

## STAFF PAPER

September 2016

## IASB Meeting

Project	Draft Interpretation of IFRS 9 <i>Financial Instruments</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> —Long-term interests		
Paper topic	Summary of due process followed and technical matters agreed by the IFRS Interpretations Committee		
CONTACT(S)	Takashi Yamagami	tyamagami@ifrs.org	+44 (0)20 7246 6937

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## Introduction

1. The IFRS Interpretations Committee (the Interpretations Committee) received a request relating to the interaction between IFRS 9 *Financial Instruments* and IAS 28 *Investments in Associates and Joint Ventures*. Specifically, the request related to whether an entity applies IFRS 9, IAS 28 or a combination of both Standards, to the measurement of long-term interests in an associate or a 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 (long-term interests).
2. The Interpretations Committee observed that the feedback from outreach activities indicated that entities apply diverse reporting methods in accounting for long-term interests, and the issue is widespread. In response to the noted diversity in practice, the Interpretations Committee decided to develop an Interpretation, after considering the Interpretations Committee's agenda criteria described in paragraphs 5.14–5.22 of the [IFRS Foundation Due Process Handbook](#) (the Due Process Handbook).
3. At its September 2016 meeting, the Interpretations Committee completed its discussion of the issue and directed the staff to prepare the ballot draft of the draft interpretation.

4. In accordance with paragraph 7.7 of the Due Process Handbook, we present this Agenda Paper to the Board to:
- (a) provide the Board with a summary of the Interpretations Committee’s general agreement;
  - (b) ask the Board to confirm it is satisfied that the Interpretations Committee has complied with all due-process requirements to date; and
  - (c) recommend a comment period of no less than 90 days for the draft Interpretation.

**Issue raised**

5. Paragraph 2.1(a) of IFRS 9 states that interests in associates and joint ventures that an entity accounts for applying IAS 28 are excluded from the scope of IFRS 9. Paragraph 14 of IAS 28 further explains this scope exception:

IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method. [...]

6. Paragraph 38 of IAS 28 requires that, when an entity allocates its share of losses of an associate or a joint venture to the carrying amount of its investment in that associate or joint venture, the entity allocates such losses to both:
- (a) interests that it accounts for using the equity method; and
  - (b) long-term interests that, in substance, form part of the net investment.

7. In this respect, paragraph 38 states (emphasis added):

[...] The interest in an associate or a joint venture is the carrying amount of the investment in the associate or joint venture determined using the equity method together with any long-term interests that, in substance, form part of the entity’s net investment in the associate or joint venture.  
[...]

8. Paragraphs 40 and 41A–43 of IAS 28 then go on to explain that this net investment is subject to impairment testing. More precisely:
- (a) an entity is first required to assess whether there is any objective evidence that the net investment is impaired, by considering the indicators included in paragraphs 41A–41C of IAS 28. These indicators were largely transferred from IAS 39 *Financial Instruments: Recognition and Measurement* as part of the development of IFRS 9.
  - (b) if the assessment of evidence indicates that the net investment is impaired, the entity is required to measure impairment applying the impairment requirements in IAS 36 *Impairment of Assets*.
9. In the light of these requirements in IFRS 9 and IAS 28, the submitter asked whether paragraph 2.1(a) of IFRS 9 should be interpreted to exclude long-term interests from the scope of IFRS 9, in particular the impairment requirements of that Standard. In other words, the question is whether an entity assesses long-term interests for impairment by applying only the requirements in IAS 28, only those in IFRS 9, or a combination of the requirements in both Standards.
10. The submitter of the issue says that diversity exists in practice applying IAS 39. However, this has not been perceived to be a significant issue because of the similarity of the impairment models in IAS 28/IAS 36 and IAS 39. With the introduction of an expected credit loss model in IFRS 9, the submitter thinks that the effects of such diversity are likely to be more significant.
11. The draft Interpretation will address the application of the requirements in IFRS 9 and IAS 28 to long-term interests.

## Summary of the Interpretations Committee's general agreement<sup>1</sup>

### ***Accounting for long-term interests***

12. Based on the wording of the requirements in IFRS 9 and IAS 28, the Interpretations Committee concluded that the requirements of IFRS 9, including those relating to impairment, apply to long-term interests in an associate or a joint venture to which the equity method is not applied. In other words, the scope exception in paragraph 2.1(a) of IFRS 9 does not apply to such long-term interests. In reaching this conclusion, the Interpretations Committee noted the following:

- (a) the scope exception in paragraph 2.1(a) of IFRS 9 applies only to interests in an associate or a joint venture that an entity accounts for using the equity method. This view is consistent with the clarification provided in paragraph 14 of IAS 28, which states that 'IFRS 9 *Financial Instruments* does not apply to interests in associates and joint ventures that are accounted for using the equity method'.
- (b) interests, described as 'long-term interests' in IAS 28, are not accounted for using the equity method. Although long-term interests are subject to one part of the equity method procedures (ie the allocation of losses), this is not the same as saying that an entity accounts for such long-term interests using the equity method. Paragraphs 3 and 10 of IAS 28 describe aspects of the equity method beyond merely allocating losses. The Interpretations Committee observed that this interpretation is consistent with the requirements in paragraph 38 of IAS 28 (reproduced in paragraph 7 of this paper). Paragraph 38 explains that the interest in an associate or a joint venture, subject to the allocation of losses, is the investment accounted for using the equity method *together with* long-term interests that form part of the net investment.

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<sup>1</sup> For further details of the past discussions and meetings, see the project page on the IASB website:  
<http://www.ifrs.org/Current-Projects/IASB-Projects/IFRS-9-and-IAS-28-Measurement-of-long-term-interests/Pages/default.aspx>

13. The Interpretations Committee also noted that the expected credit loss impairment model in IFRS 9 is part of, and interlinked with, amortised cost accounting in IFRS 9. For example, how interest revenue is calculated depends on whether the related financial asset is credit-impaired. The Interpretations Committee agreed that:
- (a) it is difficult to see how the amortised cost accounting in IFRS 9 would work in the absence of the impairment requirements in IFRS 9; and
  - (b) the point described in subparagraph (a) above indicates that the Board did not intend the measurement requirements in IFRS 9 to be applied in isolation of the impairment requirements.
14. On the basis of the analysis in paragraphs 12–13, the Interpretations Committee concluded that the scope exception in paragraph 2.1(a) of IFRS 9 does not apply to long-term interests. Consequently, long-term interests are subject to all of the requirements in IFRS 9, and the loss allocation and impairment requirements in IAS 28.
15. The Interpretations Committee understood this conclusion to mean the following:
- (a) an entity accounts for long-term interests applying IFRS 9, including the impairment requirements in IFRS 9;
  - (b) in allocating any losses of the associate or joint venture applying the requirements in paragraph 38 of IAS 28, the entity includes the carrying amount of those long-term interests (determined applying IFRS 9) as part of the net investment to which the losses are allocated;
  - (c) the entity then assesses for impairment the net investment in the associate or joint venture, of which the long-term interests are a part, by applying the requirements in paragraphs 40 and 41A–43 of IAS 28; and
  - (d) if an entity allocates losses or recognises impairment applying steps (b) and (c) above, it ignores those losses or that impairment when it accounts for long-term interests applying IFRS 9 in subsequent periods.

## **Presentation and disclosure**

### *Presentation*

16. Paragraph 38 of IAS 28 requires an entity to allocate its share of an associate's losses to the equity method investments and long-term interests in the reverse order of seniority. However, IAS 28 does not specify whether or how the entity allocates impairment losses recognised on the net investment between these components of the net investment.
17. IAS 1 *Presentation of Financial Statements* requires an entity to present investments accounted for using the equity method separately from long-term interests, and such presentation would require an allocation of impairment losses recognised applying IAS 28. Consequently, the Interpretations Committee decided that it would be helpful to specify that an entity allocates such impairment losses between the equity method investments and long-term interests in the same order as specified in paragraph 38 of IAS 28 for a loss allocation (ie in the reverse order of seniority).

### *Disclosure*

18. The Interpretations Committee concluded that it is important that entities provide information that enables users of financial statements to understand the effects of long-term interests on entities' financial statements.
19. The Interpretations Committee noted that currently there are a number of disclosure requirements that apply to long-term interests. Examples of such disclosure requirements are:
  - (a) IFRS 12 *Disclosure of Interests in Other Entities*—paragraph 20 requires an entity to disclose information that enables users to evaluate the nature, extent and the financial effects of its interests in an associate, which include long-term interests.
  - (b) IFRS 7 *Financial Instruments: Disclosures*—which, among others, requires an entity to disclose:

- (i) for financial assets measured at amortised cost, the carrying amounts (paragraph 8(f)) and a reconciliation of the opening to closing balance of the loss allowance (paragraph 35H);
  - (ii) for financial assets measured at fair value through profit or loss (FVPL), the carrying amounts (paragraph 8(a)); and
  - (iii) significant accounting policies used that are relevant to an understanding of the financial statements (paragraph 21).
- (c) IAS 24 *Related Party Disclosures*—paragraph 18 requires an entity to disclose separately for associates and joint ventures:
- (i) the amount of outstanding balances;
  - (ii) provisions for doubtful debts related to the amount of outstanding balances; and
  - (iii) the expense recognised during the period in respect of bad or doubtful debts.
20. Considering these existing disclosure requirements, the Interpretations Committee decided not to propose any new disclosure requirements specifically for long-term interests. Instead, the Interpretations Committee decided that the draft Interpretation should direct entities to the overall objective in IFRS 12 to ensure that they disclose information that helps users of financial statements to understand the financial effects of long-term interests.

### ***Illustrative example***

21. The Interpretations Committee decided that the draft Interpretation should include an illustrative example. This is because the Interpretations Committee suggested that such an illustrative example would be helpful in explaining the proposals in the draft Interpretation.
22. The Interpretations Committee also discussed the scenarios that such an illustrative example should address, and decided it should be along the lines of the example described in Appendix B to this paper.

**Transition requirements, including those for first-time adopters**

23. The Interpretations Committee decided that the draft Interpretation require retrospective application. The Interpretations Committee suggested that retrospective application would be feasible for the draft Interpretation because an entity would be likely to have sufficient information to implement the proposals retrospectively. Paragraph 39 of IAS 28 implicitly requires an entity to track the amount of losses attributable to the entity's interests in an associate.
24. The Interpretations Committee also decided that the draft Interpretation provide entities with relief from presenting comparative information applying the draft Interpretation. In reaching this decision, the Interpretations Committee considered that:
- (a) the draft Interpretation interprets the requirements in IFRS 9 as well as IAS 28;
  - (b) IFRS 9, which becomes effective on 1 January 2018, also provides the same relief on its initial application; and
  - (c) the draft Interpretation proposes an effective date of 1 January 2018. The Interpretations Committee suggested that an option not to restate the comparative information would alleviate any potential concern that there is a short period between the expected issue date of the Interpretation and the proposed effective date.
25. The Interpretations Committee also decided that an entity should restate comparative information applying the draft Interpretation if it chooses to do so when initially applying IFRS 9. This is because, in that case, the entity would account for long-term interests in a consistent and comparable way across reporting periods.
26. In summary, the Interpretations Committee concluded that the draft Interpretation:
- (a) require retrospective application of the proposals; but

- (b) permit an entity not to restate comparative information applying the Interpretation, unless the entity chooses to restate the comparative information on initial application of IFRS 9.

*Transition requirements for insurers applying the temporary exemption from IFRS 9*

27. The Interpretations Committee also considered the transition requirements for those entities that will elect to apply the temporary exemption from IFRS 9. The Interpretations Committee observed there might be insufficient time for such entities to apply the Interpretation retrospectively if they did not apply IAS 39 previously to long-term interests. Consequently, the Interpretations Committee decided that the draft Interpretation provide relief from presenting comparative information applying the Interpretation for these entities as is proposed for all other entities.
28. Appendix C to this paper summarises the Interpretations Committee's tentative decisions on the transition requirements for the draft Interpretation as described in paragraphs 23–27.

*First-time adopters*

29. Paragraph E1 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* provides short-term relief to first-time adopters from presenting comparative information that complies with IFRS 9. This short-term relief is available for first-time adopters whose first IFRS reporting period begins before 1 January 2019. For the same reasons provided in paragraph 24 of this paper, the Interpretations Committee decided that the draft Interpretation should provide those first-time adopters with relief from presenting comparative information that complies with the Interpretation, unless they choose to restate the comparative information relating to IFRS 9 on initial adoption of IFRS Standards.

**Effective date**

30. The Interpretations Committee decided that the draft Interpretation should propose an effective date of 1 January 2018 because the Interpretation would interpret the application of the requirements in IFRS 9, as well as IAS 28.
31. The Interpretations Committee considered that such an effective date would be feasible because entities are likely to have sufficient information to implement the proposals in the draft Interpretation. This is because:
- (a) the initial application of IFRS 9 requires an entity to determine a carrying amount for long-term interests applying the requirements in IFRS 9. In effect, this ‘resets’ the carrying amount of long-term interests, previously determined applying other Standards.
  - (b) the proposals in the draft Interpretation do not affect how an entity measures long-term interests applying IFRS 9. In other words, the draft Interpretation is consistent with the initial application of IFRS 9.
  - (c) paragraph 39 of IAS 28 implicitly requires an entity to track the amount of losses attributable to the entity’s interests in an associate or a joint venture.
  - (d) as discussed in the previous section, the draft Interpretation proposes transition relief from presenting comparative information.

**Comment period**

32. Paragraph 7.11 of the Due Process Handbook says that the Board and the Interpretations Committee ‘usually allow a minimum period of 90 days for comments on a draft Interpretation’.
33. When publishing previous Exposure Drafts of draft Interpretations, the Board and the Interpretations Committee have generally allowed a period of 90 days for comments. In considering the proposals to be included in this draft Interpretation, we see no reason to conclude that a longer comment period would be required.

Consequently, we suggest that the comment period for this draft Interpretation should be no less than 90 days.

### **Proposed timetable for balloting and publication of the draft Interpretation**

34. We expect the balloting process of the draft Interpretation will start in October 2016. We expect the draft Interpretation to be ready for publication in the fourth quarter of 2016.

### **Confirmation of due process steps**

35. In Appendix A to this paper, we have summarised the due process steps that we have taken and will take in developing and publishing the draft Interpretation. We note that the required due process steps applicable to date for the development and publication of the draft Interpretation have been completed.

### **Next steps**

36. Subject to the Board's responses to the questions below:
- (a) the Interpretations Committee members will be asked to ballot the draft Interpretation; and
  - (b) the Board members will be asked if they object to the release of the draft Interpretation.
37. Provided no more than four Interpretations Committee members vote against the draft Interpretation and no more than three Board members object, the draft Interpretation will be published for public comment.

**Questions for the Board**

1. Does any Board member intend to object to the release of the draft Interpretation during the future balloting process?
2. Is the Board satisfied that the due process requirements relating to the development and publication of the draft Interpretation have been met?
3. Does the Board agree with a comment period of no less than 90 days for the draft Interpretation?

**Appendix A—Confirmation of due process steps in the development and publication of a draft Interpretation**

A1. The following table sets out the due process steps followed by the Board and the Interpretations Committee:

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>The Interpretations Committee meetings are held in public, with papers being available for observers. All decisions are made in public session.</b>	Required.	Meetings held.  Project website contains a full description with up-to-date information.  Meeting papers have been posted in a timely fashion.	The Interpretations Committee discussed the issue on the basis of publicly available Agenda Papers.  The project <a href="#">webpage</a> has up-to-date information.
<b>Due process steps are reviewed by the Board.</b>	Required.	Summary of all due process steps have been discussed by the Board before a draft Interpretation is issued.	This step will be met by this Agenda Paper.
<b>Draft Interpretation has an appropriate comment period.</b>	Required.	The Board sets a comment period.  If outside the normal comment period, an explanation has been provided by the Interpretations Committee to the Due Process Oversight Committee, and approval is provided, if necessary.	We have recommended no less than 90 days, which is the normal comment period for a draft Interpretation.
<b>Board members polled to identify any objections to releasing the draft Interpretation.</b>	Required.	Poll undertaken.	We will ask Board members whether they object to the release of the draft Interpretation during the balloting process, in accordance with paragraph 7.10 of the Due Process Handbook.
<b>Drafting quality assurance steps are adequate.</b>	Required.	The Translations team have been included in the review process.	The Translations team will review the pre-ballot draft.

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Actions</i>
<b>Drafting quality assurance steps are adequate.</b>	Required.	The Taxonomy team have been included in the review process.	The Taxonomy team will review the pre-ballot draft.
<b>Drafting quality assurance steps are adequate.</b>	Optional.	The Editorial team has been included in the review process.	The Editorial team will review drafts during the balloting process.
<b>Drafting quality assurance steps are adequate.</b>	Optional.	Draft for editorial review is made available to members of the International Forum of Accounting Standard-Setters (IFASS) and the comments collected are considered by the Interpretations Committee.	The pre-ballot draft will be made available to members of IFASS.
<b>Draft Interpretation published.</b>	Required.	Draft Interpretation has been posted on the Interpretations Committee website.	Draft Interpretation will be made available on the IASB's website when published.
<b>Press release to announce the publication of the draft Interpretation.</b>	Required.	Press release has been published.	A press release will be published with the draft Interpretation.

**Appendix B—Example illustrating the accounting for long-term interests**

B1. The assumptions used for the example are as follows:

- (a) Investor has the following types of interests in Associate:
  - (i) ordinary shares representing a 40 per cent ownership interest to which Investor applies the equity method (Equity Method investment);
  - (ii) preference shares that form part of the net investment in Associate and that are measured at FVPL applying IFRS 9 (Preference Share); and
  - (iii) a long-term loan that forms part of the net investment in Associate and that is measured at amortised cost applying IFRS 9 (Loan). The effective interest rate of the Loan is 5 per cent.
- (b) For simplicity, throughout the illustrated periods, there has not been any objective evidence that the net investment in Associate is impaired applying IAS 28, nor a significant increase in the credit risk associated with Loan.
- (c) The amount of initial investment in the Equity Method investment, Preference Share and Loan are CU200, CU100 and CU100, respectively.
- (d) Investor does not have any legal or constructive obligation nor has it made payments on behalf of Associate, as described in paragraph 39 of IAS 28. Consequently, Investor no longer recognises its share of Associate's losses once the carrying amount of its net investment in Associate is reduced to zero.

- (e) The following table shows Associate's net income (loss) for each period and the carrying amount at the end of each period for the Preference Share and Loan applying IFRS 9 (but before applying IAS 28):

Carrying amount of interest At the end of	Net Income/(Loss) of Associate	Preference Share applying IFRS 9 (fair value)	Loan applying IFRS 9 <sup>2</sup> (amortised cost)
Period—1	CU50	CU110	CU90
Period—2	CU(200)	CU90	CU70
Period—3	CU(500)	CU50	CU50
Period—4	CU(150)	CU40	CU50
Period—5	-	CU60	CU60
Period—6	CU500	CU80	CU70
Period—7	CU500	CU110	CU90

- B2. Based on these assumptions, Investor make the following journal entries:

At initial recognition

DR. Equity Method investment	CU200	
DR. Preference Share	CU100	
DR. Loan	CU100	
CR. Cash		CU400

*To recognise the amounts invested in Associate*

Period—1

DR. Preference Share	CU10	
CR. Profit or loss		CU10

*To recognise the change in fair value (CU110 – CU100)*

DR. Profit or loss	CU10	
CR. Loan loss allowance (Loan)		CU10

*To recognise an increase in Loan loss allowance*

DR. Equity Method investment	CU20	
CR. Equity method income		CU20

*To recognise Investor's share of Associate's profit (CU50 × 40%)*

*The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of period 1 is CU220, CU110 and CU90, respectively.*

<sup>2</sup> These amounts are shown net of the loan loss allowance.

Period—2

DR. Profit or loss	CU20	
CR. Preference Share		CU20

*To recognise the change in fair value (CU90 – CU110)*

DR. Profit or loss	CU20	
CR. Loan loss allowance (Loan)		CU20

*To recognise an increase in Loan loss allowance*

DR. Equity method loss	CU80	
CR. Equity Method investment		CU80

*To recognise Investor's share of Associate's loss (CU200 × 40%)*

*The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—2 is CU140, CU90 and CU70, respectively.*

Period—3

DR. Profit or loss	CU40	
CR. Preference Share		CU40

*To recognise the change in fair value (CU50 – CU90)*

DR. Profit or loss	CU20	
CR. Loan loss allowance (Loan)		CU20

*To recognise an increase in loan loss allowance*

DR. Equity method loss	CU200	
CR. Equity Method investment		CU140
CR. Preference Share		CU50
CR. Loan		CU10

*To recognise Investor's share of Associate's loss allocated in reverse order of seniority (CU500 × 40%)*

*The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—3 is zero, zero and CU40, respectively.*

Period—4

DR. Profit or loss	CU10	
CR. Preference Share		CU10

*To recognise the change in fair value (CU40 – CU50)*

DR. Equity method loss	CU40	
DR. Preference Share	CU10	
CR. Loan		CU40
CR. Equity method profit		CU10

*To recognise Investor's share of Associate's loss*

*Investor recognises and allocates equity method profit of CU10 to Preference Share so that the carrying amount of the interest is not below zero.*

*Investor limits the allocation of Associate's losses to CU30 because the net investment in Associate has been reduced to zero. Consequently, there is an unrecognised loss of CU30 (CU150 × 40% – CU40 recognised + CU10 reversed).*

*Each of the carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—4 is zero.*

Period—5

DR. Preference Share	CU20	
CR. Profit or loss		CU20

*To recognise the change in fair value (CU60 – CU40)*

DR. Loan loss allowance (Loan)	CU10	
CR. Profit or loss		CU10

*To recognise a decrease in loan loss allowance*

DR. Equity method loss	CU30	
CR. Preference Share		CU20
CR. Loan loss allowance (Loan)		CU10

*To recognise the previously unrecognised share of Associate's losses*

*Investor allocates the previously unrecognised share of Associate's losses of CU30 to Preference Share and Loan because those interests have a positive carrying amount to which losses can be allocated.*

*Each of the carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—5 is zero.*

Period—6

DR. Preference Share	CU20	
CR. Profit or loss		CU20

*To recognise the change in fair value (CU80 – CU60)*

DR. Loan loss allowance (Loan)	CU10	
CR. Profit or loss		CU10

*To recognise a decrease in loan loss allowance*

DR. Equity Method investment	CU80	
DR. Preference Share	CU60	
DR. Loan	CU60	
CR. Equity method income		CU200

*To recognise Investor's share of Associate's profit (CU500 × 40%)*

*Investor allocates Associate's profit to each interest in the order of seniority. Investor limits the allocation of Associate's profit to the Preference Share and Loan to the amount of equity method losses previously allocated to those interests, which in this case is CU60 for both interests.*

*The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of Period—6 is CU80, CU80 and CU70, respectively.*

Period—7

DR. Preference Share	CU30	
CR. Profit or loss		CU30

*To recognise the change in fair value (CU110 – CU80)*

DR. Loan loss allowance (Loan)	CU20	
CR. Profit or loss		CU20

*To recognise a decrease in loan loss allowance*

DR. Equity Method investment	CU200	
CR. Equity method income		CU200

*To recognise Investor's share of Associate's profit (CU500 × 40%)*

*The carrying amount of Equity Method investment, Preference Share and Loan, net of allowance, at the end of period 6 is CU280, CU110 and CU90, respectively.*

Periods—1–7

DR. Cash	CU5	
CR. Interest revenue		CU5

*To recognise interest revenue on Loan*

*Investor ignores the allocation of losses to the Loan for the purpose of measuring interest revenue on the Loan. Consequently, Investor calculates interest revenue for Periods—1–7 using the gross carrying amount of the Loan of CU100 and the effective interest rate of 5 per cent.*

B3. The following summarises the balance of, and allocation of losses for, each interest in Associate at the end of and during each period:

Period	IFRS 9 (Step 1)				Equity Pick up (maximum)	IAS 28 allocation (Step 2)									Unallocated (unreported losses)
	Loan			PS		Ordinary Share			PS			Loan			
	Gross	Allow- ance	Net	FV		Beg.	Profit/Loss Allocation	After allocation	Beg.	Loss Allocation	After allocation	Beg.	Loss Allocation	After allocation	
				<b>A</b>			<b>B</b>			<b>C</b>					
1	100	-10	90	110	20	200	20	220	110	0	110	90	0	90	0
2	100	-30	70	90	-80	220	-80	140	90	0	90	70	0	70	0
3	100	-50	50	50	-200	140	-140	0	50	-50	0	50	-10	40	0
4	100	-50	50	40	-60	0	0	0	-10	10	0	40	-40	0	-30
5	100	-40	60	60	0	0	0	0	20	-20	0	10	-10	0	0
6	100	-30	70	80	200	0	80	80	20	60	80	10	60	70	0
7	100	-10	90	110	200	80	200	280	110	0	110	90	0	90	0

Period	Summary of PL effects				Net invest- ment bal.	Change in Net Investment
	Loan	PS	IAS 28	Total		
	<b>D</b>	<b>E</b>	<b>F</b>	<b>G=D+E +F</b>		
	<b>D</b>	<b>E</b>	<b>F</b>	<b>G=D+E +F</b>	<b>=A+B+C</b>	<b>H</b>
Beg.					400	
1	-10	10	20	20	420	20
2	-20	-20	-80	-120	300	-120
3	-20	-40	-200	-260	40	-260
4	0	-10	-30	-40	0	-40
5	10	20	-30	0	0	0
6	10	20	200	230	230	230
7	20	30	200	250	480	250

## Appendix C—Summary of proposed transition requirements

C1. The following tables illustrate the outcomes from applying the Interpretations Committee’s tentative decisions regarding transition for this draft Interpretation.

**Entities applying IFRS 9 from 1 January 2018** **Standards that would apply to long-term interests**

<b>Variation 1 (paragraph 25)</b>	<u>Comparatives</u>	<u>Current</u>
Entity applies IFRS 9, and restates comparatives which must include the Interpretation	IFRS 9	IFRS 9

<b>Variation 2A (paragraph 24)</b>	<u>Comparatives</u>	<u>Current</u>
Entity applies IFRS 9, and does <u>not</u> restate comparatives, including the Interpretation: and		
(a) Entity has previously applied IAS 39 to its long-term interests	IAS 39	IFRS 9
(b) Entity has not previously applied IAS 39 to its long-term interests	Other	IFRS 9

<b>Variation 2B (paragraph 26)</b>	<u>Comparatives</u>	<u>Current</u>
Entity applies IFRS 9, and does <u>not</u> restate comparatives. But Entity chooses to restate comparatives applying the Interpretation.	IAS 39	IFRS 9

**Insurers applying the temporary exemption from IFRS 9**

<b>Variation 3 (paragraph 27)</b>	<u>Comparatives</u>	<u>Current</u>
Entity applies IAS 39, and chooses not to restate comparatives applying the Interpretation: and		
(a) Entity has previously applied IAS 39 to its long-term interests	IAS 39	IAS 39
(b) Entity has not previously applied IAS 39 to its long-term interests	Other	IAS 39

<b>Variation 4 (paragraph 27)</b>	<u>Comparatives</u>	<u>Current</u>
Entity applies IAS 39, and chooses to restate comparatives applying the Interpretation.	IAS 39	IAS 39