

**International Financial Reporting Standard**

# **Long-term Interests in Associates and Joint Ventures**

**October 2017**

**BASIS FOR CONCLUSIONS – AMENDMENTS**

**[IAS 28]**

**[Related to AASB 2017-7]**

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## Amendments to the Basis for Conclusions on IAS 28 *Investments in Associates and Joint Ventures*

Paragraphs BC16A–BC16L and their related headings are added.

### Equity method

#### Long-term interests in associates and joint ventures

- BC16A The Board received a submission relating 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 (long-term interests). The submission asked whether long-term interests are within the scope of IFRS 9 and, if so, whether the impairment requirements in IFRS 9 apply to such long-term interests.
- BC16B In considering the submission, the Board and the IFRS Interpretations Committee discussed the accounting for long-term interests applying the requirements in IFRS 9 and IAS 28, without reconsidering those requirements. The submission was narrowly and clearly defined, and both bodies concluded they could respond to the submission most efficiently by considering only the submission received. Any reconsideration of the accounting for long-term interests could not be undertaken as a narrow-scope project and would be likely to involve reconsideration of the equity method, a topic included in the Board's pipeline of future research projects. Consequently, the Board limited the amendments to clarifying its intentions when it issued the requirements in IFRS 9 and IAS 28.
- BC16C The Board concluded that with respect to interests in an associate or joint venture, paragraph 2.1(a) of IFRS 9 excludes from the scope of IFRS 9 only interests to which the equity method is applied. Accordingly, the scope exclusion in that paragraph does not include long-term interests (as described in paragraph 38 of IAS 28). In reaching this conclusion, the Board noted that IAS 28 mentions long-term interests and the net investment, which includes long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. IAS 28 does not specify requirements for other aspects of recognising or measuring long-term interests. Thus, long-term interests are not accounted for in accordance with IAS 28, as envisaged in paragraph 2.1(a) of IFRS 9. The Board also noted that paragraph 14 of IAS 28 states that 'IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method'.
- BC16D The Board clarified in paragraph 14A of IAS 28 that IFRS 9, including its impairment requirements, applies to long-term interests. The Board also deleted paragraph 41 as part of the amendments. That paragraph had merely reiterated requirements in IFRS 9, and had created confusion about the accounting for long-term interests.

- BC16E Respondents to the Board’s Exposure Draft on long-term interests suggested that it further clarify how the requirements in IAS 28 and IFRS 9 apply to long-term interests because, in the respondents’ view, the benefits of the amendments would be limited without such clarifications. Respondents also suggested including an illustrative example.
- BC16F In response, the Board clarified that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests. Thus, when applying IFRS 9, it does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture applying IAS 28.
- BC16G In addition, at the same time it issued the amendments, the Board published an example that illustrates how entities apply the requirements in IAS 28 and IFRS 9 with respect to long-term interests.

### **Effective date and transition**

- BC16H The Board proposed to align the effective date of the amendments with the effective date of IFRS 9—annual reporting periods beginning on or after 1 January 2018. Some respondents said an effective date of 1 January 2018 would not allow sufficient time to implement the amendments. In particular, the respondents mentioned entities in jurisdictions that have a translation or endorsement process for IFRS Standards.
- BC16I In the light of these concerns, the Board set an effective date of annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The Board noted that if an entity elects to apply the amendments when it first applies IFRS 9, then it would benefit from applying the transition requirements in IFRS 9 to long-term interests.
- BC16J Considering the effective date of 1 January 2019 and the requirement to apply the amendments retrospectively, the Board also provided transition requirements similar to those in IFRS 9 for entities that apply the amendments after they first apply IFRS 9. This is because retrospective application may not have been possible without the use of hindsight. When the Board developed IFRS 9, it provided transition requirements for scenarios in which it would have been impracticable for an entity to apply particular requirements retrospectively. Consequently, the Board provided similar transition requirements in the amendments to IAS 28 for long-term interests because the effect of the amendments might be that an entity applies IFRS 9 for the first time to those interests. Accordingly, for example, such an entity would assess its business model for such long-term interests based on the facts and circumstances that exist on the date it first applies the amendments (for example, 1 January 2019 for an entity applying the amendments from that date).
- BC16K The Board noted that at the date of initial application of the amendments an entity would be able to use these transition requirements only for long-term interests and not for other financial instruments to which the entity has already applied IFRS 9. Accordingly, for example, an entity is not permitted (or required) to reconsider any of its fair value option elections for financial instruments to which the entity has already applied IFRS 9.

LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES

- BC16L The Board also decided to provide relief from restating prior periods for entities electing, in accordance with IFRS 4 *Insurance Contracts*, to apply the temporary exemption from IFRS 9. The Board observed that the effect of the amendments for such entities might be that they apply IAS 39 for the first time to long-term interests.

## Dissenting opinion

### **Dissent of Mr Takatsugu Ochi from *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28)**

- DO1 Mr Ochi voted against the publication of *Long-term Interests in Associates and Joint Ventures* (Amendments to IAS 28). The reasons for his dissent are set out below.
- DO2 Mr Ochi believes that interests in an associate or joint venture should be subject to either the requirements in IFRS 9 or the requirements in IAS 28, but not both. Accordingly, he disagrees with amending IAS 28 without also specifying the types of interests in an associate or joint venture that an entity accounts for using the equity method, and the types of interests in such entities that an entity accounts for applying IFRS 9.
- DO3 Mr Ochi notes that the amendments would result in ‘dual application’ of accounting requirements to the same asset, which he thinks is contrary to basic principles of accounting standards. He believes that such dual application of accounting requirements might result in double counting and, therefore, could undermine the quality of financial statements.