

## STAFF PAPER

April 2014

## IASB Meeting

Project	Equity Method in Separate Financial Statements		
Paper topic	Summary of due process followed		
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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

## Introduction and background

1. In December 2013, the IASB published for comment the Exposure Draft ED/2013/10 *Equity Method in Separate Financial Statements* (proposed amendments to IAS 27 *Separate Financial Statements*)<sup>1</sup>. The comment period ended on 3 February 2014.
2. The Exposure Draft proposed that entities have an option to account for investments in a subsidiary, associate or joint venture (together referred to as the ‘investees’ hereinafter) using the equity method in their separate financial statements.
3. The staff presented an analysis of the comment letters to the IASB in March 2014. The IASB discussed the feedback from the respondents and tentatively decided to proceed with the proposed amendments to IAS 27.
4. The purpose of this paper is to:
  - (a) assess whether the proposed amendments can be finalised or need to be re-exposed before finalisation;
  - (b) discuss the mandatory effective date of the final amendment;

<sup>1</sup> <http://www.ifrs.org/Current-Projects/IASB-Projects/IAS-27-Separate-Financial-Statements/Exposure-Draft-December-2013/Documents/Equity-Method-in-Separate-Financial-Statements-December-2013.pdf>

- (c) explain the steps in the due process taken by the IASB until now (see Appendix) and seek confirmation from the IASB of satisfactory compliance with the due process requirements so far; and
- (d) seek the approval of the IASB for commencing the ballot process and ask if any IASB member intends to dissent from the final amendment.

## **Staff analysis and recommendations**

### ***Finalisation or re-exposure***

5. According to the due process requirements, the IASB essentially needs to consider whether the revised proposals include any fundamental changes on which respondents have not had the opportunity to comment because they were not contemplated.
6. The staff is recommending the following changes from the original proposals in the Exposure Draft:
  - (a) First, to require an investor to elect a method of accounting for the investee on an instrument-by-instrument basis. The investor will continue to apply the same method of accounting for the investee as long as the investee is a subsidiary, a joint venture, or an associate. This is a change from the current requirement in paragraph 10 of IAS 27 that an investor shall apply the same accounting for each category of investments.
  - (b) Secondly, to allow an entity to use an alternative method to compute the carrying value of the investment on initial application of the proposed amendments or on first-time adoption.
  - (c) Thirdly, minor changes to the definition of separate financial statements and the accounting for dividends.
7. The above recommendations are based on comments and requests from respondents and analysis of the implications and likely effects of these recommendations. The first recommendation is intended to maintain consistency with the main principle in IAS 27 that investments in the investees are accounted

for as equity investments in an entity's separate financial statements. This is not a fundamental change from the Exposure Draft because there is no change in the options that are available to an entity to account for the investees but there is only a change in the application of the election, which is intended to simplify the accounting for changes in the category of the investee.

8. Consequently, we think that a re-exposure is not needed and the proposed amendments to IAS 28 along with the staff's recommendations should be finalised.

### ***Mandatory effective date of the final amendment***

9. According to the due process requirements, a mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements.
10. This is a narrow-scope facilitative amendment. Accordingly, we think that the mandatory effective date should be set as early as possible, while considering the fact that jurisdictions have sufficient time to prepare for the new requirements.
11. We expect to publish the final amendments in Q3 of 2014. We recommend that the mandatory effective date be set at 1 January 2016.

### ***Confirmation of due process steps and compliance***

12. The due process steps followed by the staff so far and the actions taken are documented in the Appendix. The due process steps applicable so far have been completed.

### ***Intention to dissent***

13. We formally ask if any IASB member intends to dissent from the final amendment before we ballot.

**Questions for the IASB**

1. Does the IASB agree that the proposed amendments to IAS 27 should be finalised without re-exposure?
2. Does the IASB agree with 1 January 2016 as the mandatory effective date for the final amendment?
3. Is the IASB satisfied that all due process steps applicable so far have been complied with?
4. Do any IASB members intend to dissent from the final amendment?

## Appendix

### ***Due Process Steps for the Finalisation of a Standard, Practice Guidance or Conceptual Framework chapter***

A1. The following table sets out the action taken against each of the due process steps applicable so far to the proposed amendments to IAS 27.

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
<b>Consideration of information gathered during consultation</b>				
<b>The IASB posts all of the comment letters that are received in relation to the ED on the project pages.</b>	Required if request issued	Letters posted on the project pages.	The IASB has reported on progress as part of its quarterly report at Trustee meetings, including summary statistics of respondents.	All comment letters that the IASB received on the ED were posted on the project webpage.
<b>Round-tables between external participants and members of the IASB.</b>	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not required as this is a narrow-scope project.
<b>IASB meetings are held in public, with papers being available for observers. All decisions are made in public sessions.</b>	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion. Extent of meetings with consultative group held and confirmation that critical issues have been reviewed with them.	The IASB and the DPOC have discussed progress on major projects, in relation to the due process being conducted. The IASB and the DPOC have reviewed the due process over the project life cycle, and how any issues about the due process have been/are being addressed. The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The DPOC has reviewed and responded to comments on due process as appropriate.	The comment letter analysis prepared by the staff was discussed at the March 2014 meeting, and the IASB will continue its redeliberations in this meeting. The project webpage contains full description and up-to-date information including the staff papers and links to the relevant sections of the IASB Update and the IFRIC Update. The staff papers were posted in a timely fashion.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
<b>Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or on-going associated costs.</b>	Required	Publication of the Effect Analysis.	The IASB and the DPOC have reviewed the results of the Affect Analysis and how it has considered such findings in the proposed Standard.  The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	Sine this is a narrow scope project and facilitative in nature, the staff believes that an effect analysis is not necessary. However, the IASB considered the effect of the proposed amendment on the costs of applying the amendments, which is documented in the staff papers.
<b>Email alerts are issued to registered recipients.</b>	Optional	Evidence that alerts have occurred.	The DPOC has received a report of outreach activities.	Not required as this is a narrow-scope project.
<b>Outreach meetings to promote debate and hear views on proposals that are published for public comment.</b>	Optional	Extent of meetings held, including efforts aimed at investors.	The DPOC has received a report of outreach activities.	Not required as this is a narrow-scope project.
<b>Regional discussion forums are organised with national standard-setters and the IASB.</b>	Optional	Extent of meetings held.	The DPOC has received a report of outreach activities.	Not required as this is a narrow-scope project.
<b>Finalisation</b>				
<b>Due process steps are reviewed by the IASB.</b>	Required	Summary of all due process steps have been discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Standard is issued.	The IASB will review the due process steps in this meeting.
<b>Need for re-exposure of a Standard is considered.</b>	Required	An analysis of the need to re-expose is considered at a public IASB meeting, using the agreed criteria.	The IASB has discussed its thinking on the issue of re-exposure with the DPOC.	The IASB will consider the need for re-exposure in this meeting. The staff recommends finalisation of the amendment (refer to the analysis in this paper).

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Evidence provided to DPOC</i>	<i>Actions</i>
<b>The IASB sets an effective date for the Standard, considering the need for effective implementation, generally providing at least a year.</b>	Required	Effective date set, with full consideration of the implementation challenges.	The IASB has discussed any proposed shortening of the period for effective application with the DPOC.	The IASB will discuss the mandatory effective date for the final amendment in this meeting. The staff recommends 1 January 2016 (refer to the analysis in this paper).