This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) - Follow-up on EFRAG's recommendations
Issues Paper

Objective

1 The objective of this paper is to consider how the IASB has addressed the issues raised and recommendations made by EFRAG in its comment letter on the Exposure Draft preceding *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)* ('the Amendments'). The IASB issued the Amendments on 12 October 2017.

EFRAG's comment letter

2 In its comment letter in response to the IASB Exposure Draft *ED/2017/1 Annual Improvements to IFRS Standards 2015-2017 Cycle* ('the ED'), EFRAG raised the following points in relation to the proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*:

(a) EFRAG supported the IASB's decision to address the issue before IFRS 9 *Financial Instruments* becomes effective. EFRAG also considered the proposed amendments to be a practical solution, in that they codify an acceptable interpretation of existing guidance and do not involve extensive changes to that guidance.

(b) However, EFRAG also considered that the IASB should include an example or similar guidance illustrating the application of the proposed amendments. In EFRAG's view the example would illustrate that an entity:

(i) first applies the impairment requirements of IFRS 9 to the long-term interest;

(ii) second, recognises any share of net losses of the associate or joint venture in accordance with paragraph 38 of IAS 28;

(iii) third, assesses the net investment for impairment in accordance with paragraphs 40 and 41A-43 of IAS 28 and recognises any impairment losses; and

(iv) finally, ignores the share of net losses or impairment allocated under IAS 28/IAS 36 when applying IFRS 9 in subsequent periods to the long-term interest (in order to maintain the integrity of the IFRS 9 amortised cost measurement).

(c) EFRAG was of the view that this should be regarded only as a temporary solution and that the treatment of long-term interests should be considered more broadly in the IASB's equity method research project.

(d) EFRAG considered that the IASB should propose an effective date of 1 January 2019, with earlier application permitted and provide transition provisions for entities that will not be able to apply the amendments at the same time as they apply IFRS 9.

3 One member of the IASB dissented from the issuance of the Amendments on the grounds that a financial instrument should be subject to impairment under IFRS 9 or IAS 28/IAS 36 but not both. This issue was considered by EFRAG in preparing its comment letter, but did not represent EFRAG's final view.

The Amendments

4 The Amendments clarify that IFRS 9 applies to financial instruments in associates or joint ventures to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture. The Amendments also clarify that:

(a) an entity applies the requirements in IFRS 9 to long-term interests before applying the loss allocation and impairment requirements in IAS 28; and

(b) in applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from the application of IAS 28.

5 The Amendments shall be applied retrospectively for annual periods beginning on or after 1 January 2019. Earlier application is permitted. If an entity applies the Amendments earlier, it shall disclose that fact.

6 An entity that first applies the Amendments after it first applies IFRS 9 shall apply the transition requirements in IFRS 9. The entity is not required to restate prior periods to reflect the application of the Amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

7 When first applying the Amendments, an entity that applies the temporary exemption from IFRS 9 in accordance with IFRS 4 *Insurance Contracts* is not required to restate prior periods to reflect the application of the Amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

8 The IASB also developed educational material that includes an example illustrating how the requirements in IAS 28 and IFRS 9 interact with respect to the long-term interests.

Question for EFRAG TEG

9 Does EFRAG TEG have any comments on the comparison of the Amendments with the comments raised by EFRAG in its comment letter?

Appendix 1 – Dissenting opinion of an IASB member

1 One IASB member voted against the publication of the Amendments for the following reasons:

(a) The IASB member was of the view 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 disagreed 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.

(b) The IASB member noted that the Amendments would result in 'dual application' of accounting requirements to the same asset, which he thought is contrary to basic principles of accounting standards. He was of the view that such dual application of accounting requirements might result in double counting and, therefore, could undermine the quality of financial statements.