

Review of IAS 28 *Investments in Associates and Joint Ventures*

Objective

To review IAS 28 *Investments in Associates and Joint Ventures* to identify whether there are any issues of concern arising from the revised Standard.

Analysis

Changes to Definitions

The changes are predominantly the result of extending the Standard to interests in joint ventures. Existing definitions have been revised to be consistent with IFRS 10 and IFRS 11. The definition of 'equity method' has been extended to cover the investor's share of an investee's other comprehensive income, not just profit or loss.

The definition of 'associate' no longer explicitly excludes a subsidiary or a joint venture. As control and joint control can be regarded as encompassing significant influence, stating the exclusion is preferable. However, it is unlikely that subsidiaries would be accounted for under the equity method in the face of the consolidation Standard.

Staff do not consider these changes to be significant.

Changes to Requirements

The IAS 28 Basis for Conclusions paragraph BC56 lists the significant changes to IAS 28 as follows:

- The scope exception for venture capital organisations, or mutual funds, unit trusts and similar entities, including investment-linked insurance funds, has been eliminated and has been characterised as a measurement exemption from the requirement to measure investments in associates and joint ventures using the equity method. Paragraph 18 requires measurement of these investments at fair value through profit and loss.
- IAS 28 (paragraph 19) now permits an entity that has an investment in an associate, a portion of which is held indirectly through venture capital organisations, or mutual funds, unit trusts and similar entities including investment-linked insurance funds, to elect to measure that portion of the investment in the associate at fair value through profit or loss in accordance with IFRS 9 regardless of whether these entities have significant influence over that portion of the investment.
- IAS 28 (paragraph 20) requires a portion of an investment in an associate or a joint venture to be classified as held for sale if the disposal of that portion of the interest would fulfil the criteria to be classified as held for sale in accordance with IFRS 5.
- The consensus of SIC-13 has been incorporated into IAS 28 (paragraph 30). As a result, gains and losses resulting from a contribution of a non-monetary asset to an associate or a joint venture in exchange for an equity interest in an associate or a joint venture are recognised only to the extent of unrelated investors' interests in the associate or joint venture, except when the contribution lacks commercial substance, as that term is described in IAS 16 *Property, Plant and Equipment*.

Consistent with the current IAS 28, the revised Standard (paragraph 12) does not allow the inclusion of potential voting rights or other derivatives containing potential voting rights in the determination of ownership interest. However, the revised Standard (paragraph 13) does include an exception to this requirement that allows the potential voting rights to be included if they currently give the entity access to returns. These potential voting rights are not accounted for in accordance with IFRS 9.

Staff consider these changes to be appropriate.

Editorial Changes

Staff identified numerous wording and editorial changes. These changes are largely attributed to a modification in the terminology used in the standard, e.g. 'entity' vs. 'investor' and 'contractual arrangement' vs. 'contractual agreement' and the inclusion of joint ventures in the Standard.

Staff do not consider these changes to be significant.