD OF ACCOUNTING—IAS 28 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES  
(REVISED 202x)

...continued

IAS 28 (issued version) paragraph	[Draft] IAS 28 (revised 202x) paragraph
30	54
31	
31A	-
31B	-
32	21, 23–25 and 28
33	41
34	42
35	43
36	44
36A	7
37	18
38	45–46 and Appendix A – Defined terms
39	47–48
40	56
41A	57
41B	
41C	
42	58
43	59
44	3
45	Paragraph C1 of Appendix C – Effective date and transition
45A–45K	-
46	-
47	-
-	26 – added
-	29 – added
-	30 – added
-	31 – added
-	32 – added
-	34 – added
-	49 – added
-	50 – added

continued...

EXPOSURE DRAFT—SEPTEMBER 2024

...continued

IAS 28 (issued version) paragraph	[Draft] IAS 28 (revised 202x) paragraph
-	51 – added
-	52 – added
-	'Cost of the associate or joint venture' in Appendix A – Defined terms – added
-	Paragraphs C2–C10 of Appendix C – Effective date and transition – added

**Approval by the IASB of Exposure Draft *Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)* published in September 2024**

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The Exposure Draft *Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)* was approved for publication by [13] of the 14 members of the International Accounting Standards Board. Mr Cendon voted against its publication. His alternative view is set out after the Basis for Conclusions.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	



## **IAS 28 Investments in Associates and Joint Ventures (revised 202x)**

### **[Draft] Illustrative Examples**

*These examples accompany, but are not part of, [draft] IAS 28 Investments in Associates and Joint Ventures (revised 202x). They illustrate aspects of [draft] IAS 28 (revised 202x) but are not intended to provide interpretative guidance.*

IE1 These examples illustrate how an entity might apply the equity method in [draft] IAS 28 (revised 202x) to an investment in an associate or joint venture. The analysis in each example is not intended to represent the only way the requirements could be applied in the circumstances described. Furthermore, although some aspects of the examples might be present in real-life fact patterns, an entity would need to evaluate all the relevant facts and circumstances of a particular fact pattern when applying [draft] IAS 28 (revised 202x) to it.

### **Application of the equity method (paragraphs 21–35 of [draft] IAS 28 (revised 202x))**

IE2 Illustrative Example 1 sets out how an entity that is an investor or joint venturer applies the requirements on the date the investor obtains significant influence over an associate or the joint venturer obtains joint control of a joint venture.

#### **Example 1—Application of the equity method on obtaining significant influence and purchasing an additional interest**

##### **Part 1—Initial investment**

*On 1 January 20X1 Entity A (the investor) acquires a 5% ownership interest in Entity B for a consideration of CU1,200. In accordance with IFRS 9 Financial Instruments Entity A measures the investment at fair value and recognises a financial asset of CU1,200.*

*On 31 December 20X1 the fair value of the 5% ownership interest in Entity B is CU1,500. Entity A recognises the change of CU300 in the fair value of the financial asset in profit or loss.*

##### **Part 2—Obtaining significant influence**

*On 1 January 20X2 Entity A acquires an additional 20% ownership interest in Entity B (the associate) for a consideration of CU6,500, including an obligation for contingent consideration. Entity A determines that it has obtained significant influence over Entity B and that the fair value of the contingent consideration is CU1,000.*

*On 1 January 20X2 the carrying amount of Entity B's net assets is CU20,000. The fair value of Entity B's net assets is CU30,000, including the fair value of property, plant and equipment that is CU10,000 more than its carrying amount, with a remaining useful life of 10 years. Entity B's tax rate is 40%.*

*continued...*

...continued

**Example 1—Application of the equity method on obtaining significant influence and purchasing an additional interest**

Entity A determines the cost of the associate Entity B as CU8,000, comprising:

- (a) the fair value of the consideration transferred, including the contingent consideration (CU6,500); plus
- (b) the fair value of the previously held ownership interest (CU1,500).

Entity A classifies the contingent consideration as a financial liability.

The difference between the cost of the associate Entity B and Entity A's share of the fair value of Entity B's identifiable assets and liabilities is accounted for as goodwill, which is included in the carrying amount of the investment.

On 1 January 20X2, Entity A measures its investment in the associate Entity B at CU8,000:

Share of the fair value of net assets (CU30,000 × 25%)	7,500
Deferred tax effect on fair value adjustments (CU10,000 × 40% × 25%)	(1,000)
Goodwill	<u>1,500</u>
Cost of the associate Entity B	<b>8,000</b>

**Part 3 – Subsequent measurement – 31 December 20X2**

Entity B's profit for the year ending 31 December 20X2 is CU3,000. Entity A's share of Entity B's profit is CU750 (CU3,000 × 25%).

Applying paragraph 28 of [draft] IAS 28 (revised 202x), Entity A adjusts its share of Entity B's profit for the depreciation of Entity B's property, plant and equipment based on its fair value on obtaining significant influence. The adjustment is:

Depreciation of Entity B's property, plant and equipment (CU10,000/10 × 25%)	(250)
Deferred tax effect on fair value adjustments (CU250 × 40%)	<u>100</u>
Adjustment to Entity A's share of Entity B's profit or loss	<b>(150)</b>

Therefore, Entity A recognises (CU750 – CU150) = CU600 in its profit or loss.

The fair value of the contingent consideration on 31 December 20X2 is CU1,200.

Applying paragraph 29(b) of [draft] IAS 28 (revised 202x), Entity A measures the contingent consideration at fair value at each reporting date and recognises changes in fair value in profit or loss.

Entity A remeasures the contingent consideration and recognises the change in the fair value of CU200 as an expense in profit or loss.

continued...

...continued

**Example 1—Application of the equity method on obtaining significant influence and purchasing an additional interest****Illustrative disclosure**

Applying [draft] paragraph 23B of IFRS 12 Entity A might disclose:

**Reconciliation between the opening and closing carrying amounts of investments in associates**

	31/12/20X2
Opening balance	—
New investment in associate	8,000
Share of associate's profit	600
Closing balance	8,600

**Part 4—Purchasing an additional ownership interest**

On 1 January 20X3 Entity A acquires an additional 15% ownership interest in Entity B for a consideration of CU5,600. Entity A determines that it retains significant influence over Entity B.

On 1 January 20X3, the carrying amount of Entity B's net assets is CU23,000. The fair value of Entity B's net assets is CU35,000, including the fair value of property, plant and equipment that is CU12,000 more than its carrying amount with a remaining useful life of 9 years.

Applying paragraph 30(a) of [draft] IAS 28 (revised 202x), Entity A measures the additional ownership interest at CU5,600.

Applying paragraphs 30(b) and 31 of [draft] IAS 28 (revised 202x), Entity A includes in the carrying amount of the additional ownership interest its additional share of the fair values of Entity B's net assets at the date of purchase:

Share of the fair value of Entity B's net assets (CU35,000 × 15%)	5,250
Deferred tax effect on fair value adjustments (CU12,000 × 40% × 15%)	(720)
Goodwill	<u>1,070</u>
Additional ownership interest in Entity B	5,600

After the purchase of the additional ownership interest, the carrying amount of the investment in Entity B is (CU8,600 + CU5,600) = CU14,200.

**Part 5—Subsequent measurement – 31 December 20X3**

Entity B's profit for the year ending 31 December 20X3 is CU4,000. Entity A's share of Entity B's profit is CU1,600 (CU4,000 × 40%).

Entity A adjusts its share of Entity B's profit for the depreciation of Entity B's property, plant and equipment based on its fair value on obtaining significant influence and at the date of purchasing the additional ownership interest. The adjustment is:

continued...

...continued

<b>Example 1—Application of the equity method on obtaining significant influence and purchasing an additional interest</b>	
Depreciation of Entity B's property, plant and equipment for the ownership interest on obtaining significant influence (CU10,000/10 × 25%)	(250)
Depreciation of Entity B's property, plant and equipment for the additional ownership interest (CU12,000/9 × 15%)	(200)
Deferred tax effect on fair value adjustments ((CU250 + CU200) × 40%)	<u>180</u>
Adjustment to Entity A's share of Entity B's profit or loss	(270)
Therefore, Entity A recognises (CU1,600 – CU270) = CU1,330 in its profit or loss.	
<b>Illustrative disclosure</b>	
Applying [draft] paragraph 23B of IFRS 12 Entity A might disclose:	
<b>Reconciliation between the opening and closing carrying amounts of investments in associates</b>	
	31/12/20X3
Opening balance	8,600
Additional investment in associate	5,600
Share of associate's profit	<u>1,330</u>
Closing balance	15,530

## Other changes in an investor's or joint venturer's ownership interest (paragraphs 34–35 of [draft] IAS 28 (revised 202x))

IE3 Illustrative Example 2 sets out how an investor or joint venturer that retains significant influence or joint control applies the requirements in [draft] IAS 28 (revised 202x) when an associate or a joint venture issues equity instruments that decrease its ownership interest.

### Example 2—Other changes in an investor's ownership interest

*Entity C (the investor) holds 40% of Entity D's ordinary shares and has determined that it has significant influence over Entity D (the associate).*

*On 31 December 20X1 the carrying amount of Entity C's investment in Entity D is CU3,200.*

*On 1 January 20X2 Entity D issues new equity instruments to a third party for consideration of CU3,000. Entity D's net assets increase by that amount. Entity C's ownership interest in Entity D decreases from 40% to 30%. Entity C determines that it retains significant influence over Entity D.*

Applying paragraph 34 of [draft] IAS 28 (revised 202x) to the decrease in its ownership interest, at the date on which Entity D issues the new shares, Entity C:

- (a) derecognises a portion of the carrying amount of its investment in Entity D.
- (b) measures the portion in (a) as a percentage of the carrying amount of its investment in Entity D. That percentage is calculated as the disposed ownership interest divided by the total ownership interest.

Entity C recognises the difference between the derecognised portion of the carrying amount of its investment in Entity D; and its share of the change in Entity D's net assets as a gain in profit or loss.

Derecognised portion of the carrying amount of the investment in Entity D (CU3,200 × 10%/40%)	(800)
Change in Entity C's share of Entity D's net assets from the issue of new equity instruments (CU3,000 × 30%)	900
Gain recognised in profit or loss	100

**Recognition of an investor's or a joint venturer's share of losses  
(paragraphs 45–52 of [draft] IAS 28 (revised 202x))**

IE4 Illustrative Example 3 sets out how an investor or joint venturer recognises its share of an associate's or a joint venture's losses.

**Example 3—Recognising an investor's share of losses**

*Entity E (the investor) holds 30% of Entity F's ordinary shares and has determined that it has significant influence over Entity F (the associate).*

*On 31 December 20X1 the carrying amount of Entity E's net investment in Entity F is CU500.*

*In 20X2, Entity E's share of Entity F's profit or loss is a loss of CU400 and its share of Entity F's other comprehensive income is a loss of CU200.*

Entity E's share of Entity F's profit or loss and other comprehensive income (CU400 + CU200) = CU600 exceeds its net investment in Entity F (CU500). Entity E has neither incurred legal or constructive obligations nor made payments on behalf of Entity F (see paragraph 47 of [draft] IAS 28 (revised 202x)). Therefore, Entity E does not recognise a liability for the additional losses.

Applying paragraph 51 of [draft] IAS 28 (revised 202x), Entity E recognises its share of Entity F's profit or loss; and then its share of Entity F's other comprehensive income.

Entity E recognises a loss of CU400 in profit or loss and a loss of CU100 in other comprehensive income, reducing the carrying amount of its investment in Entity F to nil.

On 31 December 20X2 Entity E's aggregate share of Entity F's losses that are not recognised is CU100 (CU600 loss for the year less CU500 recognised).

*In 20X3 Entity E's share of Entity F's profit or loss is a loss of CU200 and its share of Entity F's other comprehensive income is a profit of CU50.*

Applying paragraph 50 of [draft] IAS 28 (revised 202x), Entity E recognises separately its share of Entity F's profit or loss and its share of Entity F's other comprehensive income.

Entity E recognises a loss of CU50 in profit or loss and a profit of CU50 in other comprehensive income. Entity E continues to measure the investment in associate Entity F at nil at 31 December 20X3.

At 31 December 20X3 Entity E's cumulative share of Entity F's losses that are not recognised is CU250 (CU100 at 31 December 20X2 + CU150 share of loss not recognised for the period).





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