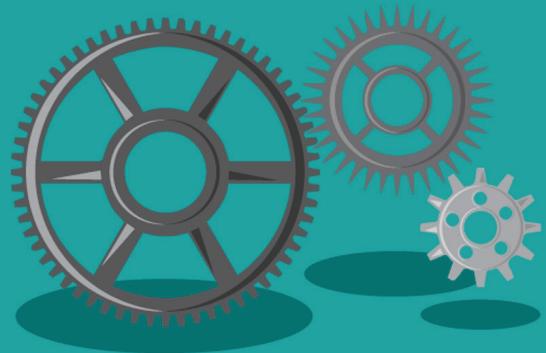


Long-term interests in associates and joint ventures

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Mike Metcalf
Partner
KPMG in the UK

How do equity accounting losses and IFRS 9 interact for long-term interests?

Highlights

- IASB's amendment mainly affects the extractive and real estate sectors
- It reduces diversity in practice, but introduces complexity
- Using a three-step approach will help to operationalise the amendment
- Take a look at the detailed IASB example

An amendment to IAS 28 *Investments in Associates and Joint Ventures* will affect companies that finance such entities with preference shares or with loans for which repayment is not expected in the foreseeable future (referred to as long-term interests or 'LTI'). This is common in the extractive and real estate sectors.

The amendment, which addresses equity-accounted loss absorption by LTI, involves the dual application of IAS 28 and IFRS 9 *Financial Instruments*.

"This will promote consistency but at the expense of some complexity."

Mike Metcalf,
KPMG's global IFRS business
combinations leader

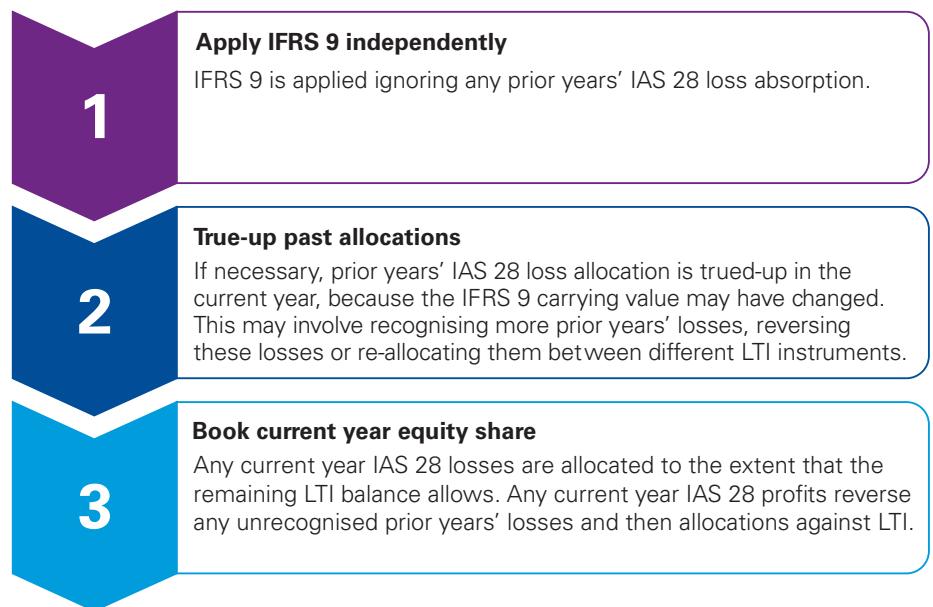
Reducing diversity in practice

There has always been diversity in practice when accounting for the share of losses of an associate or joint venture after the equity interest has been reduced to nil. The share of further losses is required to be allocated to LTI, but how does that modify the financial instruments' accounting requirement for such loans?

The introduction of new impairment requirements in IFRS 9 based on *expected* credit losses exacerbated the issue and prompted the IASB to find a solution before IFRS 9 becomes effective.

Three-step approach

The amendment and accompanying example state that LTI are in the scope of both IFRS 9 and IAS 28 and explain the annual sequence in which both standards are to be applied. In effect, this is a three-step annual process:



The complexity is created by step 2. It will require careful application every year.

Supporting application through an example

Acknowledging that applying two conceptually different standards to the same instrument is not straightforward, the IASB has published a six-page [example](#) to illustrate how to apply the amendment.

Effective date

The amendment applies for annual periods beginning on or after 1 January 2019. Early adoption is permitted. There are transitional reliefs.