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15 January 2025

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

**Re: Exposure Draft Equity Method of Accounting *IAS 28 Investments in Associates and Joint Ventures***

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax and consulting firms, we are pleased to comment on the IASB's Exposure Draft Equity Method of Accounting IAS 28 *Investments in Associates and Joint Ventures*("ED").

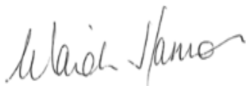
Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We welcome the proposed amendments in response to application questions and feedback from financial statement users.

We believe that further clarity and illustrative examples are required on accounting for investments in associates purchased in tranches. It is unclear from the amendments whether each investment tranche should be treated separately, or whether the investment tranches should be accumulated and treated as a single investment. Without further clarification, we believe that there may be diversity in the application of the requirements. Furthermore, in our view there may be consequential diversity in accounting for disposals of ownership interests which were acquired in tranches.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,



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## Appendix

**Question 1 – Measurement of cost of associate**

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

**a) whether to measure any previously held ownership interest in the associate at fair value; or**

**b) whether and if so how to recognise and measure contingent consideration.**

**The IASB is proposing an investor:**

**a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.**

**b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:**

- **i) not remeasure contingent consideration classified as an equity instrument; and**
- **ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.**

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

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

We agree with the proposals which provide clarity on the measurement of an associate on obtaining significant influence, including the remeasurement of previously held interests in the associate to fair value.

Furthermore, we agree with the proposal to recognise and measure contingent consideration at fair value, aligning to the principals and measurement basis of contingent consideration in IFRS 3 *Business combinations.*

We believe it would be beneficial for the ED to also clarify how transaction costs, relating to obtaining an associate or purchase of additional ownership interest in an associate, should be accounted. Currently transaction costs are capitalised as part of the cost of the equity investment, in line with previous IFRIC decision, rather than expensed.

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

**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.**

On obtaining significant influence of an associate, an investor is required to include the fair value of any previously held ownership interest in the initial measurement of the cost of an associate. However, on the purchase of an additional interest in an associate, whilst retaining significant influence (or joint control in the case of an investment in a joint venture), the investor is not required to remeasure the carrying amount of its previously held interest in its associate.

We are concerned that the proposed approach does not align with the general measurement requirements in IFRS, with assets measured at either fair value or historical cost at a point in time.

In terms of the recognition of goodwill relating to the purchase of an additional ownership interest in an associate or joint venture, it would be beneficial for the IASB to provide clarity on the implications for impairment testing of the investment. In particular, whether a separate annual goodwill impairment test would be required, in addition to testing the overall impairment of the investments itself. Our view is that if a separate annual goodwill impairment test relating to purchase of additional ownership interest is required, it may be challenging for investors, in terms of availability of data and associated cost.

Furthermore, for an investment in an associate purchased in tranches, we believe that further clarity is required on whether:

- each tranche is treated separately; or
- whether the tranches are blended and treated as a single investment measured at an accumulation of fair values at the date that significant influence is obtained, and the incremental fair value of additional ownership interests purchased at a later date.

We believe the amendment on the accounting for a disposal (or partial disposal) of an ownership interest whilst retaining significant influence is a helpful addition. However, we believe that there would be diversity in practice on the application of the requirements on disposal of an ownership interest. In particular, where an associate has been purchased in tranches, it is unclear whether the disposal requirements should be applied to each investment tranche individually or applied to the blended investment tranches.

We agree with the proposals on measuring other changes in an investor's ownership interest due to the associate redeeming or issuing equity instruments. Whilst not explicit in the proposals, we agree with the measurement of these changes at fair value, as the redemption or issue of shares by the associate would be accounted for at fair value in its financial statements.

**Question 3 - Recognition of the investor's share of losses**

**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.**

We agree that on purchasing an additional ownership interest, the investor does not recognise its share of accumulated losses not previously recognised at that date and continues to apply the requirements of IAS 28.48 to those accumulated losses.

We agree with the proposal for an entity to recognise separately its share of each component of the associate's comprehensive income. However, on a practical basis we are concerned that the proposals result in additional complexities for investors in tracking unrecognised losses, allocating each component to other comprehensive income, and allocating reversal of losses of an associate.

**Question 4 – Transactions with associates**

**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. 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.**

On transactions with an associate, including transactions involving the loss of control of a subsidiary, we agree with the proposed approach to recognise in full gain and losses from all upstream and downstream transactions with associates. However, we believe that the ED should provide more clarity on which transactions are in scope of 'upstream' and 'downstream' transactions with associates.

**Question 5 – Impairment indicators (decline in fair value)**

**Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition.**

**The IASB is proposing:**

a) **to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';**

b) **to remove 'significant or prolonged' decline in fair value; and**

c) **to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.**

**The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 Impairment of Assets. Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.**

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

We welcome the proposed amendments to IAS 28 in respect to impairment of investments in associates and alignment to IAS 36 *Impairment*. We agree that the amendments provide clarity, remove judgement associated with whether a decline in fair value is significant or prolonged, and will enhance comparability of financial statements.

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

**Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures, and associates in separate financial statements.**

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

**Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal.**

**Do you agree with this proposal? If you disagree, please explain why you disagree and your suggested alternative.**

We agree with the proposal to retain paragraph 10 of IAS 27 unchanged. Therefore, the proposals in the ED would apply to investments in subsidiaries in which the equity method is applied in the investor's separate financial statements.

**Question 7 – Disclosure requirements**

**The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose:**

**a) gains or losses from other changes in its ownership interest;**

**b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures;**

**c) information about contingent consideration arrangements; and**

**d) a reconciliation between the opening and closing carrying amount of its investments.**

**The IASB is also proposing an amendment to IAS 27 to require a parent—if it uses the equity method to account for its investments in subsidiaries in separate financial statements—to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.**

**Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.**

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

We agree with the following proposed disclosures in IFRS 12 *Disclosures of Interests in Other Entities*:

- gains or losses from other changes in ownership interest;
- information about contingent consideration arrangements; and
- a reconciliation between the opening and closing carrying amounts of its investments.

We do not agree with the proposed disclosure of gains or losses from 'downstream' transactions with its joint ventures and associates accounted for using the equity method. We believe this is inconsistent with the principals and requirements of IAS 24 *Related Party Transactions*, which does not require disclosure of gains or losses on transactions with related parties. However, we acknowledge that the IASB's decision related to these additional disclosures in IFRS 12 is in response to feedback from financial statement users.

**Question 8 – Disclosure requirements for eligible subsidiaries**

**IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards.**

**As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries.**

**The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:**

**a) to disclose information about contingent consideration arrangements; and**

**b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.**

**The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.**

**Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals.**

**Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).**

We agree with the proposed amendment to IFRS 19 to require an eligible subsidiary to disclose information about contingent consideration arrangements.

As noted in our response to Question 7, we do not agree with the proposed amendment to IFRS 19 to require an eligible subsidiary to disclose gains or losses resulting from 'downstream' transactions with its associates and joint ventures.

**Question 9 – Transition**

**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.**

We do not agree that the requirement to recognise in full gains and losses arising from all 'upstream' and 'downstream' transactions with its associates, should be applied retrospectively. We believe that application of this amendment retrospectively will result in complexity and undue cost and effort, compared to the benefits of the amendment. Therefore, we believe that if the IASB goes ahead with this proposal, it should be applied prospectively.

We agree that the requirements on contingent consideration to be recognised and measured at fair value should be applied at the transition date, adjusting the carrying amount of its investments in associates or joint ventures accordingly.

We agree that all other requirements should be applied prospectively from the transition date. However, we believe that the transitional requirements should include guidance on investment recognised at nil at transition date, due to the investor's share of losses in the associate exceeding its investment in the associate, to ensure that the new requirements are applied consistently.

**Question 10 – Expected affects 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?**

We have no comments on the expected costs of implementing and applying the proposals by preparers.

We are concerned about the availability, accuracy, and reliability of information available to investors for the measurement of initial and subsequent purchases of an associate at fair value. As noted in our response to Question 3, we are concerned about the complexity of allocation and tracking of losses to tranches of an investment in an associate. Finally, we have concerns regarding the costs of auditing the measurement of initial and subsequent purchases of an associate.

We agree that the proposals would improve the quality of financial reporting by reducing diversity in practice, resulting in more comparable information.

**Question 11 – Additional 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)?**

As noted in our response to Question 2, we believe that additional illustrative examples on the treatment of an investment in an associate purchased in tranches would be beneficial. Furthermore, illustrative examples or further guidance on the allocation of losses between various 'tranches' of an investment in an associate would be beneficial to users and reduce diversity in practice on the application of the new requirements.

Furthermore, additional illustrative examples on how the amendments to IAS 28 would apply to a transfer of an investment in an associate between group companies or the transfer of an interest in a subsidiary resulting in a new joint venture would be beneficial, as these are common transactions in practice.

In terms of the proposed re-order of the requirements in IAS 28, we believe that it would be beneficial for paragraph 35 in [draft] IAS 28 (revised 202x) should be located before paragraph 30 in [draft] IAS 28 (revised 202x). This will ensure that paragraph 35 applies to all cases where there are changes in ownership of an associate, as the current location would appear to limit the scope of this paragraph to deemed acquisitions or deemed disposals of ownership interests in associates.

We have no further comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28.

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