Buenos Aires, Argentina, 20 January 2025

International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Exposure Draft *"Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)"*

Dear Members of the International Accounting Standards Board (IASB):

The "Group of Latin American Accounting Standard Setters (GLASS)"[1] welcomes the opportunity to comment on the Exposure Draft ***"Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures (revised 202x)"*** (the ED).

This response summarizes the points of view of the members of the different countries of GLASS', in accordance with the following due process.

Due Process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in September 2024. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g., surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view on the ED included in the summary through email exchanges and virtual meetings of members. Based on these exchanges of views, the TWG developed a final document based on the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

The response is structured as answers to the questions included in the ED submitted for consultation and includes comments on each of the topics covered in the referenced questions.

Overall comments

GLASS supports this proposal, considering that it provides greater coherence and relevance to the financial information presented on associates and joint ventures.

However, GLASS is particularly concerned about the consequences of not eliminating the results from upstream or downstream transactions between the investor and its subsidiaries in the separate financial statements when the Equity Method of Accounting is used to measure such investments. To avoid these consequences, GLASS proposes a minor amendment to IAS 27 *Separate Financial Statements*, detailed in the answer to question No. 6, to clarify that such results should be eliminated in these cases.

[1]The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to provide technical contributions in reference to all Exposure Drafts, Requests for Information and Discussion Papers published by the IFRS Foundation Boards and Tentative Agenda Decisions of the IFRS Interpretations Committee. GLASS therefore intends to have a single regional voice before the IFRS Foundation Boards. GLASS is constituted by: Argentina (Chair), Bolivia, Brazil (Board), Chile, Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Vice Chair).

Specific Comments

Attached you will find our responses to the specific questions included in the Appendix.

Contact

If you have any questions about our comments, please contact glenif@glenif.org

Sincerely,

Hernan P. Casinelli
Chair of the Group of Latin American Accounting Standard Setters (GLASS)

Question 1—Measurement of cost of an associate

Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:

(a) whether to measure any previously held ownership interest in the associate at fair value; or

(b) whether and if so how to recognise and measure contingent consideration.

The IASB is proposing an investor:

(a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.

(b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:

(i) not remeasure contingent consideration classified as an equity instrument; and

(ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Paragraphs BC17–BC18 and BC89–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the proposal. However, it considers that it is incomplete as it does not indicate the accounting treatment of transaction costs.

In line with the IASB's reasoning, and to ensure consistency with the provisions of IFRS 3 *Business Combinations*, GLASS proposes requiring an investor to recognize acquisition-related costs as an expense in the period in which they were incurred and the corresponding services were received, also considering the exception detailed in the aforementioned IFRS 3 regarding the costs of issuing debt or equity securities, which must be accounted for in accordance with the provisions of IAS 32 and IFRS 9 [see IFRS 3, paragraph 53].

Question 2— Changes in an investor's ownership interest while retaining significant influence

IAS 28 does not include requirements on how an investor accounts for changes in its ownership interest in an associate, while retaining significant influence, that arise from:

(a) the purchase of an additional ownership interest in the associate;

(b) the disposal of an ownership interest (partial disposal) in the associate; or

(c) other changes in the investor's ownership interest in the associate.

The IASB is proposing to require that an investor:

(a) at the date of purchasing an additional ownership interest in an associate:

  (i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred;

  (ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and

  (iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss.

(b) at the date of disposing of an ownership interest:

  (i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and

  (ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss.

(c) for other changes in its ownership interest in an associate:

  (i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'.

  (ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'.

Paragraphs BC20–BC44 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the detailed steps to account for changes in an investor's interest. However, in relation to the detailed measurement in (a)(i) and (c)(i), it proposes that fair value be determined only when there are indications that may suggest significant differences between:

a) the fair value adjustment that would be determined at the date of the new purchase, and

b) the fair value adjustment that would arise from considering the fair value determined at the time of the original purchase, net of any subsequent adjustments computed up to the date of the new purchase.

Question 3— Recognition of the investor's share of losses

Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

(a) on purchasing an additional ownership interest, recognises any losses not recognised as a 'catch up' adjustment by deducting those losses from the cost of the additional ownership interest; or

(b) recognises separately its share of each component of the associate's comprehensive income.

The IASB is proposing an investor:

(a) on purchasing an additional ownership interest, not recognise its share of an associate's losses that it has not recognised by reducing the carrying amount of the additional ownership interest.

(b) recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income.

Paragraphs BC47–BC62 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the IASB proposal.

Question 4— Transactions with associates

Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary.

The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.

Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the IASB proposal.

Question 5— Impairment indicators (decline in fair value)

Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition.

The IASB is proposing:

(a) to replace 'decline…below cost' of an investment in paragraph 41C of IAS 28 with 'decline…to less than its carrying amount';

(b) to remove 'significant or prolonged' decline in fair value; and

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(c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment.

The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 *Impairment of Assets*.

Paragraphs BC94–BC106 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the IASB proposal.

Question 6—Investments in subsidiaries to which the equity method is applied in financial statements separate financial

Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements.

The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements.

Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with this proposal?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS does not agree with the application of all the new requirements of IAS 28 in separate financial statements when the entity measures its interests in subsidiaries using the equity method. In particular, it proposes to review the decision not to eliminate the results from upstream or downstream transactions between the investor and its subsidiaries.

GLASS suggests that, to address this situation, IAS 27 *Separate Financial Statements,* Paragraph 10 be amended and a paragraph 10A be added, as follows:

[IAS 27, para. 10] "When an entity prepares separate financial statements, it shall account for investments in subsidiaries, joint ventures and associates either:

(a) at cost;
(b) in accordance with IFRS 9; or
(c) using the equity method as described in IAS 28, except as mentioned in paragraph 10A .
(…)

[IAS 27, para. 10A]. "In measuring interests in subsidiaries, an entity shall not apply paragraph 53 of IAS 28 and shall eliminate the results of upstream or downstream transactions with the subsidiary."

The grounds for proposing this amendment are as follows:

- **Treat situations with different characteristics differently.**

  Requiring the application of paragraph 53 of IAS 28 to investments in subsidiaries involves treating different realities in a homogeneous manner. Interests in associates and joint ventures have a single treatment, while interests in subsidiaries face two different approaches: consolidation in the consolidated financial statements and treatment as an individual asset in the separate financial statements.

- **Avoid significant asymmetries.**

  The introduction of an unjustified asymmetry could lead to inconsistencies, especially considering that there is no evidence to support the existence of the demand of investors to apply this practice in the jurisdictions where it is currently followed.

- **Mitigate risks of results manipulation.**

  The possibility of accounting manipulation increases by establishing an approach that allows divergent results, which may generate a conflict of public interest.

- **Prevent legal conflicts.**

  In many jurisdictions, the practice of measuring interests in subsidiaries using the equity method is customary or legally required. Implementing the proposed change could give rise to unnecessary regulatory and legal conflicts.

Question 7—Disclosure requirements

The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose:

(a) gains or losses from other changes in its ownership interest;

(b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures;

(c) information about contingent consideration arrangements; and

(d) a reconciliation between the opening and closing carrying amount of its investments.

The IASB is also proposing an amendment to IAS 27 to require a parent—if it uses the equity method to account for its investments in subsidiaries in separate financial statements—to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries.

Paragraphs BC137–BC171 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

Our response:

GLASS agrees with the IASB proposal.

Question 8—Disclosure requirements for eligible subsidiaries

IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards.

As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries.

The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary:

(a) to disclose information about contingent consideration arrangements; and

(b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures.

The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries.

Paragraphs BC172–BC177 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).

Our response:

GLASS agrees with the IASB proposal.

Question 9— Transition

The IASB proposes to require an entity to:

(a) apply retrospectively the requirement to recognize full profit or loss on all transactions with associates or joint ventures;

(b) apply the requirements on contingent consideration by recognizing and measuring contingent consideration at its fair value at the date of transition—generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments in associates or joint ventures accordingly; and

(c) apply prospectively all other requirements from the transition date.

The IASB also proposes to exempt from restatement any additional prior periods presented. Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB's reasons for these proposals.

Do you agree with these proposals?

If you disagree, explain why and the alternative you suggest.

Our response:

GLASS agrees with paragraphs (b) and (c) of the IASB proposal. However, regarding the proposal outlined in paragraph (a) of the question, since an investor might not have a complete record of all eliminated transactions, GLASS proposes establishing a practical solution that would allow determining a deemed cost for the investment at the start date of implementation, using as a basis the fair value of the investment at that moment.

Question 10— Expected effects of the proposals

Paragraphs BC217–BC229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why?

Our response:

GLASS agrees with the IASB proposal.

Question 11—Other comments

Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft?

Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?

Our response:

GLASS draws attention to the fact that the current wording of the questionnaire has led some of its members to question whether all the effects defined for interests in associates were assessed in the same way as interests in joint ventures. Although the text of the standard indicates that this is indeed the case, the wording could lead to confusion.

GLASS also suggests including additional examples that illustrate in a practical way how the proposed changes apply to both interests in associates and joint ventures. This would contribute to a better understanding and facilitate the uniform implementation of the provisions.

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