20 January 2025

IFRS Foundation
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Our Ref: 2025/O/C1/IASB/PM/11

RE: Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures

Dear International Accounting Standards Board ("IASB" or "the Board") Members,

The International Organization of Securities Commissions ("IOSCO") Committee on Issuer Accounting, Audit and Disclosure ("Committee 1") thanks you for the opportunity to provide our comments on the Exposure Draft: *Equity Method of Accounting – IAS 28 Investments in Associates and Joint Ventures*.

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 ("members" or "we") seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations:

Overall, we support the IASB's objectives to reduce diversity in practice when applying IAS 28 and provide more comparable and understandable information for users of financial statements. We believe addressing application questions that represent long-standing difficulties in applying IAS 28 complemented by additional disclosure requirements help achieve those objectives. In this regard, we believe the scope of the application questions the Board is seeking to answer represents our

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understanding of some difficulties that presently exist when applying IAS 28. Furthermore, we generally support the approach taken by the Board to address application questions that can be answered using the principles that underlie IAS 28 and to provide guidance by applying those principles with illustrative examples. However, as described in our response to Question 6, we have significant concerns with the Board's proposal to permit full recognition of gains or losses on 'upstream' and 'downstream' transactions with subsidiaries in a parent's separate financial statements, in part, because a parent that is applying the equity method to its investment in a subsidiary has not lost control over an asset such as inventory transferred to the subsidiary in such transactions. Therefore, we do not believe the Board's proposal will result in relevant or reliable information to users of the separate financial statements. Additionally, we believe additional specificity, clarity and guidance in certain areas should be considered to promote consistent application of the proposed requirements.

Responses to the Board's Questions:

Question 1—Measurement of cost of an 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:

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(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.

Response:

We agree with the Board's proposal to 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 for the reasons provided in BC18 and because it is similar to the principles that currently exist in IFRS 3 *Business Combinations*. Additionally, we strongly support proposed paragraph 26 of IAS 28 regarding an investor's recognition and measurement of contingent consideration as part of the consideration transferred, as this has been a long-standing source of diversity in practice. However, we believe additional specificity is needed in the standard regarding the meaning of 'cost of the associate or joint venture' in proposed paragraph 13 of IAS 28 to provide additional clarity. We acknowledge that the 'cost of the associate or joint venture' is defined in Appendix A. However, for clarity, we believe the IASB should consider emphasizing in the Basis for Conclusions that the definition of 'cost of the associate or joint venture' includes the fair value of any previously held ownership interest measured at the date significant influence or joint control is obtained, and to indicate that such interest would have been measured previously at fair value with any gain or loss recognized in accordance with IFRS 9 *Financial Instruments*.

We believe the Board should consider providing guidance on the accounting for the difference, if any, between the fair value of the previously held ownership interest and its previous carrying amount at the date significant influence is obtained, similar to the guidance in paragraph 42 of IFRS 3 to provide additional clarity.

We observe that the proposed amendments do not specify how an investor or joint venturer should account for transaction costs incurred in acquiring ownership interests. We believe the Board

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should provide guidance to clarify whether transaction costs would be expensed as incurred consistent with IFRS 3 or included in the carrying amount as part of the cost of the investment to provide additional clarity and reduce the potential for diversity in practice.

Question 2—Changes in an investor's ownership interest while 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.

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(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.

Response:

We agree with the Board's proposals regarding changes in ownership interest while retaining significant influence for the reasons stated in the Basis for Conclusions. However, we believe the proposals introduce some potential for confusion and therefore we strongly support the inclusion of the examples to illustrate the proposed requirements. In this regard, however, we note proposed Example 2 (IE3) does not illustrate the requirements in proposed paragraph 34(a) of IAS 28 regarding "other changes in ownership interest" that result in an increase in an investor's ownership interest while retaining significant influence. We believe the Board should consider expanding Example 2 (IE3) to illustrate the requirements in proposed paragraph 34(a) of IAS 28 to provide additional clarity and to promote consistent application.

Additionally, we observe that paragraph 34 of IAS 28 does not provide guidance for a common circumstance in which all existing investors or joint venturers in an associate or joint venture, respectively, take part in a share issuance or redemption in proportion to their existing ownership

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interest. We acknowledge that BC39 provides the Board's consideration of this circumstance and that the investor's ownership interest and its share of the investee's net assets would not change. However, we observe that it is common for all existing investors or joint venturers in an associate or joint venture, respectively, to take part in a share issuance or redemption but not in proportion to their existing ownership interests, which is not addressed in the proposed requirements. We believe the Board should consider providing guidance on whether an investor in this circumstance would account for the purchase of an additional ownership interest and the dilution caused by the other investors as a disposal of an ownership interest separately or combined only for the net effect on the investor's change in ownership interest.

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. Do you agree with these proposals?

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If you disagree, please explain why you disagree and your suggested alternative.

Response:

We agree with the Board's proposals regarding recognition of the investor's or joint venturer's share of losses for the reasons stated in the Basis for Conclusions. However, we believe there are certain areas that could be clarified to improve understandability and to promote consistent application of the requirements.

Recognising an investor's or joint venturer's share of losses:

We observe that paragraph 48 of IAS 28 indicates that an investor shall resume recognising its share of profit only when its share exceeds its share of losses not recognised while its investment was nil. Furthermore, paragraph 50 of IAS 28 indicates that the investor shall recognise separately its share of the investee's profit or loss and other comprehensive income. We believe the Board should consider providing additional clarity on whether the investor's share of losses not recognised in profit or loss and other comprehensive income are to be considered separately or in their entirety for purposes of applying paragraph 48 of IAS 28. Additionally, we observe that when an investor purchases an additional interest after its initial investment has been reduced to nil and stops recognizing its share of the investee's losses, most of the new investment will likely exceed the entity's additional interest in the carrying amount of the investee's net assets. In this circumstance, the investor will then depreciate this excess amount over the subsequent years (unless it is treated as goodwill included in the carrying amount of the investment). We do not believe it is clear in the standard whether the investor should account separately for (1) the depreciation of the excess investment over the carrying amount of the investee's net assets and (2) the investee's profit, which the entity does not recognize until it exceeds the previously unrecognized share of losses or the net of both amounts. Therefore, we believe the Board should consider providing an illustrative example to provide clarity on the application of paragraph 48 of IAS 28 in this circumstance.

We also observe that paragraph 52 of IAS 28 indicates that an investor that has reduced its net investment to nil shall continue to recognise separately its share of an investee'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. However, we do not believe it is clear how this requirement would be applied when an investor has accumulated unrecognised losses in profit or loss and other

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comprehensive income, collectively. We believe the Board should consider expanding the example included in proposed paragraph 52 and Example 3 (IE4) to illustrate circumstances where an investor's or joint venturer's share of profit or loss is a profit and its share of other comprehensive income is a loss.

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.[1] 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.

Response:

[1] 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.

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Some members agree with the Board's proposals to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates in consolidated financial statements, consistent with transactions involving the loss of control of a subsidiary in IFRS 10 *Consolidated Financial Statements* for the reasons stated in the Basis for Conclusions. However, as described in our response to Question 7, we believe additional disclosures should be considered to complement the proposals to help users of the financial statements understand the nature of certain transactions between an investor and its investee.

Those members who disagree with the Board's proposals believe such a requirement could potentially allow an investor to manage its earnings and structure transactions that are not arm's length transactions which will not result in relevant or reliable information for users. These members would prefer the Alternative 2 approach described in BC67(b) since it distinguishes the accounting treatment for transactions involving a loss of control of a subsidiary (i.e., recognition of full gain or loss) from other transactions with associates and joint ventures.

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.

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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.

If you disagree, please explain why you disagree and your suggested alternative.

Response:

We agree with the Board's proposals relating to an investor's assessment of impairment indicators of its net investment in an investee for the reasons stated in the Basis for Conclusions. However, we suggest the Board consider modifying paragraph 57 of IAS 28 to state that if any of the indicators are present, an entity is required to make a formal estimate of recoverable amount as described in paragraph 8 of IAS 36 *Impairment of Assets* to promote consistent application of the requirements.

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.

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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.

Response:

We disagree with the Board's proposal to permit full recognition of gains or losses on downstream and upstream transactions with subsidiaries in a parent's separate financial statements. We note the Board's acknowledgment in paragraph BC124 that "new or increased differences between separate and consolidated financial statements could arise. For example, applying the proposed requirements, the parent would recognise, in full, gains or losses on downstream and upstream transactions with subsidiaries in its separate financial statements. However, in its consolidated financial statements, it would eliminate, in full, such gains or losses." In addition to the concerns noted by the Board in paragraph BC125-BC126 related to the usage of separate financial statements for dividend distribution and income tax purposes, the purpose of reporting separate financial statements may be different (e.g., those statements are the basis for determining dividend-paying capability) from that for reporting consolidated financial statements. Additionally, we note the Board's decision was in part based on the underlying concept that the entity relinquishes control over a transferred asset to an associate or joint venture. However, a parent that is applying the equity method to its investment in a subsidiary in its separate financial statements has not lost control over an asset such as inventory transferred to a subsidiary, and therefore, we do not believe the parent's separate financial statements should recognise revenue or gains/losses from such transactions in its 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;

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(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.

Response:

We strongly agree with the proposed amendments to the disclosure requirements of IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* which we believe complement the proposed amendments to IAS 28 and promote the integrity of the international markets by providing high-quality information to users of the financial statements about equity method investees. However, as stated in our response to Question 4, we believe the Board should consider additional disclosure requirements to complement the proposals to help users of the financial statements understand the nature of certain transactions between an investor and its investee. For example, consider an investor with an ownership interest in an investee accounted for in accordance with IAS 28 that sells inventory to its investee for purposes of that inventory being sold to unrelated third parties. In this example, the investor may be incentivised to sell its inventory to its investee earlier than it would have otherwise to obtain the benefit of recognition of the entire gain on sale rather than deferring a portion of the gain until the sale of the inventory to a third-party. In this regard, we believe the Board should consider including a reference to the disclosure requirements in IAS 24 *Related Party Disclosures* in paragraph 21 of IFRS 12 to encourage consideration of such disclosure requirements to provide transparency regarding an investor's transactions with its investees, including outstanding balances and commitments with such parties.

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We also believe the proposals may increase the likelihood that transactions between an investor and its investee with terms that are not equivalent to those in arm's length transactions are not adequately disclosed. We acknowledge the Board proposed a requirement for an investor to disclose any gains or losses from downstream transactions with its investee to provide transparency. However, we believe the Board should consider requiring additional disclosures that provide users of financial statements information about the justification for the investor's transactions with its investees and how the values used to determine the gain or loss were derived.

We observe that proposed paragraph 23B of IFRS 12 requires the disclosure of a reconciliation between the opening and closing carrying amounts of investments accounted for using the equity method. Additionally, we note the Board's acknowledgement in BC162 that the general aggregation and disaggregation requirements in IFRS 18 *Presentation and Disclosure in Financial Statements* (or its predecessor, IAS 1 *Presentation of Financial Statements*) would apply to investors with investments in associates and joint ventures and that the entity would need to consider how to disaggregate information about those investments to fulfil the role of the notes to the financial statements in providing material information. We believe that the Board should consider noting in the standard, rather than only in the basis, that the general aggregation and disaggregation requirements in IFRS 18 would apply to provide additional clarity.

We believe that absent these disclosures there is the potential for a lack of transparency regarding an investor's transactions with its investees, which may impact an understanding by users of financial statements necessary to make fully-informed investing decisions.

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:

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(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).

Response:

We have no view on the proposals.

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

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(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.

Response:

We observe that proposed paragraph C4 of IAS 28 indicates that an investor shall recognise in full the gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates or joint ventures retrospectively. We are concerned this proposal will not result in an investor reflecting gains or losses at the time of realization in profit or loss (e.g., on the disposal of assets). We believe the Board should consider requiring prospective application for recognition of gains or losses from transactions with investees that occurred prior to the transition date.

We also observe that retrospective application to contingent consideration at the transition date would require an investor that had not previously applied, by analogy, IFRS 3 for contingent consideration to measure the fair value of the contingent consideration at the date of obtaining significant influence or joint control. In this scenario, we are concerned about an investor's ability to apply that requirement without the use of hindsight to measure contingent consideration at fair value in accordance with IFRS 13 *Fair Value Measurement*. Therefore, we believe the Board should consider the use of prospective application of the proposed amendments to contingent consideration as well.

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?

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Response:

We have no views on the expected effects of implementing 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)?

Response:

We believe the Board should consider providing greater specificity, clarity and guidance in the following areas:

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

We observe that when applying the equity method, paragraph 15 of IAS 28 indicates that an investor's interest in an investee is determined based on existing ownership interests and does not reflect the possible exercise or conversion of potential voting rights and other derivative instruments. Alternatively, paragraph 10 of IAS 28 indicates that potential voting rights that are currently exercisable or convertible are considered when assessing whether an investor has significant influence. To help reduce diversity in practice, we believe the Board should consider including a reference to paragraph 10 of IAS 28 in paragraph 15 of IAS 28 to highlight that the rights (i.e., existing ownership interest, possible exercise of conversion of potential voting rights, other derivative instruments, etc.) considered in determining whether significant influence exists may differ from the rights considered when applying the equity method.

Recognition and initial measurement:

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We observe that when applying the equity method, paragraph 23 of IAS 28 indicates that the carrying amount of the investment in the investee shall include the investor's share of the fair value of the investee's identifiable assets and liabilities, including the related deferred tax effects. Additionally, paragraph 39 of IAS 12 indicates that an entity shall recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements if an exception is not met. We believe the Board should consider including a reference to paragraph 39 of IAS 12 *Income Taxes* in paragraph 23 of IAS 28 to provide additional clarity regarding the treatment of taxable temporary differences when applying the recognition and initial measurement requirements for an equity method investee.

Impairment losses:

We observe that existing paragraph 42 of IAS 28 indicates that when testing the carrying amount of the net investment for impairment by applying the requirements in IAS 36 an impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the net investment. We believe the Board should consider providing its reasoning behind this approach in the Basis for Conclusions, as this approach could be viewed as creating a new basis difference that should be accounted for in some fashion.

Transactions with associates or joint ventures:

We observe that paragraph 54 of IAS 28 indicates that if an investee contributes non-monetary assets to an investee in exchange for an equity interest and that contribution lacks 'commercial substance' as described in IAS 16 *Property, Plant and Equipment*, the investor shall regard the gain or loss on the contribution as unrealised and eliminate it against the carrying amount of the investment. In this regard, a transaction between an investor and its investee may have commercial substance if, for example, the entity-specific value of both the asset surrendered and the entity's interest in the associate or joint venture are not only different to one another but also significant compared to the fair values of the assets exchanged resulting in a realised gain or loss on the contribution. We believe the Board should consider providing additional specificity in paragraph 54 of IAS 28 to indicate that if a contribution of a non-monetary asset has commercial substance, the investor shall recognise the gain or loss on that contribution in profit or loss when the contributed asset is derecognised as described in IAS 16.

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Illustrative Example 1 (IE2) – Application of the equity method on obtaining significant influence and purchasing an additional interest:

We observe that Example 1 (IE2) sets out how an investor applies the requirements on the date it obtains significant influence over an investee and subsequently when it purchases an additional interest. We believe this example is a helpful illustration of how to apply the recognition and initial and subsequent measurement requirements of IAS 28. However, we believe the Board should consider expanding this example to include a 'Part 6' to illustrate how to apply paragraph 32 of IAS 28 when disposing of an ownership interest and how to allocate a decrease in ownership interest to Entity B's property, plant and equipment when determining the adjustment to Entity A's share of Entity B's profit or loss to provide additional clarity.

Illustrative Example 3 (IE4) - Recognising an investor's share of losses:

We observe that Example 3 (IE4) sets out how an investor recognises its share of an investee's losses. We believe the Board should consider the following to provide additional clarity in this example:

- Separately describe the portions of Entity E's losses not recognised that are attributable to Entity F's profit or loss and other comprehensive income at the end of each period.

- Expand to include a circumstance where Entity E's share of Entity F's profit or loss is a profit and its share of other comprehensive income is a loss to illustrate how this requirement is applied when an investor has an accumulation of losses in total comprehensive income (i.e., profit or loss and other comprehensive income, collectively).

Supporting Material—Long-term Interests in Associates and Joint Ventures:

We observe that in existing IAS 28, there is supporting material that was added by prior amendments that describe the interaction between IFRS 9 and IAS 28. We believe this supporting material is very helpful to an understanding of how an investor accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying IFRS 9 and IAS 28 and should be retained as part of the proposed amendments.

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

Paul Munter
Chair
Committee on Issuer, Accounting, Audit and Disclosure
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