SAICA DIFFERENCE MAKERS™

21 January 2025

International Accounting Standards Board
7 West Ferry Circus
Canary Wharf
London E14 4HD
United Kingdom
Email: commentletters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2024/7 – EQUITY METHOD – IAS 28 – *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

In response to your request for comments on ED/2024/7 – Equity Method – IAS 28 – *Investments in Associates and Joint Ventures*, attached is the comment letter prepared by the South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of SAICA's Accounting Practices Committee (APC), which comprises members from reporting organisations, preparers, regulators, auditors, IFRS specialists, investment analysts and academics.

We thank you for the opportunity to provide comments on this Exposure Draft.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Prof Ahmed Mohammadali-Haji
Chairperson: APC

Mulala Ratshitanga
Project Director: Financial Reporting

Cc: Bongeka Nodada
Executive: Corporate Reporting

GENERAL COMMENTS

We are appreciative of the proposals that have been put forward for our consideration. We however remain with a fundamental question as to whether equity accounting as described in IAS 28 is still fit for purpose. At the time that IFRS 10 – *Consolidated Financial Statements*, IFRS 11 – *Joint Arrangements* and IFRS 12 – *Disclosure of Interests in Other Entities* where issued there was consideration given as to the withdrawal of IAS 28. As this was not the case, many of our constituents question why the International Accounting Standards Board (IASB) has not addressed the standard as a whole.

SPECIFIC COMMENTS

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.

We agree with the proposals. However, we would appreciate if the IASB consider specific concerns raised below.

Definition of cost

When the equity method is applied, the investment in an associate is recognised at *cost* at initial recognition as defined in Appendix A. However, we have noted that there is no definition of what cost is when there are additional purchases of ownership interest in the associate (while retaining significant influence). We suggest that the IASB include in the definition (in Appendix A) what the cost is when there are additional purchases of ownership interest in an associate. Specifically, that the cost of the additional ownership interest acquired is measured at the fair value of the consideration transferred (see paragraph 30).

Directly attributable costs

We have noted that directly attributable costs are not specifically addressed in the proposals as is done in IFRS 3 paragraph 53. It will be helpful if the IASB include guidance on how to account for directly attributable costs incurred when acquiring an associate or an additional ownership interest in the associate.

Acquisition of an associate as part of a business combination

In some cases an investor/parent obtains significant influence over an entity through a business combination of a group (which includes the associate). In such an instance, should the investor/parent apply the IFRS 3 purchase price allocation at the consolidated level? Or should the parent/ investor be required to also do it on the level of the associate? This is currently not clear in the proposals, and we believe that such clarity would be useful to our constituents.

Paragraph 23 of Exposure Draft ("ED"): Fair value information

Although paragraph 23 has not been specifically mentioned in the questions to the ED, some constituents have comments on this paragraph.

Paragraph 23 states that the carrying value of the investment in the associate shall include the investor's share of the fair value of the associate's identifiable assets and liabilities, including the related deferred tax effects.

Unlike a group situation (parent and subsidiary), the investor only has significant influence over the associate. It may be a challenge for the investor to obtain the necessary information to do the fair value calculation and to do the purchase price allocation to determine whether the investor should account for a gain from a bargain purchase or goodwill. Refer to our comments on whether equity accounting is a consolidation process or a valuation methodology, below.

Further, at an operational level:

(a) A consideration is how the investor will maintain all the fair value information of the assets and liabilities (and the related recognition/non-recognition of deferred taxation) of the associate for the purpose of subsequent measurement, as it will not be disclosed by the associate.
(b) We also note that there is a continued tension when associates are listed entities, but report after the investor. In such situations information relating to the associate's performance and financial position may enter the public domain prior to the associate having completed its own reporting processes.

We would suggest the fair value model be applied to the unit of account rather than the underlying assets and liabilities as this would be a simpler approach in achieving the IASB's objective of paragraph 23.

On the other hand, it could be argued that if the investor is unable to apply paragraph 23, then that provides evidence that the investor does not have significant influence. It may be relevant for the IASB to reconsider the definition of significant influence in a future project (we do note it was excluded from the scope in paragraph BC8(c)).

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:
  (ii) recognise that additional ownership interest and measure it at the fair value of the consideration transferred;
  (iii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and
  (iv) 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.

We are generally in agreement with the proposals. We have noted below some areas for the IASB to consider where we have concerns.

Complexity of the application of the requirements

When an investor over time purchases various ownership interests in an associate, the requirements of paragraph 30 may be difficult and challenging to apply. The investor would be required to perform various purchase price allocations. We note that the proposals in the ED assume that perfect information is available to the investor to do a purchase price allocation at each step up, particularly if they occurred in different reporting periods. Also if the associate's size and composition has changed or is different at each step-up transaction. The detailed information required is generally not readily available (as we also noted in our comments to question 1). It would be helpful if the IASB could reconsider the current proposals as they are not easy to apply from a practical point of view and will result in unnecessary cost and effort.

Our preference would be to have no purchase price allocations as there is generally insufficient information readily available to perform them.

Paragraph 34 requires incremental purchase price allocations for "other changes in ownership interest". This requirement is even more complex to apply than when the investor is performing a purchase price allocation for the purchase of an additional ownership interest. For example, an increase in the investor's ownership interest due to the associate buying back shares from another shareholder.

Further, we note that in certain jurisdictions there is a preference to adopt an equity accounting policy for investments in subsidiaries in the separate financial statements (and to consolidate such subsidiaries in the consolidated financial statements per IFRS 10). Therefore, in situations where an additional interest is purchased in a subsidiary (a relatively simple NCI transaction in the consolidated financial statements), the reporter would still have to perform a notional purchase price allocation in the separate financial statements. Such additional cost of preparing the separate financial statements appears to be unwarranted.

We acknowledge the IASB's effort in trying to resolve the complexity in equity accounting, however, we believe that the proposed changes introduce further complexity which we do not believe outweigh the benefits. It may be that useful and timely information about the investments in associates will be achieved by requiring the investments to be measured at fair value, rather than apply equity accounting.

Related deferred tax effects

Our question is whether including the deferred tax effects when applying paragraphs 23, 28 and 30 will add value to the financial statements when considering the complexity of keeping track of the deferred tax balances and adjustments to these balances. We are not convinced that the investor would for example have all the necessary information readily available to determine if deferred tax assets should be recognised. In addition, it could be argued that seeing that the acquisition of the investment is an asset acquisition from the perspective of the investor, the initial recognition exemption per IAS 12 paragraph 22 could apply.

Unit of account

Paragraphs BC34 and BC35 have articulated the reasons why for disposals, the investment in the associate is treated as a single unit of account. We question why the same rationale could not be applied to acquisitions as we are not supportive of purchase price allocation for each purchase of additional ownership interest in the associate and also for other changes which result in an increase in the ownership interest.

There is a disconnect between the purchasing and disposing of an ownership interest in an associate. Purchase price allocations are required for the individual purchases but for the disposals, the requirements in the ED apply to the entire investment in the associate.

IFRS 12 disclosures

It will be challenging to provide the disclosure in IFRS 12 for summarised information. Paragraph B14 states that if the entity accounts for its interest in the associate using the equity method:

(a) *"the amounts included in the IFRS financial statements of the … associate shall be adjusted to reflect adjustments made by the entity when using the equity method, such as fair value [Refer: IFRS 13] adjustments made at the time of acquisition and adjustments for differences in accounting policies".*

The question is if there are multiple acquisitions, which fair value adjustments should be disclosed.

(b) *"the entity shall provide a reconciliation of the summarised financial information presented to the carrying amount of its interest in the … associate".*

When there are multiple purchases of ownership interest, this reconciliation may be challenging to do, particularly as the purchase price allocation is only required for the additional ownership interest acquired.

Similarly, in a disposal scenario, the IFRS 12 summarised information is required to be reconciled back to the cost. It is not clear how a partial disposal should be considered for the IFRS 12 summarised financial information and/or the reconciliation.

We are also concerned with the level at which an impairment recognised is allocated especially in the event of a partial disposal and the impact of the impairment on the IFRS 12 disclosures.

We believe that more guidance should be provided on how to present the summarised financial information required by IFRS 12.

Further examples of other changes in ownership interest

The requirements in the ED do not deal with a scenario where the investor's percentage interest in the equity of the associate remains the same, but the investor acquires more shares.

Dates of transactions

We have noted that dates have been clearly stipulated for the initial (paragraph 21) and subsequent purchases (paragraph 30) as well as disposals (paragraph 32) of ownership interests. However, paragraph 34 only refers to an ownership interest that might increase or decrease if the associate redeems or issues equity instruments. The date on which the relevant transaction should be recorded is not specifically provided. Please clarify the date in the proposals of the ED.

Equity-settled share-based payments and share warrants

Paragraph BC45 states that the "IASB's proposed requirements for recognising the dilution of an investor's ownership interest in a partial disposal do not address all aspects of accounting for these transactions, such as when the investor should recognise that dilution (or potential dilution)—over the vesting period or on the exercise date". Although based on paragraph BC46 the IASB decided not to include further guidance, we believe that guidance on the timing would be critical to avoid diversity in application of the requirement in practice.

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

We agree in principle with the proposals.

The proposals are focusing on purchasing additional ownership interest. The proposals do not address the scenario where the investor's ownership interest does not change because of a pro-rata capitalisation of loans or share recapitalisation by the investors in the associate. We believe the reason for recapitalising should be considered, i.e. is it to recoup for losses that have been incurred by the associate, in which case we do not see any reason why the unrecognised losses should not be recognised. We believe that if the associate is increasing its capital, the consideration might be that further losses should not be written off against that increased capital. US GAAP guidance (refer ASC 323-10-35-29) has not been considered, and we would suggest that the IASB refer to it. We would appreciate more clarity when accounting for these scenarios.

We further note that the ED does not consider the reasons as to why the investment in associate has been written down to nil and assumes that this is purely due to losses having been recorded by the associate. The elimination of down-stream profits against a profitable associate may also result in a nil carrying value. Again we would refer to the US GAAP guidance (ASC 323-10-35-29) that provides guidance on how to consider whether further losses should be recorded, or not. We believe that such guidance should be included in the ED.

It is stated in the ED that the investor should recognise separately its share of each component of the associate's comprehensive income (paragraphs 50 to 52). We have noted that in paragraphs 45 and 48, reference is made to total comprehensive income. There is no distinction between profit or loss and other comprehensive income ("OCI") as required by paragraphs 50 to 52. We suggest that paragraphs 45 and 48 are updated.

Some of our constituents are not in agreement with the proposed treatment as set out in paragraph 52 which requires that an investor shall continue to recognise its share of the associate's profit or loss or OCI once the carrying value is nil. Such a treatment could result in profits or losses being included in profit after tax and earnings per share numbers with no change in the net asset value of the reporting entity. The impact on total comprehensive income will be nil, but the components of total comprehensive income are reported separately and influence different key performance measures. Our suggestion is that the proposed treatment in paragraph 52 is not included in the amended standard.

Paragraph 47 states that "an investor … shall recognise a liability for additional losses only to the extent that it has incurred legal or constructive obligations *or made payments on behalf of the associate …*". "*made payments on behalf of the associate*" creates confusion - if the investor has made payments, then there would be no such liability to be recognised.

Example 3 in the ED deals with the recognition of an investor's share of losses. Such an example would be more helpful if the fact pattern states that the investor has previous unrecognised losses. This will make the example more helpful.

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 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.

We agree with the proposals, however we have noted areas for the IASB to consider.

Duplication of value

Recognising gains and losses on transactions with the associate at 100% will result in a level of duplication of value in the investor's assets and liabilities or equity (recognition of 100% of the gain) and in the equity accounted investment that recognises the subsidiary at fair value at initial recognition which effectively includes the gain. We suggest the IASB addresses this concern of duplication in value.

Paragraph 55

We believe this paragraph is no longer necessary, and we suggest that it is removed because it is not clear what other procedures are being referred to.

Cross holdings

The question is how should cross holdings be dealt with in the consolidated financial statements. The associate may hold shares of the parent which are fair valued. The fair value gain on the shares of the parent will not be eliminated therefore resulting in the parent reflecting fair value of its own shares in the consolidated financial statements. We are concerned that the lack of elimination of intercompany transactions may increase misrepresentation rather than enhance financial reporting. A suggestion may be to require that the unit of account of an investment measured at fair value is the investment held, and therefore the fair value will not require the elimination of cross-holdings and intercompany transactions, which achieves the IASB's intention

without requiring the profit or loss within the equity-accounted investment to be recognised in the consolidated financial statements.

Application of equity method

We believe the updated requirements in the ED does not make it clear whether the associate is a one-line consolidation or a valuation method of an asset.

Various views were provided on the boundary of the reporting entity in the basis for conclusions:

- Paragraph BC78 states "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 could be viewed as implying that, in applying the equity method, the boundary of the reporting entity is extended to include the associate (or the investor's share of the associate).
- Paragraph BC79 states "…the Conceptual Framework explains that control over another entity determines the boundary of the reporting entity when preparing consolidated financial statements".

In our view, some parts of the ED view the associate as part of the boundary of the reporting entity and other parts not.

The application of IFRS 3 (purchase price allocation for each purchase of ownership interest) and IFRS 10 (elimination of gain when selling subsidiary to the associate) view the associate as part of the boundary of the reporting entity.

If treated as part of the boundary of the reporting entity, then all intercompany transactions should be eliminated and therefore that will also apply to upstream and downstream transactions in paragraph 53. We are therefore proposing that there is consistency applied as to whether the associate is part of the boundary of the reporting entity or not. If it is not part of the reporting entity, all requirements should be aligned and there will be no need for a purchase price allocation for initial and subsequent purchases of ownership interest in the associate.

Our constituents are broadly of a view that an associate should not be considered as within the boundary of the reporting entity.

Question 5—Impairment indicators (decline in fair value)

(Paragraph 57 of [draft] IAS 28 (revised 202x))

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

The IASB is proposing:

(a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline to less than its carrying amount';
(b to remove 'significant or prolonged' decline in fair value; and
(c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 Impairment of Assets.

Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

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

We agree with the following:

(a) Replacing the word decline below cost with the carrying amount.
(b) To remove 'significant or prolonged' decline in fair value.

We require clarity on the following:

(c) Since there are impairment indicators listed in paragraph 57, we would like clarity on whether these indicators override the impairment indicators included in paragraph 12 of IAS 36. We suggest that it is clarified whether the impairment indicators and impairment requirements in IAS 28 should be applied or whether paragraph 57 should be applied in conjunction with the impairment indicators and impairment requirements in IAS 36.

    We also require clarity in terms of which guidance to apply in determining the fair value of the investment. Paragraph 57(h) provides specific guidance on what fair value is in terms of IAS 28 whereas IFRS 13 specifically deals with fair value measurement. We therefore suggest cross referencing to IFRS 13 and deleting the following sentence from paragraph 57(h), "Information about the fair value might be observed from the price paid to purchase an additional ownership interest in the associate or joint venture or the price received to sell an ownership interest, or from a quoted market price for the investment."

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 are in agreement with the proposals. We suggest that the scoping paragraphs to IAS 28 should be amended to include the investments in subsidiaries in the separate financial statements.

We also refer the IASB to our observation in "Complexity of the application of the requirements" in question 2 dealing with applying equity accounting principles to subsidiaries in the separate financial statements. We believe that such complexity could be removed if equity accounting were to be consistently viewed as a valuation methodology rather than a one-line consolidation process.

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.

We agree with (a) but we have a concern with point (b) as we consider this to be sensitive information and therefore investors might not want to disclose the gains and losses from their downstream transactions. No other IFRS standard requires disclosures of profit margins on specific transactions, other than disaggregation in the segment reports.

We also believe that (b) should rather be included in IAS 24 than in IAS 28. However, if there is a gain or loss, we do not believe there should be additional disclosure. In the separate financial statements, IAS 24 requires disclosure of intercompany transactions, not the gains and losses from intra-group transactions. We therefore do not believe this disclosure of gains or losses from downstream transactions should be required.

For (c), this is in scope of IFRS 7 and IFRS 13 and therefore the disclosure will be provided in terms of those standards and should not be included in IAS 28.

We require clarity on the disclosure requirements that will be required by IFRS 12. Currently in IFRS 12, there are certain disclosures only required for material associates and joint ventures (IFRS 12 paragraph 21(b)). This proposal does not have the same lens, so it is not clear whether the disclosure is required for both immaterial and material associates. We suggest that this is clarified and that the disclosures should only be applicable to material associates.

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).

We are not in agreement with the proposal as profits or losses on downstream transactions between subsidiaries are not required by IFRS 19 (only required in paragraph 81 when control of subsidiary is lost). We believe it should also not be required for a transaction with an associate.

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.

We are not in agreement with the proposals.

It is not clear how the requirement for subsequent purchases of additional ownership interest should be applied prospectively. We believe that if it is applied prospectively, the investor may have to recognise a bigger bargain purchase gain subsequently as a "catch-up" adjustment (if the investor had purchases of ownership interest of the associate before the effective date of the standard).

If the investor has a listed associate, users would generally want to get to the net asset value of that listed entity as well as get the investor's percentage, add on the goodwill and evaluate that the reconciliation makes sense. Based on the current transition proposals, this calculation becomes very complicated.

We are not prescribing retrospective transition as we understand that it has its own complexities, we would however want to highlight the practical implication of the proposals.

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?

It seems that the assumption was made in the proposals that the associate is unlisted. If the entity is listed, the risk is that information is disclosed in the investor's financial statements which is not disclosed in associate's financial statements.

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)?

We do have the following comments:

Ownership interest

Paragraph 15 does not provide adequate guidance on ownership interest. An investor may have put or call options or warrants related to the associate. There is currently no clarity around whether those are separate instruments or whether they form part of the ownership interest. We understand that this is not currently in the scope of the project, however it would be helpful to bring in some guidance around what ownership interest is.

Bargain purchase gain

Paragraph BC221 states that a bargain purchase gain is recognised as a deduction from the carrying amount of the investment or as a gain in profit or loss. It is not clear where in profit or loss the bargain purchase gain should be included, for example is it included in the share of profit from associates.

Tracked changes

It would be useful for the IASB to continue with previous practice to include existing and proposed wording with *tracked changes* in the ED to make it easier to understand how the revised standard will read. The approach in the ED to refer to partial sections of existing wording, makes it difficult to understand the changes to be made to the current IAS 28.