

6 January 2025

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

Dear Sir,

COMMENTS ON THE INTERNATIONAL ACCOUNTING STANDARDS BOARD'S EXPOSURE DRAFT ED/2024/7

We would like to take this opportunity to comment on Exposure Draft (ED) ED/2024/7 *Equity Method of Accounting (IAS 28 Investments in Associates and Joint Ventures (revised 202x))* issued by the International Accounting Standards Board (IASB).

2. We welcome IASB's proposed amendments to the measurement of the cost of an associate. The amendments clarify the measurement principles, which seeks to reduce diversity in practice, thereby improving comparability and understandability of financial statements.

Transaction costs in acquisition of associates or joint ventures

3. We believe that the IASB's proposals for measuring the cost of an associate would benefit from further clarification regarding the accounting for transaction costs associated with the acquisition of associates and joint ventures, to ensure consistency in treatment.

4. In IFRS Interpretations Committee (IFRIC) July 2009 update, it was clarified that IFRSs consistently require assets not measured at fair value through profit or loss to be measured at initial recognition at cost. Generally stated, cost includes the purchase price and other costs directly attributable to the acquisition or issuance of an asset. Hence the IFRIC

concluded that the cost of an investment in an associate at initial recognition determined in accordance with IAS 28 *Investments in Associates and Joint Ventures* comprises purchase price and any directly attributable expenditures necessary to obtain it.

5. However, we note that in IFRS 3 *Business Combinations*, acquisition-related costs are expensed off in the periods in which they are incurred. Acquisition-related costs are costs the acquirer incurs to effect a business combination, and are not part of the exchange transaction between the acquirer and the acquiree. Therefore, under IFRS 3, acquisition-related costs, which are transaction costs, are expensed off.

6. Given the possible different treatment of transaction costs, we seek IASB's clarification on the appropriate treatment of transaction costs when measuring the cost of associates and joint ventures.

Transactions with associates and joint ventures

7. In this ED, IASB proposes that an investor or joint venturer recognise in full the gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates or joint ventures.

8. While gains and losses were previously defined in the 2010 *Conceptual Framework*, they were removed from the existing *Conceptual Framework*. The *Basis for Conclusions – Conceptual Framework* explains that they were originally included to emphasise that income includes revenue and gains and that expenses include losses. They were removed as the emphasis was deemed unnecessary. Hence, it can be inferred that gains and losses are only subclasses of income and expenses. Therefore, an investor may not be required to recognise, in full, all income (including revenue under IFRS 15 *Revenue from Contracts with Customers*) and expenses resulting from transactions with its associates. Similarly, no disclosures would be required for 'downstream' transactions that are not gains or losses.

9. However, we note that the ED proposes that an investor recognises gains and losses for all transactions with associates, which seem to suggest that the intention is to capture all income and expenses.

10. We would thus, like to seek IASB's clarification on the scope of its proposed requirements and propose for IASB to reword its requirements accordingly. Additionally, it would also be useful if illustrative examples are provided to illustrate its application.

11. We hope that our comments will contribute to the IASB's further deliberation on this ED. Should you require any clarifications, please contact the Secretariat, Advisory Committee on Accounting Standards for Statutory Boards. Thank you.

Yours sincerely

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