FEDERATION OF ACCOUNTING PROFESSIONS
UNDER THE ROYAL PATRONAGE OF HIS MAJESTY THE KING

Jan 22, 2025

Mr. Muhamed Imran Khan
AOSSG Chair Secretariat Accounting Standards Board
The Institute of Chartered Accountants of Pakistan,
Chartered Accountants Avenue,
Block 8 Clifton,
Karachi-75600

Dear Mr. Muhamed Imran Khan,

Response on IFRS Accounting Standards Exposure Draft ED/2024 – Equity Method of Accounting - IAS 28 Investments in Associates and Joint Ventures (revised 202x)

The Federation of Accounting Professions would like to show our appreciation on the opportunity to response on **IFRS Accounting Standards Exposure Draft ED/2024 – Equity Method of Accounting - IAS 28 Investments in Associates and Joint Ventures (revised 202x)**. Overall, we have both agreements and disagreements from the changes of this standard which should be highlighted and reconsidered as well as provided more practical guidance on the application.

Please find our responses to the specific survey raised in **IFRS Accounting Standards Exposure Draft ED/2024 – Equity Method of Accounting - IAS 28 Investments in Associates and Joint Ventures (revised 202x)** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Toommanon
Chairman of Thai Accounting Standards Board
Federation of Accounting Professions
Bangkok, Thailand

FEDERATION OF ACCOUNTING PROFESSIONS
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Jan 22, 2025

Dr. Andreas Barcko
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Dr. Andreas Barckow

Response on IFRS Accounting Standards Exposure Draft ED/2024 – Equity Method of Accounting - IAS 28 Investments in Associates and Joint Ventures (revised 202x)

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IFRS Accounting Standards Exposure Draft ED/2024 – Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures (revised 202x)

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.

Question 1—Measurement of cost of an associate
(Appendix A and paragraphs 13, 22, 26 and 29 of [draft] IAS 28 (revised 202x))

Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:

(a) whether to measure any previously held ownership interest in the associate at fair value; or
(b) whether and if so how to recognise and measure contingent consideration.

The IASB is proposing an investor:

(a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.
(b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:
   (i) not remeasure contingent consideration classified as an equity instrument; and
   (ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?
If you disagree, please explain why you disagree and your suggested alternative.

TFAC:

IASB's proposal on measuring the cost at fair value and recognising contingent consideration is well appreciated, however there are several important points that we consider that if the proposal addresses them, it could improve clarity and reduce diversity in practice.

1. **Fair Value Measurement of Previously Held Interests:** The proposal to measure the cost of an associate or joint venture at the fair value of the consideration transferred, which includes the fair value of any previously held ownership interests (or any investment retained), is defined in Appendix A to the standard instead of the main body of the standard. For greater clarity and prominence, this requirement should also be explicitly stated within the main body of the standard.

2. We view that it is not clear whether acquisition related costs can be capitalised as part of the cost of the investment. There is no discussion about the treatment of directly attributable acquisition expenditure. It would be helpful if the treatment of directly attributable acquisition costs was explicitly addressed in IAS 28.

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.

TFAC:

We agree with the proposal but highlight practical challenges in performing purchase price allocations for each additional ownership interest acquired, questioning if the benefits justify the costs in all scenarios. Further guidance is needed on Paragraph 34(b) which addresses decreases in ownership interest and how to read the 'consideration received' when the investee issues equity instruments. However, it lacks clarity on determining consideration when dilution occurs due to the investee issuing shares to other interest holders (for example share-based payment transactions), which doesn't affect net assets but changes the equity attributable to the investor.

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.

TFAC:

We agree with the proposals but request more practical guidance on the following issues:

1. Clarification on how to account for an investor's share of existing losses when purchasing additional ownership interests, as per Paragraph 49. Specifically, whether the carrying amount remains static and how subsequent purchases are treated, suggesting the need for examples from the Board.

2. Questions regarding the separate recognition of profit or loss and other comprehensive income, as proposed in the Exposure Draft (ED) and Paragraph 52. We seek rationale for this separation when investments are carried at nil and whether losses should always be prioritized in profit or loss recognition. The implications of Illustrative Example 3 are unclear, particularly in how past

losses are treated and whether they are tracked separately, calling for clarification and simplification from the Board.

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Question 4—Transactions with associates **(Paragraph 53 of [draft] IAS 28 (revised 202x))**
Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate.2 This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor). If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary. The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary. Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with this proposal? If you disagree, please explain why you disagree and your suggested alternative.

TFAC:

We viewed that the recording of full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates (no elimination of the profit or loss) does not reflect the substance of the group's net assets and income. Not eliminating such profits would result in an overstatement of assets and income, as the profits have not been realized from the perspective of the group.

The equity method of accounting is often seen as a one-line consolidation. Consistent with the principle of consolidation, all intercompany transactions and balances are eliminated. Removing the elimination requirement would create a divergence between the equity method and full consolidation, which could confuse users of financial statements.

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.

TFAC:

In our view, it shall be better to describe the impairment requirements for the net investment in associates or joint ventures in IAS 36, rather than having separate impairment guidelines in IAS 28. This is to avoid the inconsistency and unnecessary specificity. Other concerns on the proposed amendments are as follow:

- Paragraph 57(h) mentions using fair value from market prices or recent transactions to assess impairment, but this is problematic as investments in associates or joint ventures are not

typically quoted. Clarifications are needed to address the unit of account issues and the potential influence premium in transactions.

- Paragraph 58's guidance on reversing impairment losses seems to conflict with IAS 36, which doesn't require an increase in recoverable amount for reversal. Clarification is needed on whether IAS 36's usual practices apply.
- Determining if an associate or joint venture belongs to a larger Cash Generating Unit (CGU) as per paragraph 59 is subjective, and additional guidance or examples would be beneficial.

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.

TFAC:

We do not agree with the proposal to retain paragraph 10 of IAS 27 which will mandate that the parent company recognise full gains and losses resulting from all such transactions (downstream and upstream) with its subsidiaries. We appreciate that the equity method bears similarity to one-line consolidation, this requirement would lead to disparate treatment for subsidiaries applying the equity method in the parent's separate financial statements compared to the consolidated financial statements, in which the unrealized profit/loss from all transactions between parent and subsidiaries are eliminated. Consequently, we recommend that the Exposure Draft amend its requirements to eliminate the profit/loss from upstream and downstream transactions between parent and subsidiaries when the equity method is applied in separate financial statements.

Aside from the aforementioned point, we are in agreement with the proposal that the application of the equity method to investments in subsidiaries in separate financial statements, as delineated in paragraph 10(c) of IAS 27, should align with the equity method described in IAS 28.

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.

TFAC:

We support the new disclosure requirements with some reservations:

- The overlap between paragraphs 21(d) - (e) and IAS 24's related party disclosures needs clarification on why existing IAS 24 disclosures are insufficient. In addition, if the disclosure of gains or losses resulting from any transactions with its associates or joint ventures is required, we believe that this should be added to IAS 24.
- The rationale for requiring disclosures of gains and losses from 'downstream' transactions with equity-accounted joint ventures and associates is unclear, especially since similar disclosures aren't mandated for other related party transactions. This seems to counteract the intended reduction of preparers' costs.

- The term 'downstream' transactions lacks a clear definition, making practical application difficult without further guidance on its scope, including whether it covers items like capitalized borrowing costs or management fees.
- Paragraph 23A's requirement for disclosing contingent consideration for additional ownership interests seems unnecessary when significant influence remains unchanged, contrasting with the lack of such a requirement for additional purchases by investors with control.
- Paragraph 23B's reconciliation requirement between opening and closing carrying amounts of equity-accounted investments needs clarification on whether it should be combined or separate for associates and joint ventures. Potential duplication with IFRS 12.B12-16 disclosures should be reconsidered for necessity.

Further guidance is needed to ensure these requirements are clear and practicable.

Proposed amendments to IFRS 19

Question 8—Disclosure requirements for eligible subsidiaries **(Paragraphs 88(c), 91A and 240A of IFRS 19)**
IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards. As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries. The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary: (a) to disclose information about contingent consideration arrangements; and (b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures. The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries. Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).

TFAC:

We support the suggested reductions for IFRS 19. We, however, have provided our concern on IFRS 12 disclosures in the response to question 7, which are relevant to the IFRS 19 proposals. We would like to ask the Board to review these after evaluating IFRS 12's disclosure requirements.

Our ability to provide feedback on the disclosures is hindered by the Board's lack of explanation on how the six principles from BC175 were applied in determining the inclusion of each disclosure.

BC174 suggests a thorough assessment based on these principles, both individually and collectively, to ensure proportionality and the retention of financial statements' usefulness. However, this process is not detailed in the discussion of the proposed amendments.

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.

TFAC:

We generally agree with the proposals, however, we would like to suggest the Board considers providing a clarity on how to apply to the comparative period on transition, to ensure that the recoverable amount is not estimated with hindsight information.

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?

TFAC:

We concur with the expected effects analysis but note potential practical application issues. We recommend the IASB engage in additional outreach with preparers to ensure the proposals are workable as we share some observations in this response where we believe there may be practical issues with applying the proposals.

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)?

TFAC:

We believe post the revision of IAS 28 according to the proposal by the Board, certain application questions will continue to arise which we would like the Board to provide the clarity. Below issues if are addressed will help reduce the problem in application of equity accounting in practice:

- IAS 28 omits guidance on how an investee should account for changes in net assets that do not fall under Other Comprehensive Income (OCI). This includes, for instance, share-based payment transactions within the investee or alterations to non-controlling interests that affect the parent's equity and consequently the investor's interest. While Paragraphs BC45-BC46 in the Basis for Conclusions provide some rationale, the absence of explicit guidance on these transactions may perpetuate inconsistent practices. We would like the Board to offer additional guidance on this matter.
- There is no concept of a measurement period in IAS 28 unlike that of IFRS 3 Business Combination. This is very useful when an acquisition of an associate occurs shortly before the end of the reporting period and the accounting is incomplete at the reporting date. It is unclear whether initial estimates of fair value can be considered provisional or must any changes to estimates follow the general requirements of IFRS.
- The amendments to IAS 28 propose to include the deferred tax effects on fair value adjustments, we are concerned that in practice it would be very difficult for an investor to assess the recoverability of deferred tax assets without access to detailed information.