Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Long-term Interests in Associates and Joint Ventures: Amendments to AASB 128**	**Meeting**	AASB December 2017 (M161)
Topic:	**Consider how to finalise ED 276**	**Agenda Item:**	4.3.0
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Objective of this paper

1 The objective of this paper is to seek the Board's decision as to how to finalise the Board's proposals for amending AASB 128 *Investments in Associates and Joint Ventures* exposed in AASB ED 276 *Annual Improvements to Australian Accounting Standards 2015–2017 Cycle*.

Attachments

Agenda Paper 4.3.1 Ballot Draft of Accounting Standard AASB 2017-Z *Amendments to Australian Accounting Standards – Long-term Interests in Associates and Joint Ventures*

Background

2 ED 276 incorporates IASB ED/2017/1 *Annual Improvements to IFRS Standards 2015–2017 Cycle*, which proposed, among other things, to clarify that an entity is required to apply IFRS 9 *Financial Instruments*, including its impairment requirements, to long-term interests in an associate or joint venture that, in substance, form part of the net investment in the associate or joint venture but to which the equity method is not applied.

3 The proposals in IASB ED/2017/1 were finalised in IFRS *Long-term Interests in Associates and Joint Ventures*, issued by the IASB in October 2017 with editorial corrections made in November 2017. The IFRS Standard amends IAS 28 *Investments in Associates and Joint Ventures* to clarify that an entity applies IFRS 9 requirements to long-term interests before applying the loss allocation and impairment requirements in IAS 28, and, in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28. The amendments apply to annual period beginning on or after 1 January 2019 with earlier application permitted.

Summary of feedback received on the ED

4 The AASB has not received any comment letters on ED 276. The IASB received 51 comment letters[1] on ED/2017/1 from its world-wide constituents; no comments were received from Australian constituents.

5 Most respondents agreed with the proposed amendments in the ED, but some disagreed, inviting the IASB to reconsider the proposed amendments and to further clarify them by including an illustrative example.

Reconsideration of the proposed amendments

6 The main reasons for disagreement raised by a few respondents were that, given the nature of long-term interests, they should be considered together with equity interests in an associate or joint venture; and applying the loss allocation and impairment requirements in IAS 28 to long-term interests should be consistent with the concept of the net investment in the associate. Another main concern was that applying both IAS 28 and IFRS 9 to long-term interests could lead to double counting of losses.

7 One respondent who disagreed also raised concerns that it would be challenging to apply the IFRS 9 requirements to financial instruments whose settlement is neither planned nor likely to occur in the foreseeable future, i.e. long-term interests. Another respondent thought that applying two different Standards to long-term interests creates unnecessary complexity. Some respondents suggested to the IASB to define interests considered to be long-term interests.

8 The IASB and the IFRS Interpretations Committee discussed many of these concerns during the development of the proposed amendments. The Committee observed that applying both IAS 28 and IFRS 9 to long-term interests would not lead to double counting of losses due to different objectives and units of account for the impairment requirements in each Standard. Also, any potential difficulty in applying the IFRS 9 impairment requirements would not be limited to long-term interests. Defining long-term interests was considered beyond the scope of the project, as that would have wider implications than simply the application of the requirements in IAS 28 and IFRS 9. Consequently, accounting for long-term interests would likely be considered further in the project on the equity method of accounting.

Further clarification, including an illustrative example

9 Many respondents sought further clarification as to how the requirements in IAS 28 and IFRS 9 apply to long-term interests, which would facilitate the intended outcome of the proposed amendments. Some respondents stated that an illustrative example of how the requirements in IAS 28 and IFRS 9 relate to long-term interests would be helpful.

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1 The comment letters are available on the IFRS Foundation's website at http://www.ifrs.org/projects/2017/ias-28-long-term-interests-in-associates-and-joint-ventures/comment-letters-projects/exposure-draft-annual-improvements-2015-2017/.

Effective date

10 The IASB initially proposed to align an effective date for the amendments with the effective date of IFRS 9, i.e. 1 January 2018, with earlier application permitted. Many respondents agreed with the proposed effective date but some disagreed, arguing that there would be insufficient time to implement the amendments. A number of respondents suggested it would be potentially challenging for some entities in jurisdictions with translation and/or endorsement processes for IFRS Standards, as well as for those entities that might be required to apply IFRS 9 before its effective date.

Decisions made by the IASB

11 The IASB finalised the proposed amendments and made a clarification in IAS 28 that an entity shall apply IFRS 9 to long-term interests before it applies the loss allocation and impairment requirements of IAS 28. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that result from the application of IAS 28.

12 The Board also developed an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to long-term interests, which would not be authoritative material but could be helpful to stakeholders in understanding the amendments.

13 The Board set an effective date of 1 January 2019, with earlier application permitted. The Board noted that an entity is required to apply the amendments retrospectively in accordance with IAS 8, subject to the transition requirements.

Staff recommendations

14 Overall, AASB staff support the proposed amendments. Staff are not aware that the proposed amendments would cause any significant issues for Australian entities. No Australian entities made submissions to either the AASB or the IASB on the proposals.

15 In forming its recommendation, staff gave consideration to the following:

(a) the minor clarification nature of the proposed amendments;

(b) staff have not identified any application issues for not-for-profit entities; and

(c) the proposals do not amend or propose any additional disclosures; accordingly, there are no Tier 2 considerations to address.

16 Therefore, the staff recommend that Board members vote to make Accounting Standard AASB 2017-Z on the basis of the ballot draft provided as Agenda Paper 4.3.1. The draft amending Standard includes the IASB's corrections made to their Standard in November 2017. In accordance with our usual practice, the amendments to the IASB's Basis for Conclusions and the new illustrative example would be published on the AASB website as IASB supporting material, accessible only to website users in Australia (as per our copyright agreement with the IASB).

Question to the Board

Do Board members agree with the staff recommendation to issue an Amending Standard AASB 2017-Z incorporating IFRS *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)?