

STAFF PAPER

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IASB Meeting

Project	The Equity Method of Accounting		
Paper topic	Project scope		
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Introduction

1. This paper considers the scope of the research project on the equity method of accounting. In its Feedback Statement to the 2011 Agenda Consultation (the ‘Agenda Consultation’) the IASB noted:

The equity method of accounting for some investments is often criticised. Some question whether it provides helpful information to users, while others note the complexities and inconsistencies it creates when it interacts with other requirements in IFRS – such as goodwill impairment, share based payments and joint arrangements. The research project will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers.

2. The aim of this paper is to update the IASB on the planned scope of the research project on the equity method of accounting.

Feedback sought

3. We have started work on a project to examine issues related to the equity method of accounting. The project was added to the research programme as a result of the Agenda Consultation. As a first step we are examining the financial reporting issues that the application of the equity method seeks to resolve. By

understanding those issues we can identify how and why the equity method, as set out in IAS 28 *Investments in Associates and Joint Ventures*, resolves this financial reporting issue. This should enable us to consider both alternatives and simplifications to the equity method as set out in IAS 28 and thereby assess whether changes are required to current IFRS.

History

4. Christopher Nobes,¹ in a paper published in 2002, reviewed the history and analysed the reasons for the use of the equity method. His paper identified the following circumstances in which the equity method had been used historically:
 - (a) *proto-consolidation*—as an alternative to consolidation prior to the development of full consolidation methodologies.
 - (b) *pseudo-consolidation*—the application of the equity method in a parent entity's separate financial statements. This paper discusses various reasons for why the method was applied historically in separate financial statements. It notes that in the Netherlands subsidiaries, joint ventures and associates were reported using the equity method as it enables the equity of the parent to equal that of the group. An alternative view is that the equity method recognises the substance over the legal form, the substance being the ability of the parent entity to request its share of the profits as a dividend.
 - (c) *substitute-consolidation*—in these circumstances the equity method is applied in consolidated financial statements to include subsidiaries that are excluded from consolidation, for example, historically subsidiaries with dissimilar activities were accounted for using the equity method.
 - (d) *semi-consolidation*—for the inclusion of associates and joint ventures in consolidated financial statements.
5. In pseudo-consolidation, application of the equity method ensures that the parent entity's separate financial statements recognises a diminution in the value of an

¹ An Analysis of the International Development of the Equity Method – Chris Nobes, 2002.

investment as application of the equity method and does not permit the parent entity's net assets to exceed the consolidated net assets of the group. Arguably, in these circumstances the equity method is a *measurement (possibly impairment) method*.

6. The application of the equity method as a substitute to consolidation occurred when a subsidiary was excluded from consolidation for a particular reason, such as temporary control or dissimilar activities. In these circumstances the application of the equity method is a *one-line consolidation method* whereby it 'ring-fences' the certain assets and liabilities.
7. In the 1970s the use of the equity method of accounting became widespread for accounting for associated entities and joint ventures in consolidated financial statements. Part of the reason for the spread in the application of the equity method in the 1970s appears to be due to an attempt to address the concern that parent entities were conducting their activities through entities that did not meet the then 'legalistic' definition of a subsidiary. In these circumstances, application of the method was attempting to address a *deficiency in the definition of a subsidiary* by requiring one-line consolidation. The definition of a subsidiary has, however, been refined over time and the equity method is no longer required for this purpose.
8. The above summary identifies that the equity method has been applied to address a number of different financial reporting problems, including:
 - (a) as a measurement method, in the parent entity's separate financial statements;
 - (b) to address the deficiency in the definition of a subsidiary;
 - (c) as a substitute for consolidation; and
 - (d) to account in consolidated financial statements for associated and joint ventures, because the recognition of dividend income alone does not provide sufficient information for financial reporting purposes.
9. The analysis suggests that the equity method of accounting has been used to solve different financial reporting issues; this is possibly why there are differing views as to what the method is.

The equity method in current IFRS

10. The equity method was introduced into International Accounting Standards in 1976, as part of IAS 3 *Consolidated Financial Statements*. The requirements were moved to IAS 28 *Accounting for Investments in Associates* in 1989, which was revised and renamed IAS 28 *Investments in Associates* in 2003. In 2010 the application of IAS 28 was extended to include the equity method of accounting for joint ventures and the Standard was renamed IAS 28 *Investments in Associates and Joint Ventures*.
11. The objective of the current Standard is to prescribe the accounting for investments in associates and set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.
12. Paragraph 3 of IAS 28 defines the equity method as:

The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income.
13. Paragraph 11 of IAS 28 explains that the recognition of dividend income may not be an adequate measure of the income earned by an investor on an investment in an associate or a joint venture, because the distribution received may bear little relation to the performance of the associate or the joint venture. It notes that the application of the equity method provides more informative reporting of the investor's net assets and profit or loss. In addition, it is noted in the Basis for Conclusions on IFRS 11 *Joint Arrangements* that the equity method is a method that accounts for an entity's interest in the net assets of an investee.
14. Paragraph 26 of IAS 28 notes that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements* and the concepts that underlie the method are similar to those in IFRS 3 *Business Combinations*.

15. IAS 28 set out how to apply the equity method of accounting; however, it does not provide details on why the equity method is appropriate in the circumstances that it is applied.

2011–2012 Agenda Consultation

16. There were 37 responses to the Agenda Consultation that specifically addressed the equity method of accounting. The views expressed by respondents vary with 9 of the respondents noting that the equity method of accounting was not a priority project at the time of the consultation. The views of respondents can be broadly categorised, as follows:

Simplify the requirements of the equity method	10
Research the conceptual merits of the equity method	7
Do not default to fair value	5
Research the use of fair value	1
Extend the scope to separate financial statements	5 ²
Other matters relating to scope	3
Not currently priority project	9

17. In highlighting a need to simplify the equity method, respondents to the Agenda Consultation are raising concerns about the methodology of the equity method as opposed to highlighting a particular financial reporting issue. At the time of the Agenda Consultation the equity method of accounting was applied in consolidated financial statements to account for associate and joint venture entities and by entities with joint control or significant influence over an investee.

² The IASB published an Exposure Draft proposing to extend the application of the equity method to separate financial statements in December 2013. The proposed amendments to IAS 27 *Separate Financial Statements* would allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate (parent only) financial statements. Consequently, extending the scope of the equity method to separate financial statements is being addressed in a separate project.

18. It should be noted that some respondents consider that identifying the conceptual merits of the equity method could lead to a simplification of the requirements; consequently, simplifying the requirements and researching the conceptual merits are not mutually exclusive categories.
19. Some respondents who proposed researching the conceptual merits of the equity method, noted that:
- (a) there is a divide between those who see the equity accounting as a valuation technique and those who see it as ‘one-line consolidation’.
(comment letter 43³)
 - (b) the equity method has existed for some time and since its introduction there have been advances in accounting for holdings in equity securities, such as the requirement of IAS 39 *Financial Instruments: Recognition and Measurement*/IFRS 9 *Financial Instruments*.
(comment letter 28⁴)
20. In noting issues with the equity method it was suggested that the IASB should conduct a Post-implementation Review (PIR) of IAS 28. A PIR commences with an assessment of the matters to be examined, which are then subject to public consultation. Our assessment is that the IASB is already aware of current application issues with IAS 28, because of the level of activity arising from the IFRS Interpretations Committee (the ‘Interpretations Committee’) and from other respondents to the Agenda Consultation. Consequently, a PIR would probably have a longer timescale than the project proposed in this paper.

Defining the problem

21. The following sections of this paper outline the scope of the project on the equity method of accounting that aims to understand the financial reporting issues that the application of the equity method of accounting seeks to resolve and how we might address application issues that arise from the methodology.

³ [Deloitte Touche Tohmatus Ltd](#)

⁴ Macquarie Group Ltd

22. We have identified above that that the equity method of accounting has been used to solve different financial reporting issues. We think the first step in the project on the equity method of accounting is to review the circumstances in which the equity method is applied in IFRS and from this identify the financial reporting problem(s) that the application of the method is attempting to resolve.
23. Based on this analysis we aim to consider how and why the equity method resolves this financial reporting issue, considering both alternatives and simplifications to the equity method as set out in IAS 28.

Understanding information needs

24. Some respondents to the Agenda Consultation raise the matter of scope of application of the equity method. Respondents highlight that IFRS 10 attempts to resolve the concern regarding the deficiency in the definition of a subsidiary (that is to combat perceived structuring of investments) and therefore the use of the equity method should be reconsidered. The AOSSG in its comment letter notes:

Although the objective and relevance of the equity method of accounting has been under debate, the AOSSG believes that the issues should be considered in conjunction with the scope of consolidated financial statements as well as accounting for joint arrangements. Considering that IFRSs 10-12 were issued in May 2011, the AOSSG recommends that the IASB conduct post-implementation reviews of such standards in conjunction with reconsidering equity method of accounting.

25. The 2010 Exposure Draft published by the IASB on the Reporting Entity chapter of the *Conceptual Framework* notes:

If one entity controls another entity, the cash flows and other benefits flowing from the controlling entity to its equity investors, lenders and other creditors often depend significantly on the cash flows and other benefits obtained from the entities it controls, which in turn depend on those entities' activities and the controlling entity's direction of those activities. Accordingly, if an entity that controls one

or more entities prepares financial reports, it should present consolidated financial statements. Consolidated financial statements are most likely to provide useful information to the greatest number of users.

26. Associate and joint venture entities are not controlled by the parent entity and therefore, in accordance with the *Conceptual Framework*, are not part of the consolidated group. A logical conclusion that follows is that if associate and joint venture entities are not part of the group then the equity method in IAS 28 cannot be a one-line consolidation method.
27. IAS 28 does not restrict the use of the equity method to consolidated financial statements; it requires an entity with joint control or significant influence over an investee to account for its investment in an associate or a joint venture using the equity method, except in specified circumstances. Furthermore, the IASB has tentatively decided to restore the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in a parent entity's separate financial statements.
28. The IASB published the Exposure Draft *Equity Method in Separate Financial Statements* in response to calls for the option to be restored by respondents to the Agenda Consultation. Respondents to the Agenda Consultation noted that they were required by local laws to apply the equity method in separate financial statements for investments in subsidiaries, joint ventures and associates. The application of the equity method was the only difference between the separate financial statements prepared in accordance with IFRS and those prepared in accordance with local regulations. It is noted in in paragraph BC8 of the Exposure Draft that:
- ... the fact that the equity method provides information that is already reflected in consolidated financial statements does not mean that it would not provide relevant information.
29. Separate financial statements often have a different role to those of consolidated financial statements; they can be used by tax authorities as the basis for assessing taxable profits and are often the basis for calculating distributable profits. It is therefore difficult to understand that if the equity method provides more

information than cost why the method should be restricted to consolidated financial statements.

30. IFRS permits application of the equity method in a number of different circumstances. The scope of the equity method project should address:
- (a) if and how application of the equity method addresses the investors' information needs when the investors does not control an entity, but has the ability to affect the returns from an investment through significant influence or joint control in consolidated financial statements; and
 - (b) if and how application of the equity method addresses the investors' information needs in separate financial statements, including where the option is restored to apply the equity method of accounting for investments in subsidiaries.
31. To understand the information requirements of users of financial statements we think it would helpful to understand the financial reporting problems and possible alternatives first. We have held a preliminary discussion with the Capital Markets Advisory Committee on the application of the equity method for associate entities and joint ventures, however, members did not highlight particular areas for further investigation. We therefore think it would be useful to have alternatives to the equity method available to discuss with investors.

Methodology

32. Because there are different circumstances in which the equity method is applied, it follows that there may be different financial reporting problems that we are seeking to resolve and thereby potentially alternative solutions. Once we have identified the financial reporting issues that the equity method seeks to resolve we propose to consider alternatives to the equity method and/or simplifications to the existing method.
33. Some have suggested that the project should determine whether the equity method is a measurement basis or if it is a one-line consolidation method. The European Financial Reporting Group (EFRAG) published a short Discussion Paper in January 2014 *The Equity Method: A Measurement Basis or One-line Consolidation?* The paper reviews the historical development of the equity

method and notes that since associate and joint venture entities are not controlled by an investor, they are not part of the group in accordance with IFRS. As a consequence the equity method cannot conceptually be a one-line consolidation method. EFRAG does not conclude on whether the method is therefore a measurement basis but considers that the equity method provides more relevant information than cost or fair value.

34. The EFRAG paper provides useful material; however, we think that in order to decide on whether the equity method is a measurement basis or a one-line consolidation method we need to understand the financial reporting issues that the application of the equity method seeks to resolve and then evaluate why and how the equity method addresses these issues.

35. We have reviewed the current accounting for investments in IFRS to identify potential alternatives within existing IFRS; a summary is in Appendix B. It is also noted in paragraph BC43 of IFRS 12 *Disclosure of Interests in Other Entities* that:

... the Board concluded that the disclosure requirements for joint arrangements and associates could share a common disclosure objective – to disclose information that enables users of financial statements to evaluate the nature, extent and financial effects of an entity's interests in joint arrangements and associates, and the nature of the risks associated with those interests.

36. In addition to considering alternatives within current IFRS the disclosure objective from IFRS 12 should help us to identify alternatives (including simplifications) to the equity method. Based on the current accounting requirements for investments and the objective of IFRS 12 we have initially identified the following possible alternatives for consideration:

- (a) simplify the current equity method—this may be possible if we identify that the equity method is a measurement basis. In this circumstance we may be able to remove some of the requirements that are similar to consolidation procedures, such as elimination of upstream and downstream transactions.

- (b) retaining the current equity method—clarifying the role of the equity method to provide a conceptual underpin, which will enable current application issues to be addressed.
 - (c) fair value—IFRS 9 permits the use of fair value through profit or loss and other comprehensive income (OCI). OCI is permitted when an investment is held for reasons other than capital appreciation.
 - (d) cost with additional disclosures regarding the nature of the investment.
37. In identifying and evaluating alternatives/improvements to the equity method as set out in IAS 28, we will need to consider application issues of preparers together with consideration of the cost/benefit of the alternatives. We plan to discuss the potentially acceptable alternatives with investors.

Potential issues

Addressing the application issues of the equity method

38. As noted some respondents to the Agenda Consultation consider that the equity method should be simplified, identifying that there are application issues with the equity method as set out in IAS 28. The application issues raised by respondents to the Agenda Consultation include:
- (a) elimination of upstream and downstream transactions;
 - (b) treatment of transactions between associates and subsidiaries;
 - (c) impairment requirements; and
 - (d) presentation requirements.
39. The concern about application issues is supported by the number of amendments and queries that have been addressed by the Interpretations Committee and the IASB. Appendix A summaries the recent amendments/queries that relate to IAS 28.
40. As noted earlier some respondents to the Agenda Consultation suggested that research into the conceptual underpinning of the equity method would provide a better understanding of the equity method and assist in resolving the application issues. We think that to address the application issues that arise in relation to the

equity method in IAS 28, it is first important to understand the financial reporting problem(s) that the application of the method seeks to resolve. Once we have evaluated the problem we are then in a position to better evaluate the application issues.

41. While we have outlined the application issues that the IASB is aware of we think it will be important to discuss the application issues with preparers. Consequently, at this point in the project we would work with national standard-setters and preparers to gain input on the application issues.

Related Party Disclosures

42. As noted above respondents have raised the elimination entries required by IAS 28 as an application issue. At present, IAS 28 outlines the equity method procedures and provides that:
- (a) many of the procedures are similar to consolidation procedures;
 - (b) adjustments may be necessary to the associate or joint venture entity's financial statements to conform accounting policies; and
 - (c) gains and losses from 'upstream' and 'downstream' transactions are recognised to the extent of unrelated investors' interests in the associate or joint venture.
43. Elimination entries in the preparation of consolidated financial statements ensure that the consolidated financial statements show the result of the parent entity and the entities that it controls as a single economic entity. The same cannot be said when the equity method of accounting is applied as associate and joint venture entities that are not controlled by the parent and are therefore outside the single economic entity.
44. Elimination entries when the equity method is applied may relate to the understanding of transactions between related parties. It was identified in paragraph 13 that the equity method is applied because the distribution received may bear little relation to the performance of the associate or the joint venture. A disconnection between distributions and results could arise if an investor uses its significant influence or joint control to influence the payment of dividends. Similarly, some of the application issues the IASB has sought to address though

its narrow-scope amendments to IAS 28 appear to be related to understanding the impact on the results of groups of transactions with associate and joint venture entities.

45. In considering simplifications of the equity method, we believe that it will be important to consider whether a simplified method could be supported by amending the disclosures with regard to the related party transactions. That is whether disclosures addressing how transactions between an associate, a joint venture and the parent entity affect the results of the consolidated financial statements and thus could enable simplification of the equity method as currently applied in IAS 28.

Use of fair value

46. Some respondents to the Agenda Consultation, while acknowledging the need to review the equity method, also noted that they would not support a move to fair value. Some of the reasons for not supporting the use of fair value include:
- (a) associate and joint venture entities are private entities so there could be practical difficulties in calculating the fair value. The outcome of the valuation would then be subjective.
 - (b) the use of fair value could lead to the recognition of unrealised gains or losses when the investments are held for the long-term. That is, the objective of the investment is to not generally realise short-term gains.
 - (c) the use of fair value could lead to volatility in the income statement that does not represent the nature of the investment.
47. These respondents are not supporting the use of fair value when an associate or joint venture entity is held as part of the entities operations, rather than an investment being held solely for the purpose of capital appreciation and investment income. Although fair value may be an alternative that should be considered we also need to be cognisant of these concerns.

Definition of an associate

48. We are not initially seeking to address the definition of an associate; only one respondent to the Agenda Consultation identified the definition of an associate as

a point for clarification—requesting that the IASB clarify significant influence over financial and operating policies. Paragraph 5 of IAS 28 provides some guidance on the definition of significant influence. It notes that if an entity holds, directly or indirectly, 20 per cent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated that this is not the case. The 20 per cent holding is a presumption and we could seek to refine the definition of an associate, however, removing the 20 per cent presumption would require a great understanding of the meaning of significant influence and particularly the phrase ‘power to participate’.

49. It is clear that the current wording is not as principled as the definition of control in IFRS 10. When IFRS 10 was being developed some IASB members suggested that the IASB should take the opportunity to align the language and approach to the definition of *significant influence*. However, the IASB was concerned about delaying IFRS 10 so decided not to amend IAS 28 in this regard.
50. Although IAS 28 arguably contains ‘bright-lines’ and could be more principled, we do not consider there to be sufficient evidence that a problem exists with how the current definition of an associate is being applied to include the definition within the scope of this project. We think that we should only open the debate on the definition of an associate if specific application issues are identified as part of our research.

Tentative proposal

51. The Due Process Handbook notes that new financial reporting requirements should be designed to address problems identified with existing requirements. The purpose of the IASB’s research programme is to analyse possible financial reporting problems by collecting evidence on the nature and extent of the perceived shortcoming and assessing potential ways to improve financial reporting or remedy a deficiency.
52. The objective of this research project is designed to understand the financial reporting issues that the equity method seeks to resolve by considering the circumstance that it is applied in current IFRS. Based on this analysis we aim to consider how and why the equity method resolves this financial reporting issue,

considering both alternatives and simplifications to the equity method as set out in IAS 28.

53. Set out in Appendix C is a proposed project outline.

Question

Do IASB members have any comments on the project proposals set out above?

Appendix A

Recent activities related to the equity method of accounting

Issue	
Acquisition of an Interest in a Joint Operation	<p>The IASB proposes that acquirers of such interests shall apply the relevant principles on business combination accounting in IFRS 3 <i>Business Combinations</i> and other Standards, and disclose the relevant information specified in these Standards for business combinations.</p>
IAS 28: Elimination of gains arising from downstream transactions	<p>The IFRS Interpretations Committee noted that the entity should eliminate the gain from a downstream transaction to the extent of related investors' interest in the associate or the joint venture, even if the gain to be eliminated exceeds the carrying amount of the entity's investment in the associate or the joint venture, as required by paragraph 28 of IAS 28 <i>Investments in Associates and Joint Ventures</i>.</p>
Equity Method: Share of Other Net Assets Changes	<p>The IASB proposed in the Exposure Draft that:</p> <ul style="list-style-type: none"> (a) an investor should recognise, in the investor's equity, its share of the changes in the net assets of the investee that are not recognised in profit or loss or other comprehensive income (OCI) of the investee, and that are not distributions received ('other net asset changes'); and (b) the investor should reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

Issue	
IFRS 10 and IAS 28 (2011): Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	<p>The Exposure Draft proposed amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28. The IASB proposed to amend IAS 28 (2011) so that:</p> <ul style="list-style-type: none"> (a) the current requirements regarding the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business as defined in IFRS 3; and (b) the gain or loss resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognised in full.
Separate financial statements: use of the equity method	<p>The objective of this narrow-scope project is to restore the option to use the equity method of accounting in a parent entity's separate financial statements.</p>
Application of the equity method by a non-investment entity investor to an investment entity investee	<p>The IASB intends to publish an Exposure Draft clarifying:</p> <ul style="list-style-type: none"> (a) the accounting by an investment entity that has a subsidiary that meets the definition of an investment entity and, additionally, that provides investment-related services; (b) whether the exemption to present consolidated financial statements, as set out in paragraph 4 of IFRS 10, is available to entities affected by the Investment Entities amendments; and (c) The application of the equity method by a non-investment entity investor to an investment entity investee.
Associates and common control	<p>The issue considered is whether it is appropriate to apply the scope exemption for business combinations under common control, by analogy to the acquisition of an interest in an associate or a joint venture under common control.</p>

Appendix B

Summary of accounting for investments in current IFRS

Nature of investment	Description of investment	Accounting
Simple investment	<p>Ownership rights.</p> <p>No ability to influence.</p> <p>Investor can to sell or hold.</p>	<p>Fair value depending on circumstance through OCI or profit and loss.</p> <p>Circumstances for OCI— not held for trading.⁵ These investments are held for non-contractual benefits rather than primarily for increases in the value of the investment.</p>
Associate	<p>Ownership rights.</p> <p>Investor can influence activities to change future cash flows.</p> <p>Investor can sell or hold.</p>	Equity method.
Joint control	<p>Ownership rights.</p> <p>Joint control, consent required on relevant activities to change future cash flows.</p> <p>Investor can sell or hold.</p>	Equity method.

⁵ IFRS 9, BC5.22

Nature of investment	Description of investment	Accounting
Subsidiary	Ownership rights. Controls activities. Investor can sell or hold.	Consolidation.
Investment entities	Ownership of rights, ability to control but the investment entities: (a) obtain funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) have commitments to its investor(s) that its business purpose is to invest funds solely for return from capital appreciation, investment income, or both; and (c) measures and evaluates the performance on a fair value basis.	Fair value through profit and loss.

Appendix C

Research project on the Equity Method of Accounting proposed project plan

1. Introduction and Background:

- (a) history of the equity method;
- (b) the equity method in current IFRS; and
- (c) feedback to the 2011–202012 Agenda Consultation.

2. Objective of the project

To understand the financial reporting issues that the equity method seeks to resolve by considering the circumstances that it is applied in current IFRS. Based on this analysis we aim to consider how and why the equity method resolves this financial reporting issue, considering both alternatives and simplifications to the equity method as set out in IAS 28.

3. Define the problem

To understand the financial reporting issues that the equity method seeks to resolve by considering the circumstances that it is applied in current IFRS.

4. Understanding information needs

Having identified the financial reporting issues, consider the information requirements of users, assessing how the current equity method provides the information required.

The scope of the Equity Method of Accounting project should address:

- (a) if and how the application of the equity method addresses the investors' information needs when the investor does not control an entity but has the ability to affect the returns from an investment through significant influence or joint control in consolidated financial statements; and
- (b) if and how the application of the equity method addresses the investors' information needs in separate financial statements, including when the option is restored to apply the equity method of accounting for investments in subsidiaries.

5. Methodology

Identify possible alternatives to the financial reporting issues:

- (a) simplify the equity method;
- (b) retain the current equity method as set out in IAS 28;
- (c) fair value; and
- (d) cost.

6. Potential issues:

- (a) application issues;
- (b) related party disclosures; and
- (c) fair value.

7. Tentative proposals

The tentative proposals will be included in a Discussion Paper that identifies the financial reporting issues that the application of the equity methods seeks to resolve, together with alternatives or simplifications to the current method.