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**Comments on the Exposure Draft (ED/2024/7)**

**Equity Method of Accounting**

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

1. The Accounting Standards Board of Japan (“we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (“the IASB”)’s Exposure Draft (ED/2024/7) *Equity Method of Accounting — IAS 28 Investments in Associates and Joint Ventures (revised 202x)* (“the ED”), issued in September 2024.
2. Our overall comments on the ED are as follows.

**(The IASB’s approach to proceed the project on the equity method)**

3. Japan is one of the jurisdictions in which the equity method is commonly used. Some entities have significant amounts of equity method investments on the balance sheet and, as a result, significant amounts of share of the profit or loss of associates and joint ventures in the income statement.
4. Although the reasons entities obtain significant influence or joint control over their investees may vary, some of the most popular reasons include the following:
  - (a) An entity makes a conscious decision to limit the size of the investment, considering the overall size of and the associated risks in the investment, maintaining the flexibility to make additional investments and obtain control of the investee or to withdraw from the investment in the future; and

- (b) An entity jointly participates in a business with other shareholders because it cannot obtain a controlling interest (for example, jurisdictional laws and regulations do not permit foreign investors to obtain a controlling interest, or a controlling shareholder already exists when the entity makes the investment).

While we agree that significant influence or joint control does not constitute control (in which case IFRS 3 *Business Combinations* would apply), we also think that it is different from investing in an unrelated third party (in which case IFRS 9 *Financial Instruments* would apply). We view investments with significant influence or joint control as a distinct category of investments and thus IAS 28 *Investments in Associates and Joint Ventures* is warranted. We note that both reasons mentioned above indicate that significant influence or joint control is not obtained by accident and that management of the entity commonly views its associates and joint ventures as part of its extended consolidated group, somewhat similar to its subsidiaries.

5. We think that the equity method is neither a one-line consolidation nor a measurement basis in their purest forms but a hybrid of the two approaches. Acknowledging that it is a hybrid of the two approaches, we think that the equity method should basically be consistent with one-line consolidation with certain exceptions focused on the aspect of measurement basis. This is because associates and joint ventures accounted for using the equity method are viewed to be closer to subsidiaries compared to investments in unrelated third parties and the accounting that would be more consistent with consolidation would result in providing more relevant financial information.
6. In this regard, we disagree with the proposals in the ED which would amend existing requirements in IAS 28 that are currently consistent with one-line consolidation. In our view, such proposals would result in fundamental changes to the equity method, and we think such proposals are inconsistent with the IASB's approach not to undertake a fundamental review of the equity method.
7. Among others, we strongly disagree with the proposal to require an investor to recognize in full gains and losses resulting from all upstream and downstream transactions with its associates. This is because the existing requirement in IAS 28 that restricts the gains or losses recognized to the extent of the unrelated investors' interests in an associate is considered to reflect a typical aspect of one-line consolidation.

**(Suggested alternatives considering the diverse views on the equity method)**

8. As stated in the preceding paragraphs, we think that investments in associates and joint ventures should be accounted for as a distinct category of investments by applying the equity method. We also think that the equity method should basically be consistent with one-line consolidation. At the same time, we acknowledge that there are some stakeholders around the world who do not support the equity method. These stakeholders typically argue that there should be no distinct category of investments in associates and joint ventures and that applying IFRS 9 to such investments would provide relevant information.
9. We think that views of the stakeholders who do not support the equity method should not be reflected in the discussions to improve the equity method, because their views are more relevant to the issues concerning the scope of the equity method.
10. If the IASB were to address the diverse views on the scope of the equity method, one alternative might be the introduction of the option to account for the investments with significant influence or joint control in accordance with IFRS 9 when an entity concludes that the application of the equity method would not provide relevant information. At the same time, the IASB could improve the equity method in a way that is basically in line with one-line consolidation, focusing on those who think that investments in associates and joint ventures should be accounted for as a distinct category of investments by applying the equity method.

**(Use of the “Principles” identified by the IASB in the ED)**

11. Our views on the principles that would address current practical issues arising from applying the equity method under the existing IAS 28 are summarized in the ASBJ Short Paper Series No.3 *Perspectives on the Equity Method of Accounting*<sup>1</sup> (“the Short Paper”) issued in September 2021. The Short Paper proposes principles that would clarify when to focus on the aspect of one-line consolidation and when to focus on the aspect of measurement basis.
12. We think that any change in the equity method should be consistent with the principles which are agreed upon by constituents. As we proposed in the Short Paper, discussions on the principles would be based on the aspects of one-line consolidation and measurement basis.

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<sup>1</sup> <https://www.asb-j.jp/en/discussions/papers/2021-0903.html>

13. The IASB notes in the Basis for Conclusions in the ED that the IASB identified eight “Principles” underlying the current IAS 28 and used those “Principles” to answer the application questions. We have concerns on the “Principles” that the IASB has identified and the use of those “Principles” to derive the proposals in the ED for the following reasons:
- (a) When identifying the “Principles” in the ED, the IASB does not consider the aspects of one-line consolidation and measurement basis, which we believe constitute the underlying concepts of the equity method. We do not think that such “Principles” will be accepted by constituents. We are of the view that the use of such “Principles” would neither result in providing fundamental solutions to the application questions nor justify the cost of changing current practice.
  - (b) The “Principles” identified by the IASB are not used consistently throughout the proposals in the ED. For example, the IASB notes in paragraph BC78 that Principles B and C are not necessarily consistent with the proposed approach in the ED. We think that the IASB’s approach to use the “Principles” is not convincing when the IASB does not consistently apply those “Principles.”

**(Difference between obtaining significant influence or joint control and obtaining control)**

14. We note that neither significant influence nor joint control constitutes control of the investee. Accordingly, we think that accounting treatments which the IASB requires when an entity obtains control of a subsidiary in accordance with IFRS 3 because obtaining control is a significant economic event should not necessarily be required when an entity obtains significant influence or joint control. This view forms the basis for our opposition to the proposals related to *Measurement of cost of an associate* in Question 1 and to *Investments in subsidiaries to which the equity method is applied in separate financial statements* in Question 6.
15. For our comments on the specific questions in the ED, please see the Appendix of this letter.
16. We hope our comments are helpful for the IASB’s consideration in the future. If you have any questions, please feel free to contact us.



Yours sincerely,

*Y. Kawanishi*

Yasunobu Kawanishi

Chair

Accounting Standards Board of Japan

**Comments on Specific Questions in the ED**

Our comments on the specific questions sought in the ED are as follows.

**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.

**(Basis for requiring fair value measurement of the previously held interest)**

1. We do not disagree with the proposal that the cost of an associate, on obtaining significant influence, is to be measured at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate. Assuming that such previously held interests had been measured at fair value in accordance with IFRS 9, the proposal would allow an entity not to determine the original amount of the investment, some of which may have been made a long time ago.
2. At the same time, we note that neither significant influence nor joint control constitutes control of the investee. Accordingly, we think that accounting treatments which the IASB requires when an entity obtains control of a subsidiary in accordance with IFRS 3 because obtaining control is a significant economic event should not necessarily be required when an entity obtains significant influence or joint control.
3. In this regard, we think that fair value measurement of the previously held interests should not be required based on the premise that the previously held interests are deemed to be disposed when obtaining significant influence or joint control. Accordingly, we propose that the IASB should clarify that the carrying amount of the previously held interests which had been measured at fair value in accordance with IFRS 9 would be used as the ‘deemed cost’ of the investments in the associate or joint venture when an investor obtains significant influence or joint venture.

**(The proposed definition of the “cost of the associate or joint venture”)**

4. We propose the IASB revisit the proposed definition of the “cost of the associate or joint venture” in terms of the following points:
  - (a) The definition only refers to the fair value of the consideration transferred “measured at the date an investor obtains significant influence or a joint venturer obtains joint control.” As we think that the cost also arises when the investor obtains additional ownership interests while retaining significant influence or joint control, the IASB should not restrict the measurement of consideration transferred at fair value to when the investor obtains significant influence or joint control in the definition of the “cost of the associate or joint venture.”
  - (b) If the IASB were to clarify how to measure cost of associate and joint venture by introducing the definition of the “cost of the associate or joint venture,” we

think that the treatment of acquisition costs should also be clarified. Because the ED proposes that an investor recognizes the investment in an associate or joint venture at the “cost” of the associate or joint venture, we think that the ED would not change the treatment of the acquisition costs from the IFRIC Agenda Decision in July 2009, which stated that the cost of the associate or joint venture would include the costs directly attributable to the acquisition. Accordingly, we propose the IASB to include this treatment as a requirement in the revised IAS 28.

**(Use of the “Principles” identified by the IASB in the ED)**

5. Paragraph BC18(b) in the ED explains that measuring the cost of the investment at fair value would align with Principle D, which would measure the associate’s identifiable assets and liabilities at fair value on obtaining significant influence. However, we are not convinced that Principle D is a principle which is accepted by constituents. Moreover, we think that it is unclear that why measuring the cost of the investment should be aligned with Principle D, which refers to the measurement of an associate’s or joint venture’s identifiable assets and liabilities.

**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.

6. We support the IASB to proceed with the proposals in relation to this Question, because these proposals are basically consistent with how entities in our jurisdiction currently apply IAS 28.

**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.

7. Our understanding is that currently there are various accounting practices based on specific facts and circumstances as to how an investor that has reduced the carrying amount of its investment to nil should account for its investments in associates or joint ventures. Accordingly, we disagree with the IASB's proposals in the ED which would require a single accounting treatment that applies in all cases.

**("Catch up" adjustment)**

8. We basically disagree with the proposals in ED that require not to "catch-up" unrecognized losses on purchasing an additional ownership interest for the following reasons:
- (a) If the purpose of the additional investment is to cover the losses from previous

periods of the insolvent associate or joint venture, a “catch-up” adjustment would result in a more faithful representation of the investor’s interest in the net assets of the associate or joint venture.

(b) Even if an investor may recognize an impairment loss immediately following the purchase of an additional interest, not requiring the “catch-up” adjustment cannot be justified, because unrecognized losses subject to the “catch-up” adjustment are actual losses that have incurred in previous periods, whereas impairment losses cover the amount based on the recoverable amount that is determined based on future cash flows.

9. At the same time, we note that some stakeholders in our jurisdiction support the proposals in the ED especially referring to the case where an investor purchases additional interests in start-ups, as stated in paragraph BC53 in the ED. These stakeholders further note their concerns that requirement regarding the “catch-up” adjustment may have a negative impact in the investor’s investment decisions related to start-ups.

**(Recognition of each component of comprehensive income)**

10. We basically agree with the proposals that require the separate recognition of the share of each component of profit or loss and other comprehensive income and the order that an investor would first recognize its share of profit or loss and then its share of other comprehensive income as well as the basis for the proposals stated in the ED.

11. In addition, we think that, if the IASB were to proceed with the proposals regarding the order to recognize its share of profit or loss and other comprehensive income, we think the IASB should also clarify the order within the different items recognized in other comprehensive income, in particular items between those that are subject to recycling and those that are not.

12. However, we also note that various accounting practices exist today regarding how an investor that has reduced the carrying amount of its investment to nil should account for its investments in associates or joint ventures. Our understanding is that these practices have emerged as a result of considering the accounting policy that would best reflect the economic substance of the investment in various situations. As such, we think it would be difficult to conclude that the proposals in the ED would always result in a more faithful representation of the economic substance in the

investment.

**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. 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 *Consolidated Financial Statements* 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.

13. We strongly disagree with this proposal.
14. We think that the equity method is neither a one-line consolidation nor a measurement basis in their purest forms but a hybrid of the two approaches. Acknowledging that it is a hybrid of the two approaches, we think that the equity method should basically be consistent with one-line consolidation with certain exceptions focused on the aspect of measurement basis.
15. In this regard, we disagree with the proposals in the ED which would amend existing requirements in IAS 28 that are currently consistent with one-line consolidation. In our view, the existing requirement in IAS 28 that restricts the gains or losses recognized to the extent of the unrelated investors' interests in an associate is

considered to reflect a typical aspect of one-line consolidation. We think that the IASB's proposal to amend the requirements would result in a fundamental change to the equity method which is currently consistent with one-line consolidation.

16. In addition, the proposal in the ED to amend the disclosure requirements in IFRS 12 *Disclosure of Interests in Other Entities* to require entities to provide information regarding the gains or losses resulting from “downstream” transactions with its associates or joint ventures contradict with the IASB's rationale that the proposal that would require entities to recognize full gains or losses would be simpler and therefore less costly to apply compared to current practice under existing IAS 28.
17. Furthermore, we are concerned that the proposal in the ED provides an investor with structuring opportunities to conduct transactions that may result in the overstatement or understatement of the assets and net income in the consolidated financial statements by exercising the significant influence or joint control over the associate or joint venture.
18. In terms of the IASB's application of the “Principles” it identified, the IASB notes in paragraph BC78 that Principles B and C are not necessarily consistent with the proposal in the ED, but more consistent with the requirement in paragraph 28 of IAS 28 to eliminate the investor's portion of the gain or loss in a transaction with an associate. We think that the IASB's approach to use the “Principles” is not convincing when the IASB does not consistently apply those “Principles.”
19. Overall, we deeply regret that the IASB is proposing making a fundamental change to the equity method, which would not enhance the quality of the financial information provided through the application of the equity method, without undertaking a fundamental review and solely for the purpose of addressing the application question about how an investor recognizes gains or losses arising from the sale of a subsidiary to its associate.

<p><b>Question 5— Impairment indicators (decline in fair value)</b> <b>(Paragraph 57 of [draft] IAS 28 (revised 202x))</b></p>
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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.

**(Cost or carrying amount)**

20. We agree with the proposal that an investor assesses the decline in the fair value of an investment by comparing that fair value with the carrying amount of the net investment in the associate at the reporting date as well as the basis for such proposal stated in the ED.

**(Removal of “significant or prolonged” decline in fair value)**

21. We have heard mixed views on the proposal from constituents in our jurisdiction.

Among others, preparers of financial statements are concerned that the proposal will cause entities to identify an indication of impairment more frequently and will increase the cost for the impairment testing, which may or may not result in recognizing impairment losses, which we think would be inconsistent with the IASB's analysis included in Table 3 in paragraph BC221 of the ED regarding the expected effects. At the same time, there are other constituents, mainly users, who support the proposal in the ED because the proposal may result in more timely recognition of the impairment losses.

22. Preparers of financial statements further noted that they have developed and have been consistently applied their accounting policies regarding the identification of a “significant or prolonged” decline in fair value. They argue that because they have not identified ongoing practical questions on this issue, the benefit of applying the proposal would not outweigh the cost incurred to change their current practices.
23. In addition, we have identified some points where the IASB should provide clarification. Such points include the following:
  - (a) The timing when an investor refers to the fair value of the investment to determine whether there is a decline in fair value below its carrying amount, in particular, whether a decline in fair value for one minute during the reporting period would be considered an indication of impairment.
  - (b) The unit of measurement of the fair value of the investment, in particular, when shares issued by an associate has a quoted price, whether the unit of measurement of the fair value would be the investment as a whole or an individual share.

<b>Question 6— Investments in subsidiaries to which the equity method is applied in separate financial statements</b>
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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.

24. We disagree with the proposals in paragraphs 10A and 10B of IAS 27 *Separate Financial Statements*. We note that neither significant influence nor joint control constitutes control of the investee. Accordingly, even if the obtaining or losing of control would not change how the investments would be measured when an entity elects applying the equity method to investments in subsidiaries in its separate financial statements, the entity should remeasure its previously held or retained investments. This is because obtaining and losing control are significant economic events.

**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.

**(Gains or losses resulting from “downstream” transactions)**

25. Consistent with our disagreement with the proposal to require an investor to recognize in full gains and losses resulting from all “upstream” and “downstream” transactions, as stated in our response to Question 4, we disagree with the resulting proposal to disclose gains or losses resulting from “downstream” transactions.
26. In addition, we are concerned that the IASB intends to require an entity to provide information regarding the disaggregation of earnings, as indicated in paragraph BC144(a) in the ED. This is because the additional disclosure of disaggregated profit or loss information is considered totally unrelated to the objective of the IASB’s project on the equity method, which is to address the application questions regarding the accounting treatments in accordance with the existing requirements in IAS 28.

**(Reconciliation between the opening and closing carrying amount)**

27. Our understanding is that many pieces of information that is proposed to be disclosed within the reconciliation are already disclosed in the statement of cash flows and in other disclosures in accordance with IFRS 12. Given this situation, we have heard mixed views from constituents in our jurisdiction. Specifically:
- (a) Users of financial statements support the proposal in the ED, because the reconciliation disclosed in the notes would reduce the cost to analyse and would provide additional information such as dividends received from the associate or joint venture.

- (b) On the other hand, preparers of financial statements do not support the proposal in the ED, because the benefits would not outweigh the costs for preparing the reconciliation, considering that incremental information provided through the reconciliation would be limited.

**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).

28. Consistent with our disagreement with the proposal to require an investor to recognize in full gains and losses resulting from all “upstream” and “downstream”

transactions, as stated in our response to Question 4, we disagree with the resulting proposal to amend IFRS 19 *Subsidiaries without Public Accountability: Disclosures* to disclose gains or losses resulting from “downstream” transactions.

**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.

29. Consistent with our disagreement with the proposal to require an investor to recognize in full gains and losses resulting from all “upstream” and “downstream” transactions, as stated in our response to Question 4, we disagree with the transition requirement in the ED that proposes retrospective application of the requirement to recognize the full gain or loss on all transactions with associates or joint ventures.
30. In addition, we believe that the benefit of the proposed transition requirements should equally be applicable to first-time adopters. However, the IASB is silent in the Basis for Conclusions in the ED with regard to its consideration of the applicability to first-time adopters. Accordingly, we recommend the IASB to further consider providing the transitional provisions to the first-time adopters before finalizing the

amendments to IAS 28.

<b>Question 10— Expected effects of the proposals</b>
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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?
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31. The IASB’s analysis included in Table 3 in paragraph BC221 in the ED in relation to impairment that indicates most entities would not need to change how they assess whether an indicator of impairment exists is not consistent with what we heard from preparers of financial statements. Please see our response to Question 5.

[EOD]