

## International Accounting Standard 28

# Investments in Associates

*This version includes amendments resulting from IFRSs issued up to 31 December 2008.*

IAS 28 *Accounting for Investments in Associates* was issued by the International Accounting Standards Committee in April 1989. It replaced those parts of IAS 3 *Consolidated Financial Statements* (issued in June 1976) that had not been replaced by IAS 27. IAS 28 was reformatted in 1994, and amended in 1998, 1999 and 2000.

The Standing Interpretations Committee developed three Interpretations relating to IAS 28:

- SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates* (issued December 1997)
- SIC-20 *Equity Accounting Method—Recognition of Losses* (issued July 2000)
- SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests* (issued December 2001).

In April 2001 the International Accounting Standards Board (IASB) resolved that all Standards and Interpretations issued under previous Constitutions continued to be applicable unless and until they were amended or withdrawn.

In December 2003 the IASB issued a revised IAS 28 with a new title—*Investments in Associates*. The revised standard also replaced SIC-3, SIC-20 and SIC-33.

Since then, IAS 28 and its accompanying documents have been amended by the following IFRSs:

- IFRS 3 *Business Combinations* (issued March 2004)
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (issued March 2004)
- IAS 1 *Presentation of Financial Statements* (as revised in September 2007)<sup>1</sup>
- IFRS 3 *Business Combinations* (as revised in January 2008)<sup>2</sup>
- IAS 27 *Consolidated and Separate Financial Statements* (as amended in January 2008)<sup>3</sup>
- *Improvements to IFRSs* (issued May 2008).<sup>4</sup>

The following Interpretation refers to IAS 28:

- IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* (issued December 2004).

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<sup>1</sup> effective date 1 January 2009

<sup>2</sup> effective date 1 July 2009

<sup>3</sup> effective date 1 July 2009

<sup>4</sup> effective date 1 January 2009

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International Accounting Standard 28 *Investments in Associates* (IAS 28) is set out in paragraphs 1–43 and the Appendix. All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. IAS 28 should be read in the context of the Basis for Conclusions, the *Preface to International Financial Reporting Standards* and the *Framework for the Preparation and Presentation of Financial Statements*. IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

## Introduction

- IN1 International Accounting Standard 28 *Investments in Associates* replaces IAS 28 *Accounting for Investments in Associates* (revised in 2000) and should be applied for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. The Standard also replaces the following Interpretations:
- SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates*
  - SIC-20 *Equity Accounting Method—Recognition of Losses*
  - SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*.

## Reasons for revising IAS 28

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- IN2 The International Accounting Standards Board developed this revised IAS 28 as part of its project on Improvements to International Accounting Standards. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the project were to reduce or eliminate alternatives, redundancies and conflicts within the Standards, to deal with some convergence issues and to make other improvements.
- IN3 For IAS 28 the Board's main objective was to reduce alternatives in the application of the equity method and in accounting for investments in associates in separate financial statements. The Board did not reconsider the fundamental approach when accounting for investments in associates using the equity method contained in IAS 28.

## The main changes

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- IN4 The main changes from the previous version of IAS 28 are described below.

### Scope

- IN5 The Standard does not apply to investments that would otherwise be associates or interests of venturers in jointly controlled entities held by venture capital organisations, mutual funds, unit trusts and similar entities when those investments are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Those investments are measured at fair value, with changes in fair value recognised in profit or loss in the period in which they occur.
- IN6 Furthermore, the Standard provides exemptions from application of the equity method similar to those provided for certain parents not to prepare consolidated financial statements. These exemptions include when the investor is also a parent exempt in accordance with IAS 27 *Consolidated and Separate Financial Statements* from preparing consolidated financial statements (paragraph 13(b)), and when the investor, though not such a parent, can satisfy the same type of conditions that exempt such parents (paragraph 13(c)).

### Significant influence

#### Potential voting rights

- IN7 An entity is required to consider the existence and effect of potential voting rights currently exercisable or convertible when assessing whether it has the power to participate in the financial and operating policy decisions of the investee. This requirement was previously included in SIC-33, which has been superseded.

### Equity method

- IN8 The Standard clarifies that investments in associates over which the investor has significant influence must be accounted for using the equity method whether or not the investor also has investments in subsidiaries and prepares consolidated financial statements. However, the investor does not apply the equity method when presenting separate financial statements prepared in accordance with IAS 27.

### **Exemption from applying the equity method**

- IN9 The Standard does not require the equity method to be applied when an associate is acquired and held with a view to its disposal within twelve months of acquisition. There must be evidence that the investment is acquired with the intention to dispose of it and that management is actively seeking a buyer. The words ‘in the near future’ were replaced with the words ‘within twelve months’. When such an associate is not disposed of within twelve months it must be accounted for using the equity method as from the date of acquisition, except in narrowly specified circumstances.\*
- IN10 The Standard does not permit an investor that continues to have significant influence over an associate not to apply the equity method when the associate is operating under severe long-term restrictions that significantly impair its ability to transfer funds to the investor. Significant influence must be lost before the equity method ceases to be applicable.

### **Elimination of unrealised profits and losses on transactions with associates**

- IN11 Profits and losses resulting from ‘upstream’ and ‘downstream’ transactions between an investor and an associate must be eliminated to the extent of the investor’s interest in the associate. The consensus in SIC-3 has been incorporated into the Standard.

### **Non-coterminous year-ends**

- IN12 When financial statements of an associate used in applying the equity method are prepared as at the end of the reporting period that is different from that of the investor, the difference must be no greater than three months.

### **Uniform accounting policies**

- IN13 The Standard requires an investor to make appropriate adjustments to the associate’s financial statements to conform them to the investor’s accounting policies for reporting like transactions and other events in similar circumstances. The previous version of IAS 28 provided an exception to this requirement when it was ‘not practicable to use uniform accounting policies’.

### **Recognition of losses**

- IN14 An investor must consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. SIC-20 limited the recognition of the investor’s share of losses to the carrying amount of its investment in the equity of the associate. Therefore, that Interpretation has been superseded.

### **Separate financial statements**

- IN15 The requirements for the preparation of an investor’s separate financial statements are established by reference to IAS 27.

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\* In March 2004, the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from applying the equity method when significant influence over an associate is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.

# International Accounting Standard 28

## *Investments in Associates*

### Scope

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- 1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:
- (a) venture capital organisations, or
  - (b) mutual funds, unit trusts and similar entities including investment-linked insurance funds
- that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. Such investments shall be measured at fair value in accordance with IAS 39, with changes in fair value recognised in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

### Definitions

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- 2 The following terms are used in this Standard with the meanings specified:
- An associate is an entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.**
- Consolidated financial statements** are the financial statements of a group presented as those of a single economic entity.
- Control** is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.
- The equity method** is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.
- Joint control** is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).
- Separate financial statements** are those presented by a parent, an investor in an associate or a venturer in a jointly controlled entity, in which the investments are accounted for on the basis of the direct equity interest rather than on the basis of the reported results and net assets of the investees.
- Significant influence** is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
- A subsidiary** is an entity, including an unincorporated entity such as a partnership, that is controlled by another entity (known as the parent).
- 3 Financial statements in which the equity method is applied are not separate financial statements, nor are the financial statements of an entity that does not have a subsidiary, associate or venturer's interest in a joint venture.
- 4 Separate financial statements are those presented in addition to consolidated financial statements, financial statements in which investments are accounted for using the equity method and financial statements in which venturers' interests in joint ventures are proportionately consolidated. Separate financial statements may or may not be appended to, or accompany, those financial statements.
- 5 Entities that are exempted in accordance with paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* from consolidation, paragraph 2 of IAS 31 *Interests in Joint Ventures* from applying proportionate consolidation or paragraph 13(c) of this Standard from applying the equity method may present separate financial statements as their only financial statements.

## Significant influence

- 6 If an investor holds, directly or indirectly (eg through subsidiaries), 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence, unless it can be clearly demonstrated that this is not the case. Conversely, if the investor holds, directly or indirectly (eg through subsidiaries), less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. A substantial or majority ownership by another investor does not necessarily preclude an investor from having significant influence.
- 7 The existence of significant influence by an investor is usually evidenced in one or more of the following ways:
- (a) representation on the board of directors or equivalent governing body of the investee;
  - (b) participation in policy-making processes, including participation in decisions about dividends or other distributions;
  - (c) material transactions between the investor and the investee;
  - (d) interchange of managerial personnel; or
  - (e) provision of essential technical information.
- 8 An entity may own share warrants, share call options, debt or equity instruments that are convertible into ordinary shares, or other similar instruments that have the potential, if exercised or converted, to give the entity additional voting power or reduce another party's voting power over the financial and operating policies of another entity (ie potential voting rights). The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether an entity has significant influence. Potential voting rights are not currently exercisable or convertible when, for example, they cannot be exercised or converted until a future date or until the occurrence of a future event.
- 9 In assessing whether potential voting rights contribute to significant influence, the entity examines all facts and circumstances (including the terms of exercise of the potential voting rights and any other contractual arrangements whether considered individually or in combination) that affect potential rights, except the intention of management and the financial ability to exercise or convert.
- 10 An entity loses significant influence over an investee when it loses the power to participate in the financial and operating policy decisions of that investee. The loss of significant influence can occur with or without a change in absolute or relative ownership levels. It could occur, for example, when an associate becomes subject to the control of a government, court, administrator or regulator. It could also occur as a result of a contractual agreement.

## Equity method

- 11 Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor (see IAS 1 *Presentation of Financial Statements* (as revised in 2007)).
- 12 When potential voting rights exist, the investor's share of profit or loss of the investee and of changes in the investee's equity is determined on the basis of present ownership interests and does not reflect the possible exercise or conversion of potential voting rights.

## Application of the equity method

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- 13 **An investment in an associate shall be accounted for using the equity method except when:**
- (a) **the investment is classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;**
  - (b) **the exception in paragraph 10 of IAS 27, allowing a parent that also has an investment in an associate not to present consolidated financial statements, applies; or**
  - (c) **all of the following apply:**

- (i) the investor is a wholly-owned subsidiary, or is a partially-owned subsidiary of another entity and its other owners, including those not otherwise entitled to vote, have been informed about, and do not object to, the investor not applying the equity method;
- (ii) the investor's debt or equity instruments are not traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets);
- (iii) the investor did not file, nor is it in the process of filing, its financial statements with a securities commission or other regulatory organisation, for the purpose of issuing any class of instruments in a public market; and
- (iv) the ultimate or any intermediate parent of the investor produces consolidated financial statements available for public use that comply with International Financial Reporting Standards.

**14 Investments described in paragraph 13(a) shall be accounted for in accordance with IFRS 5.**

15 When an investment in an associate previously classified as held for sale no longer meets the criteria to be so classified, it shall be accounted for using the equity method as from the date of its classification as held for sale. Financial statements for the periods since classification as held for sale shall be amended accordingly.

16 [Deleted]

17 The recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relation to the performance of the associate. Because the investor has significant influence over the associate, the investor has an interest in the associate's performance and, as a result, the return on its investment. The investor accounts for this interest by extending the scope of its financial statements to include its share of profits or losses of such an associate. As a result, application of the equity method provides more informative reporting of the net assets and profit or loss of the investor.

**18 An investor shall discontinue the use of the equity method from the date when it ceases to have significant influence over an associate and shall account for the investment in accordance with IAS 39 from that date, provided the associate does not become a subsidiary or a joint venture as defined in IAS 31. On the loss of significant influence, the investor shall measure at fair value any investment the investor retains in the former associate. The investor shall recognise in profit or loss any difference between:**

- (a) the fair value of any retained investment and any proceeds from disposing of the part interest in the associate; and
- (b) the carrying amount of the investment at the date when significant influence is lost.

**19 When an investment ceases to be an associate and is accounted for in accordance with IAS 39, the fair value of the investment at the date when it ceases to be an associate shall be regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39.**

19A If an investor loses significant influence over an associate, the investor shall account for all amounts recognised in other comprehensive income in relation to that associate on the same basis as would be required if the associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by an associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the investor reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over the associate. For example, if an associate has available-for-sale financial assets and the investor loses significant influence over the associate, the investor shall reclassify to profit or loss the gain or loss previously recognised in other comprehensive income in relation to those assets. If an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognised in other comprehensive income.

20 Many of the procedures appropriate for the application of the equity method are similar to the consolidation procedures described in IAS 27. Furthermore, the concepts underlying the procedures used in accounting for the acquisition of a subsidiary are also adopted in accounting for the acquisition of an investment in an associate.

21 A group's share in an associate is the aggregate of the holdings in that associate by the parent and its subsidiaries. The holdings of the group's other associates or joint ventures are ignored for this purpose. When an associate has subsidiaries, associates, or joint ventures, the profits or losses and net assets taken into account in applying the equity method are those recognised in the associate's financial statements (including the associate's share of the profits or losses and net assets of its associates and joint ventures), after any adjustments necessary to give effect to uniform accounting policies (see paragraphs 26 and 27).

- 22 Profits and losses resulting from ‘upstream’ and ‘downstream’ transactions between an investor (including its consolidated subsidiaries) and an associate are recognised in the investor’s financial statements only to the extent of unrelated investors’ interests in the associate. ‘Upstream’ transactions are, for example, sales of assets from an associate to the investor. ‘Downstream’ transactions are, for example, sales of assets from the investor to an associate. The investor’s share in the associate’s profits and losses resulting from these transactions is eliminated.
- 23 An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any 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 is accounted for as follows:
- (a) goodwill relating to an associate is included in the carrying amount of the investment. Amortisation of that goodwill is not permitted.
  - (b) any excess of the investor’s share of the net fair value of the associate’s identifiable assets and liabilities over the cost of the investment is included as income in the determination of the investor’s share of the associate’s profit or loss in the period in which the investment is acquired.
- Appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor’s share of the associate’s profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.
- 24 **The most recent available financial statements of the associate are used by the investor in applying the equity method. When the end of the reporting period of the investor is different from that of the associate, the associate prepares, for the use of the investor, financial statements as of the same date as the financial statements of the investor unless it is impracticable to do so.**
- 25 **When, in accordance with paragraph 24, the financial statements of an associate used in applying the equity method are prepared as of a different date from that of the investor, adjustments shall be made for the effects of significant transactions or events that occur between that date and the date of the investor’s financial statements. In any case, the difference between the end of the reporting period of the associate and that of the investor shall be no more than three months. The length of the reporting periods and any difference between the ends of the reporting periods shall be the same from period to period.**
- 26 **The investor’s financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances.**
- 27 If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments shall be made to conform the associate’s accounting policies to those of the investor when the associate’s financial statements are used by the investor in applying the equity method.
- 28 If an associate has outstanding cumulative preference shares that are held by parties other than the investor and classified as equity, the investor computes its share of profits or losses after adjusting for the dividends on such shares, whether or not the dividends have been declared.
- 29 If an investor’s share of losses of an associate equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor’s net investment in the associate. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity’s investment in that associate. Such items may include preference shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognised under the equity method in excess of the investor’s investment in ordinary shares are applied to the other components of the investor’s interest in an associate in the reverse order of their seniority (ie priority in liquidation).
- 30 After the investor’s interest is reduced to zero, additional losses are provided for, and a liability is recognised, only to the extent that the investor has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

## Impairment losses

- 31 After application of the equity method, including recognising the associate’s losses in accordance with paragraph 29, the investor applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the investor’s net investment in the associate.

- 32 The investor also applies the requirements of IAS 39 to determine whether any additional impairment loss is recognised with respect to the investor's interest in the associate that does not constitute part of the net investment and the amount of that impairment loss.
- 33 Because goodwill that forms of the carrying amount of an investment in an associate is not separately recognised, it is not tested for impairment separately by applying the requirements for impairment testing goodwill in IAS 36 *Impairment of Assets*. Instead, the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset, by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever application of the requirements in IAS 39 indicates that the investment may be impaired. An impairment loss recognised in those circumstances is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Accordingly, any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases. In determining the value in use of the investment, an entity estimates:
- (a) its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
  - (b) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.
- Under appropriate assumptions, both methods give the same result.
- 34 The recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the entity.

## Separate financial statements

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- 35 **An investment in an associate shall be accounted for in the investor's separate financial statements in accordance with paragraphs 38–43 of IAS 27.**
- 36 This Standard does not mandate which entities produce separate financial statements available for public use.

## Disclosure

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- 37 **The following disclosures shall be made:**
- (a) **the fair value of investments in associates for which there are published price quotations;**
  - (b) **summarised financial information of associates, including the aggregated amounts of assets, liabilities, revenues and profit or loss;**
  - (c) **the reasons why the presumption that an investor does not have significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, less than 20 per cent of the voting or potential voting power of the investee but concludes that it has significant influence;**
  - (d) **the reasons why the presumption that an investor has significant influence is overcome if the investor holds, directly or indirectly through subsidiaries, 20 per cent or more of the voting or potential voting power of the investee but concludes that it does not have significant influence;**
  - (e) **the end of the reporting period of the financial statements of an associate, when such financial statements are used in applying the equity method and are as of a date or for a period that is different from that of the investor, and the reason for using a different date or different period;**
  - (f) **the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of associates to transfer funds to the investor in the form of cash dividends, or repayment of loans or advances;**
  - (g) **the unrecognised share of losses of an associate, both for the period and cumulatively, if an investor has discontinued recognition of its share of losses of an associate;**
  - (h) **the fact that an associate is not accounted for using the equity method in accordance with paragraph 13; and**

- (i) summarised financial information of associates, either individually or in groups, that are not accounted for using the equity method, including the amounts of total assets, total liabilities, revenues and profit or loss.
- 38 Investments in associates accounted for using the equity method shall be classified as non-current assets. The investor's share of the profit or loss of such associates, and the carrying amount of those investments, shall be separately disclosed. The investor's share of any discontinued operations of such associates shall also be separately disclosed.
- 39 The investor's share of changes recognised in other comprehensive income by the associate shall be recognised by the investor in other comprehensive income.
- 40 In accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* the investor shall disclose:
- (a) its share of the contingent liabilities of an associate incurred jointly with other investors; and
- (b) those contingent liabilities that arise because the investor is severally liable for all or part of the liabilities of the associate.

## Effective date and transition

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- 41 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.
- 41A IAS 1 (as revised in 2007) amended the terminology used throughout IFRSs. In addition it amended paragraphs 11 and 39. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. If an entity applies IAS 1 (revised 2007) for an earlier period, the amendments shall be applied for that earlier period.
- 41B IAS 27 (as amended in 2008) amended paragraphs 18, 19 and 35 and added paragraph 19A. An entity shall apply those amendments for annual periods beginning on or after 1 July 2009. If an entity applies IAS 27 (amended 2008) for an earlier period, the amendments shall be applied for that earlier period.
- 41C Paragraphs 1 and 33 were amended by *Improvements to IFRSs* issued in May 2008. An entity shall apply those amendments for annual periods beginning on or after 1 January 2009. Earlier application is permitted. If an entity applies the amendments for an earlier period it shall disclose that fact and apply for that earlier period the amendments to paragraph 3 of IFRS 7 *Financial Instruments: Disclosures*, paragraph 1 of IAS 31 and paragraph 4 of IAS 32 *Financial Instruments: Presentation* issued in May 2008. An entity is permitted to apply the amendments prospectively.

## Withdrawal of other pronouncements

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- 42 This Standard supersedes IAS 28 *Accounting for Investments in Associates* (revised in 2000).
- 43 This Standard supersedes the following Interpretations:
- (a) SIC-3 *Elimination of Unrealised Profits and Losses on Transactions with Associates*;
- (b) SIC-20 *Equity Accounting Method—Recognition of Losses*; and
- (c) SIC-33 *Consolidation and Equity Method—Potential Voting Rights and Allocation of Ownership Interests*.

## **Appendix**

# **Amendments to other pronouncements**

*The amendments in this appendix shall be applied for annual periods beginning on or after 1 January 2005. If an entity applies this Standard for an earlier period, these amendments shall be applied for that earlier period.*

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*The amendments contained in this appendix when this Standard was issued in 2003 have been incorporated into the relevant pronouncements published in this volume.*

## Approval by the Board of IAS 28 issued in December 2003

International Accounting Standard 28 *Investments in Associates* (as revised in 2003) was approved for issue by the fourteen members of the International Accounting Standards Board.

Sir David Tweedie	Chairman
Thomas E Jones	Vice-Chairman
Mary E Barth	
Hans-Georg Bruns	
Anthony T Cope	
Robert P Garnett	
Gilbert G�elard	
James J Leisenring	
Warren J McGregor	
Patricia L O'Malley	
Harry K Schmid	
John T Smith	
Geoffrey Whittington	
Tatsumi Yamada	

# Basis for Conclusions on IAS 28 *Investments in Associates*

*This Basis for Conclusions accompanies, but is not part of, IAS 28.*

## Introduction

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- BC1 This Basis for Conclusions summarises the International Accounting Standards Board's considerations in reaching its conclusions on revising IAS 28 *Accounting for Investments in Associates* in 2003. Individual Board members gave greater weight to some factors than to others.
- BC2 In July 2001 the Board announced that, as part of its initial agenda of technical projects, it would undertake a project to improve a number of Standards, including IAS 28. The project was undertaken in the light of queries and criticisms raised in relation to the Standards by securities regulators, professional accountants and other interested parties. The objectives of the Improvements project were to reduce or eliminate alternatives, redundancies and conflicts within Standards, to deal with some convergence issues and to make other improvements. In May 2002 the Board published its proposals in an Exposure Draft of *Improvements to International Accounting Standards*, with a comment deadline of 16 September 2002. The Board received over 160 comment letters on the Exposure Draft.
- BC3 Because the Board's intention was not to reconsider the fundamental approach to the accounting for investments in associates established by IAS 28, this Basis for Conclusions does not discuss requirements in IAS 28 that the Board has not reconsidered.

## Scope exclusion: investments in associates held by venture capital organisations, mutual funds, unit trusts and similar entities

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- BC4 There are no specific requirements that address accounting for investments by venture capital organisations, mutual funds, unit trusts and similar entities. As a result, depending on whether an entity has control, joint control or significant influence over an investee, one of the following Standards is applied:
- (a) IAS 27 *Consolidated and Separate Financial Statements*,
  - (b) IAS 28 *Investments in Associates*, or
  - (c) IAS 31 *Interests in Joint Ventures*.
- BC5 The Board considered whether another approach is appropriate for these investors when they have joint control or significant influence over their investees. The Board noted that use of the equity or proportionate consolidation methods for investments held by venture capital organisations, mutual funds, unit trusts and similar entities often produces information that is not relevant to their management and investors and that fair value measurement produces more relevant information.
- BC6 In addition, the Board noted that there may be frequent changes in the level of ownership in these investments and that financial statements are less useful if there are frequent changes in the method of accounting for an investment.

## Measurement at fair value in accordance with IAS 39

- BC7 Accordingly, the Board decided that investments held by venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds should be excluded from the scope of IAS 28 and IAS 31 when they are measured at fair value in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*. The Board understands that fair value information is often readily available because fair value measurement is a well-established practice in these industries including for investments in entities in the early stages of their development or in non-listed entities.

## Treatment of changes in fair value

- BC8 The Board decided that if venture capital organisations, mutual funds, unit trusts and similar entities are to be excluded from the scope of IAS 28, it should be only when they recognise changes in the fair value of their

investments in associates in profit or loss in the period in which those changes occur. This is to achieve the same treatment as for investments in subsidiaries or associates that are not consolidated or accounted for using the equity method because control or significant influence is intended to be temporary. The Board's approach distinguishes between accounting for the investment and accounting for the economic entity. In relation to the former, the Board decided that there should be consistency in the treatment of all investments, including changes in the fair value of these investments.

- BC9 The Board noted that if such investments were classified in accordance with IAS 39, they would not always meet the definition of investments classified as held for trading because venture capital organisations may hold an investment for a period of 3–5 years. In accordance with IAS 39 such an investment is classified as available for sale (unless the entity elects to designate the investment on initial recognition at fair value through profit or loss). Classification as available for sale would not result in recognising changes in fair value in profit or loss. To achieve a similar effect on income to that of applying the equity method, the Board decided to exempt investments held by venture capital organisations, mutual funds, unit trusts and similar entities from this Standard only when they are measured at fair value through profit or loss (either by designation or because they meet the definition in IAS 39 of held for trading).

### Reference to 'well-established' industry practices

- BC10 The Exposure Draft proposed to limit the availability of the scope exclusion to situations in which well-established industry practice existed. Some respondents noted that the development of industry practice to measure such investments at fair value would have been precluded in industries established in countries already applying IFRSs. The Board confirmed that the main purpose of the reference to 'well-established' practice in the Exposure Draft was to emphasise that the exclusion would apply generally to those investments for which fair value is already available.
- BC11 Therefore, the Board decided that the availability of the exclusion should be based only on the nature of an entity's activities and to delete the reference to 'well-established' practices. The Board understands that measurement of these investments at fair value is 'well-established' practice in these industries.

### Definition of 'venture capital organisations'

- BC12 The Board decided not to define further those 'venture capital organisations and similar entities' excluded from the scope of the Standard. Apart from recognising the difficulties of arriving at a universally applicable definition, the Board did not want inadvertently to make it difficult for entities to measure investments at fair value. However, the Board decided to clarify that the reference to 'similar entities' in the scope exclusion includes investment-linked insurance funds.
- BC13 The Board decided, however, that if an investee is a subsidiary in accordance with IAS 27, it should be consolidated. The Board concluded that if an investor controls an investee, the investee is part of a group and part of the structure through which the group operates its business and thus consolidation of the investee is appropriate.

## Application of the equity method

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### Temporary significant influence

- BC14 The Board considered whether to remove the exemption from applying the equity method when significant influence over an associate is intended to be temporary. The Board decided to consider this issue as part of a comprehensive standard dealing with asset disposals. It decided to retain an exemption from applying the equity method when there is evidence that an associate is acquired with the intention to dispose of it within twelve months and that management is actively seeking a buyer. The Board's Exposure Draft ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* proposes to measure and present assets held for sale in a consistent manner irrespective of whether they are held by an investor in an associate or in a subsidiary.\*

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\* In March 2004, the Board issued IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. IFRS 5 removes this scope exclusion and now eliminates the exemption from applying the equity method when significant influence over an associate is intended to be temporary. See IFRS 5 Basis for Conclusions for further discussion.

## Severe long-term restrictions impairing ability to transfer funds to the investor

- BC15 The Board decided to remove the exemption from applying the equity method for an associate that previously applied when severe long-term restrictions impaired an associate's ability to transfer funds to the investor. It did so because such circumstances may not preclude the investor's significant influence over the associate. The Board decided that an investor should, when assessing its ability to exercise significant influence over an entity, consider restrictions on the transfer of funds from the associate to the investor. In themselves, such restrictions do not preclude the existence of significant influence.

## Non-coterminous year-ends

- BC16 The Exposure Draft of May 2002 proposed to limit to three months any difference between the reporting dates of the investor and the associate when applying the equity method. Some respondents to that Exposure Draft believed that it could be impracticable for the investor to prepare financial statements as of the same date when the date of the investor's and the associate's financial statements differ by more than three months. The Board noted that a three-month limit operates in several jurisdictions and it was concerned that a longer period, such as six months, would lead to the recognition of stale information. Therefore, it decided to retain the three-month limit.

## Recognition of losses

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- BC17 The previous version of IAS 28 and SIC-20 *Equity Accounting Method—Recognition of Losses* restricted application of the equity method when, in accounting for the investor's share of losses, the carrying amount of the investment is reduced to zero.
- BC18 The Board decided that the base to be reduced to zero should be broader than residual equity interests and should also include other non-equity interests that are in substance part of the net investment in the associate, such as long-term receivables. Therefore, the Board decided to withdraw SIC-20.
- BC19 The Board also noted that if non-equity investments are not included in the base to be reduced to zero, an investor could restructure its investment to fund the majority in non-equity investments to avoid recognising the losses of the associate under the equity method.
- BC20 In widening the base against which losses are to be recognised, the Board also clarified the application of the impairment provisions of IAS 39 to the financial assets that form part of the net investment.

## Loss of significant influence over an associate\*

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- BC21 In the second phase of the Board's project on business combinations, the Board observed that the loss of control of an entity and the loss of significant influence over an entity are economically similar events; thus they should be accounted for similarly. The loss of significant influence is an economic event that changes the nature of the investment. The Board concluded that the accounting guidance on the loss of control of a subsidiary should be extended to events, transactions or other changes in circumstances in which an investor loses significant influence over an investee. Thus, when an investor loses significant influence over an associate, the investor measures any retained investment at fair value. Any difference between the carrying amount of the associate when significant influence is lost, the disposal proceeds (if any) and the fair value of any retained interest is recognised in profit or loss.

## Scope (2008 amendment)<sup>†</sup>

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- BC22 The Board identified an apparent inconsistency in the disclosure requirements for entities that are eligible and elect to account for investments in associates at fair value in accordance with IAS 39. These investments are excluded from the scope of IAS 28 and entities are therefore not required to make the disclosures that the Standard would otherwise require. However, IAS 32 *Financial Instruments: Presentation* and IFRS 7 *Financial*

\* This heading and paragraph BC21 were added as a consequence of amendments to IAS 27 *Consolidated and Separate Financial Statements* made as part of the second phase of the business combinations project in 2008.

† Paragraphs BC22–BC28 were added as a consequence of amendments to IAS 28 by *Improvements to IFRSs* issued in May 2008.

*Instruments: Disclosures* both require entities that account for investments in associates in accordance with IAS 39 to make the disclosures required by IAS 28 in addition to the disclosures they require.

- BC23 The Board decided to remove this inconsistency by deleting from IAS 32 and IFRS 7 the general requirement to make the IAS 28 disclosures, and instead identifying the specific disclosures that should be made. The Board concluded that the specific disclosures it identified would be relevant because of the significant interest entities hold in such investments. The Board also decided to delete from IAS 32 and IFRS 7 the requirement to make the disclosures in IAS 27 because it duplicates the requirement in IAS 27.

## **Impairment losses (2008 amendment)\***

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- BC24 The Board identified unclear guidance in IAS 28 regarding the extent to which an impairment reversal should be recognised as an adjustment to the carrying amount of an investment in an associate.
- BC25 The Board noted that applying the equity method involves adjusting the investor's share of the impairment loss recognised by the associate on assets such as goodwill or property, plant and equipment to take account of the acquisition date fair values of those assets. The Board proposed in the exposure draft *Improvements to International Financial Reporting Standards* published in October 2007 that an additional impairment recorded by the investor, after applying the equity method, should not be allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Therefore, such an impairment charge should be reversed in a subsequent period to the extent that the recoverable amount of the investment increases.
- BC26 Some respondents to the exposure draft expressed the view that the proposed amendment was not consistent with IAS 39 (regarding reversal of an impairment loss on an available-for-sale equity instrument), or with IAS 36 *Impairment of Assets*, IAS 27 and the proportionate consolidation method in IAS 31 (regarding the allocation of an impairment loss to goodwill and any reversal of an impairment loss relating to goodwill).
- BC27 In its redeliberations, the Board affirmed its previous decisions but, in response to the comments made, decided to clarify the reasons for the amendments to paragraph 33. The Board decided that an investor should not allocate an impairment loss to any asset that forms part of the carrying amount of the investment in the associate because the investment is the only asset that the investor controls and recognises.
- BC28 The Board also decided that any reversal of this impairment loss should be recognised as an adjustment to the investment in the associate to the extent that the recoverable amount of the investment increases. This requirement is consistent with IAS 36, which permits the reversal of impairment losses for assets other than goodwill. The Board did not propose aligning the requirements for the reversal of an impairment loss with those in IAS 39 relating to equity instruments because an entity recognises an impairment loss on an investment in an associate in accordance with IAS 36, rather than IAS 39.

## Dissenting opinion on amendment issued in May 2008

### Dissent of Tatsumi Yamada

- DO1 Mr Yamada voted against one of the amendments to IAS 28 *Investments in Associates* issued in *Improvements to IFRSs* in May 2008.
- DO2 Mr Yamada believes it is inappropriate not to allocate any additional impairment losses to the goodwill and other assets that form part of the carrying amount of the investment in the associate. In his view, because he believes that an investor can identify attributable goodwill when it makes an investment, all impairment losses recognised with respect to the investor's investment in an associate should be allocated to the goodwill and other assets that form part of the carrying amount of the investment.
- DO3 Mr Yamada also believes that all impairment losses allocated to goodwill should not be subsequently reversed. In his view the non-allocation of impairment losses to goodwill as required by the amendment and the subsequent reversal of such impairment losses in substance leads to the recognition of internally generated goodwill. He believes that the amendment to IAS 28 is not consistent with paragraphs 124 and 125 of IAS 36 *Impairment of Assets*, which prohibit the reversal of impairment losses related to goodwill.

