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Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28) Cover Note

Objective

- 1 The objective of this session is to discuss a second draft of, and recommend to the EFRAG Board, a draft endorsement advice on *Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)* ('the Amendments') against the endorsement criteria set in the IAS Regulation.

Background

- 2 On 12 October 2017, the IASB published the Amendments. The Amendments clarify that IFRS 9 *Financial Instruments* 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 ('long-term interests'). 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 *Investments in Associates and Joint Ventures*; 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.

Previous EFRAG TEG discussions

- 3 At its October 2017 meeting, EFRAG TEG discussed how the IASB has addressed the issues raised and recommendations made by EFRAG in its comment letter on the exposure draft that led to the Amendments to IAS 28. EFRAG TEG also had an initial discussion on the draft endorsement advice letter on the Amendments. EFRAG TEG suggested the following improvements to the letter:
 - (a) incorporate the point included in EFRAG's comment letter to the IASB that the accounting treatment of long-term interests in an associate or joint venture should be considered more broadly in the IASB's equity method research project;
 - (b) incorporate more discussion on the interaction between IFRS 9 and IAS 28 on long-term interests and the different units of account;
 - (c) acknowledge that equity interests have different risk profiles from long-term interests;

*Amendments to IAS 28-Long-term Interests in Associates and Joint Ventures
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- (d) acknowledge that the Amendments will not reduce the existing level of relevance in that they do not introduce any new accounting requirements; and
 - (e) incorporate more discussion on the different types of costs arising from the application of IFRS 9 to long-term interests.
- 4 The EFRAG Secretariat has prepared a second draft of the draft endorsement advice of the Amendments on the basis of the above comments (Agenda paper 02-02). A marked up version has also been provided (Agenda paper 02-03).
- 5 EFRAG has not yet received a letter from the European Commission requesting advice on the endorsement of the Amendments. Accordingly, the EFRAG Secretariat is seeking the views of EFRAG TEG on the draft documents.

Questions for EFRAG TEG

- 6 Does EFRAG TEG agree to recommend the draft endorsement advice on the Amendments (Agenda paper 02-02) to the EFRAG Board, subject to receiving the relevant request from the European Commission?
- 7 Does EFRAG TEG agree with the draft invitation to comment (Agenda paper 02-04)?

Agenda Papers

- 8 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 02-02 – draft DEA letter to the EC on the Amendments;
 - (b) Agenda paper 02-03 – draft DEA letter to the EC on the Amendments (marked up) - for background; and
 - (c) Agenda paper 02-04 – Invitation to comment on the draft DEA on the Amendments.