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IFRS in Focus

IASB proposes amendments to IAS 27 to allow the use of the equity method in separate financial statements

Contents

The Bottom Line

- The proposed amendments would allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements.
- Comments on the proposals are due by 3 February 2014.

This edition of IFRS in Focus outlines the proposed amendments to IAS 27 *Separate Financial Statements* set out in the recent Exposure Draft (ED) ED/2013/10 issued by the International Accounting Standards Board (IASB).

Why are amendments being proposed to IAS 27?

IAS 27 *Separate Financial Statements* requires an entity to account for its investments in subsidiaries, joint ventures and associates either at cost or in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted IFRS 9).

As part of the IASB's 2011 Agenda Consultation, some constituents responded that the laws of some countries require listed companies to present separate financial statements using the equity method to account for investments in subsidiaries, joint ventures and associates. In addition, it was noted that in most cases the only difference between an entity's separate financial statements in accordance with IFRSs and those prepared under local regulation was the use of the equity method.

The IASB acknowledged these concerns and, consequently, proposed in ED/2013/10 to add the option to use the equity method in an entity's separate financial statements when accounting for its investments in subsidiaries, joint ventures and associates.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

What are the proposed amendments to IAS 27?

Under the proposals, an entity would be able to use the equity method to account for its investments in subsidiaries, joint ventures and associates in its separate financial statements. Consequently, an entity would be permitted to account for these investments either:

(i) at cost; or

(ii) in accordance with IFRS 9 (or IAS 39); or

(iii) using the equity method.

This is an accounting policy choice for each category of investment.

Observation

Separate financial statements are not required by IFRSs. In general, separate financial statements are required by local regulation or other financial statements users.

Consequential amendments to IAS 28 *Investments in Associates and Joint Ventures* are proposed to avoid potential conflict with IFRS 10 *Consolidated Financial Statements.* The proposed consequential amendments would clarify that paragraph 25 (which requires the proportion of the gain or loss previously recognised in other comprehensive income that relates to a reduction in an ownership interest to be reclassified to profit or loss) applies only when an entity's ownership in an associate or joint venture is reduced but the investment continues to be classified as an associate or joint venture.

Effective date and comment period

The ED does not specify an effective date. The IASB will determine the effective date as part of considering the comments they receive on this ED.

Entities would be required to apply the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

There are no special reliefs included in the ED for first time adopters.

Observation

The IASB considers that an entity would not need to perform any additional procedures when applying the equity method in its separate financial statements because it would be able to use the information from its consolidated financial statements (i.e. the information from consolidating the entity's subsidiaries under IFRS 10 and from applying the equity method to associates and joint ventures under IAS 28).

Comments on the ED are due by 3 February 2014.

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