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Dr. Andreas Barckow
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Our ref BOD/288

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Dear Dr. Barckow

Comment letter on Exposure Draft: Amendments to the Fair Value Option for Investments in Associates and Joint Ventures

We appreciate the opportunity to comment on the International Accounting Standards Board's (IASB) Exposure Draft ED/2026/1 *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures* ('the ED' or 'the proposals') published in February 2026. We have consulted with, and this letter represents the views of, the KPMG network.

We support the proposed amendments to paragraphs 18–19 of IAS 28 *Investments in Associates and Joint Ventures* as we believe they would help address existing diversity in interpretation and reduce potential related presentation mismatches under IFRS 18 *Presentation and Disclosure in Financial Statements*. However, we recommend that the IASB further clarifies the intended scope and practical application of the amendments to ensure they are consistently interpreted and applied. We support the IASB's efforts to finalise the amendments ahead of the effective date of IFRS 18.

We agree with the IASB's decision not to propose an unrestricted fair value option in this ED, as this would represent a more significant change to IAS 28 requiring longer consultation with stakeholders. However, we support the IASB further exploring an unrestricted fair value option and recommend that the IASB consider adding a separate project to its workplan.

The appendix to this letter contains our detailed responses to the questions raised in the ED.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Tara Smith at tara.smith@kpmg.co.za if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix

This appendix contains our detailed responses to the questions raised in the ED.

Question 1— Proposed amendments to paragraphs 18–19 of IAS 28

Paragraphs 18–19 of IAS 28 permit an entity to elect to measure an investment in an associate or a joint venture at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* if the investment is held by a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

The IASB is proposing to amend paragraphs 18–19 of IAS 28 to clarify that similar entities include those that have a main business activity of investing in particular types of assets (as set out in paragraph 49(a) of IFRS 18).

Paragraphs BC1–BC19 of the Basis for Conclusions explain the IASB’s rationale for this proposal. In particular, paragraphs BC9–BC13 explain why the IASB decided not to propose extending the fair value option to all entities.

Do you agree with this proposal? Why or why not? If you disagree, please explain what you would suggest instead and why.

We support the proposed amendments which improve clarity of the term “similar entities” in paragraphs 18–19 of IAS 28 by making a direct link to an assessment prescribed in IFRS 18. We believe this will help address existing diversity in interpretation of “similar entities including investment-linked insurance funds” and reduce potential related presentation mismatches under IFRS 18.

However, we recommend that the IASB further clarifies the intended scope and practical application of the amendments to ensure they are consistently interpreted and applied. Specific areas that we believe require further clarification are discussed below under ‘Practical application matters requiring clarification in the proposals’.

Targeted vs unrestricted fair value option

We agree with the IASB’s decision not to propose an unrestricted fair value option in this ED, as this would represent a more significant change to IAS 28 requiring longer consultation with stakeholders. However, we support the IASB further exploring an unrestricted fair value option and recommend that the IASB consider adding a separate project to its workplan.

Which entities are eligible to elect the fair value option

We agree that the fair value option should be available for entities that have a main business activity of investing in particular types of assets (referred to hereafter as ‘investing in assets’). By directly referencing an existing concept in IFRS 18, the

proposals avoid introducing a new or different test. We believe this approach could reduce complexity in interpreting the new requirements (subject to the clarification requests discussed below), even if judgement may be required in some cases.

We note that the ED may result in an expanded scope of eligible companies and investments that can be measured at fair value compared to a reference to investing in associates and joint ventures as a main business activity (as discussed in BC16). We do not object to this outcome because we believe fair value provides relevant information to financial statement users. As discussed above, we support the IASB further exploring an unrestricted fair value option for all entities, e.g. in a separate project.

Practical application matters requiring clarification in the proposals

For the proposals to be effectively and consistently implemented and to avoid introducing new application issues, it is important that the scope of the fair value option and practical application of the proposals is sufficiently clear. We recommend clarifying the following points in application guidance and reinforcing them in the Basis for Conclusions of IAS 28.

1) Eligibility

We understand that under the proposals the fair value option would be available to any entity that has a main business activity of investing in assets per IFRS 18.49(a) – i.e. not only insurers. For eligible entities, the fair value option would be available for any investment in an associate or joint venture. Although we agree with this outcome, it appears to be a broader scope than the original intention of the project which focussed on addressing diversity in the insurance industry for investments that insurers consider to be part of their main business activity of investing in assets. This should be explicitly acknowledged, to bridge the gap between the original objective of the project (i.e. to address diversity in practice, particularly in the insurance industry as discussed in BC1–BC8) and the broader scope and impact of the final amendments.

By not amending the existing text in IAS 28.18 that refers to ‘a venture capital organisation, or mutual fund, unit trust and similar entities’, we understand that the proposals do not necessarily require an entity to have a main business activity of investing in assets per IFRS 18.49(a) to be eligible to apply the fair value option. Put another way, having a main business activity of investing in assets is an additional way to be eligible for the fair value option and not a requirement for all eligible entities. We also understand that an entity that has a main business activity of investing in assets does not also need to be similar to a venture capital organisation, mutual fund or unit trust. We agree with these outcomes and note that they align with the objective stated in paragraph BC9(b) to ‘not affect entities that already use the fair value option in IAS 28’, but recommend that both of these points are confirmed and clarified.

2) Interaction between IAS 28 and IFRS 18 for indirectly held investments

We understand that one way to assess the availability of the fair value option in IAS 28 would be driven by the main business activities of the entity that holds the investment, which could be a subsidiary that has different main business activities compared to the consolidated group (as discussed in IFRS 18.B37). For example, if an investment is indirectly held through a subsidiary that has a main business activity of investing in assets, the investment could be measured at fair value under IAS 28 even if the consolidated group does not have a main business activity of investing in assets. However, in that case, in the consolidated group financial statements income and expenses would be classified in the investing category, even if the investment is measured at fair value.

We do not object to this as it is consistent with current principles in IAS 28 for indirectly held investments, which are unchanged by the proposals. We also note that classification in the consolidated group financial statements under IFRS 18 would still be determined considering the main business activities of the reporting entity as a whole. However, to avoid confusion, we recommend clarifying that in cases where an investment is indirectly held by a subsidiary that has different main business activities from those of the consolidated group:

- availability of the fair value option and **measurement** under IAS 28 considers the main business activities of the entity that holds the investment; and
- **classification** of income and expenses from the investment in the consolidated group financial statements under IFRS 18 considers the main business activities of the reporting entity as a consolidated group. Measurement is not changed in the consolidated group.

3) Classification under IFRS 18

We understand that for investments measured at fair value under IAS 28, income and expenses are not automatically classified in the operating category under IFRS 18. This is because entities that have a main business activity of investing in assets under paragraph 49(a) need to also apply paragraphs 53 and 55 of IFRS 18. Under these paragraphs, income and expenses from the assets specified in paragraph 53(a) – i.e. investments in associates, joint ventures and unconsolidated subsidiaries – not accounted for under the equity method (e.g. measured at fair value) are only classified in the operating category when ‘an entity invests in [these assets] as a main business activity’. This could result in classification in the investing category if the entity does not invest in associates and joint ventures as a main business activity. For example, an eligible entity that invests in other assets as a main business activity (under paragraphs 53(c) and 58), but also holds an investment in an associate (under paragraph 53(a)) that it accounts for at fair value would not classify the income and expenses from the investment in the associate in the operating category unless the entity also invests in that associate as a main business activity.

We think it is important to clarify the above as the mere reference to paragraph 49(a) may not be sufficient.

As illustrated by the recommendations above, applying the proposed amendments may not be straightforward in all scenarios. The proposals could introduce new application issues if they are not consistently interpreted and applied. Therefore, we recommend the IASB provide application guidance that illustrates how the proposals apply in scenarios beyond an insurance entity that invests in associates and joint ventures as part of its main business activity of investing in assets. In addition, we recommend that the IASB expand the Basis for Conclusions to provide more clarity about its intentions.

Additional observations

If an entity's main business activities change such that it no longer invests in assets, then this impacts presentation prospectively under IFRS 18.B41. However, it is not clear whether there is or should be any impact on the entity continuing to measure investments at fair value as IAS 28.18 does not contemplate a change in status of the entity directly or indirectly holding the investment (unlike IFRS 10 *Consolidated Financial Statements* which deals with a similar issue of a change in investment entity status). We note that this is an existing application issue in IAS 28 and therefore acknowledge that addressing it would go beyond the scope of the proposed amendments. It could instead be considered as part of a separate project that evaluates the merits of an unrestricted fair value option (e.g. because changes in status of the entity directly or indirectly holding the investment would not be relevant under an unrestricted fair value option).

Although we agree with the IASB's decision discussed in paragraphs BC17–BC18 (i.e. to exclude from the scope of the project whether or not to make the fair value option revocable), we are concerned that the language used goes beyond the actual words of IAS 28. IAS 28.18 does not describe the election as 'irrevocable' like the requirements referenced in IFRS 9 *Financial Instruments*. Instead, it says the election is made 'at initial recognition' with no discussion of changes in status of the entity directly or indirectly holding the investment. In practice, this has been interpreted as the election generally being irrevocable, except for limited scenarios (e.g. if the entity holding the investment is no longer a venture capital organisation) as discussed above. We recommend the IASB delete or revise these paragraphs to ensure they do not inadvertently impact an existing area of interpretation that was not considered as part of this project.

Question 2— Effective date and transition

The IASB proposes that an entity apply the amendments to paragraphs 18–19 of IAS 28 at the same time and on the same basis as it applies IFRS 18.

Paragraphs BC20–BC21 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what you would suggest instead and why.

We agree that the amendments should be applied at the same time and on the same basis as IFRS 18 due to their direct link with the transition requirement in IFRS 18.C7.

For entities that early adopted IFRS 18, we recommend paragraph 45M of the ED be revised to clarify which of the following interpretations applies at the beginning of the reporting period starting on or after the issuance of the amendments:

- any entity eligible for the fair value option can change its elections from the equity method to fair value through profit or loss (i.e. including entities that were previously eligible when they early adopted IFRS 18); or
- only entities that become eligible due to the amendments can choose to measure these investments at fair value through profit or loss under the amendments.