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The Equity Method of Accounting in Consolidated Financial Statements

Proposals for Improvement and Analysis of the IASB Project

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The Equity Method of Accounting in Consolidated Financial Statements: Proposals for Improvement and Analysis of the IASB Project

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Executive summary

The study analyses the standard-setting strategy to be followed in relation to the exposure draft of amendments to IAS 28 — *Investments in Associates and Joint Ventures* ("**IAS 28**") issued by the International Accounting Standards Board ("**IASB**"). It also examines the changes concerning the equity method arising from IFRS 18 — *Presentation and Disclosure in Financial Statements* ("**IFRS 18**"). In addition, the study identifies the existing differences between current Spanish regulations and International Financial Reporting Standards ("IFRS") regarding the equity method, highlighting those areas where convergence could be advisable.

These analyses, which are the core focus of the document, are accompanied by a preliminary review of the relevant academic literature and by two empirical studies. One of these studies highlights the significance of the equity method in the main countries of the European Union (EU); the other presents the position of Spanish professionals on potential proposals to improve the equity method.

Review of the academic literature

The main academic works conducted on the equity method fall into two broad topic areas. The first focuses on comparing the relevance of the information provided by the equity method with that provided by the proportionate consolidation method. The review of these studies suggests that there is no clear consensus regarding the informational superiority of one method over the other. The second area of debate in the literature concerns whether the equity method should conceptually be regarded as a measurement method or as a one-line consolidation method. Both the current international and Spanish requirements reflect characteristics of both perspectives, suggesting that, although there is no explicit position, both approaches are used in a mixed model. Nonetheless, we agree that clarifying its conceptual nature could help support more consistent decisions in future amendments to the standards.

Significance of the equity method in European companies

On the understanding that any proposed amendments should be based on a cost-benefit analysis and should take into account the importance of the equity method in current business practice, we carried out an empirical study, using the Datastream database, in the 13 EU countries with the highest GDP. The consolidated financial statements show that approximately 50% of listed European companies apply this method. Investments accounted for using the equity method represent no more than 3% of total assets and deliver an average return of 6.4%. On average, investments accounted for using the equity method contribute 6.2% of the group's net profit and we therefore conclude that this method has a reasonably significant impact in Europe, and particularly in Spain.

Analysis of the proposed amendments to IAS 28

In relation to the IASB's exposure draft on the equity method, the study analyses each of the ten issues for which amendments to IAS 28 are proposed.

It has been found that in three of them, the treatment proposed in the exposure draft already exists in Spain's Standards for the Preparation of Consolidated Financial Statements (Normas para la Formulación de las Cuentas Anuales Consolidadas, hereinafter **"NOFCAC"**) (partial disposal of an interest in an associate, recognition of deferred tax when assessing the associate's net assets, and contingent consideration in the acquisition of an associate). Two of the proposals relate to matters that, although not explicitly regulated, are consistent with the principles of the NOFCAC and can be easily clarified through the issuance of an ICAC's Consultation Guidance.

One of the proposed amendments to IAS 28 is not applicable under Spanish regulations, as it addresses a drafting inconsistency specific to the wording of IAS 28.

Harmonisation is recommended in two areas (obtaining significant influence in stages and acquisition of an additional interest in an associate), which would require amending the NOFCAC. The IASB's proposal is more consistent with the new financial instruments standard and provides a better calculation of goodwill.

For two issues, this study recommends that the IASB provide further justification and development (the proposal that, when applying the equity method, profits or losses on transactions with an associate should not be eliminated, and the treatment of changes in the level of ownership interest in the associate in certain cases).

Analysis of changes to the equity method arising from IFRS 18

IFRS 18 has been analysed, as it introduces changes in the presentation of the results of entities accounted for using the equity method. Unless a subtotal for investment income is created, in which the share of profit or loss of investments accounted for using the equity method is included, the presentation is, in general terms, practically identical to that set out in the NOFCAC.

Current differences between Spanish accounting standards and International Financial Reporting Standards

With regard to the existing differences in the currently applicable requirements, the following recommendations are made:

- Align with IFRS 11 by eliminating the option to apply the proportionate consolidation method.
- Where an investor holds interests in jointly controlled entities or associates but has no interests in group entities, in addition to preparing individual financial statements, the investor should be required to prepare primary financial statements applying the equity method.
- Not to adopt the option provided under IFRS that allows investments in group entities, jointly controlled entities and associates to be recognised using the equity method in individual financial statements.

The profession's position on possible proposals to improve the equity method

In order to gauge the degree of support for the above proposals, we gathered the opinions of different groups of professionals using a questionnaire that presented the most easily identifiable changes from the perspective of users. Their position supports our proposal to eliminate the option to apply proportionate consolidation for jointly controlled entities, and our recommendation to converge towards the presentation model under IFRS 18.

In addition, it is worth noting that the study reveals strong support from the profession for not eliminating profits or losses on transactions with an associate. This indirectly indicates a clear tendency among respondents to view the equity method more as a measurement basis than as a one-line consolidation technique. We therefore consider it essential to reflect on and clarify the nature and purpose of the equity method, as a necessary prerequisite for properly guiding future revisions to its regulation and application.

KEYWORDS: equity method, accounting for associates and joint ventures, consolidation of financial statements, accounting standards.

1 Introduction

In IFRS, the equity method¹ is set out in IAS 28 — *Investments in Associates and Joint Ventures*, issued by the International Accounting Standards Board (IASB) in May 2011.

Since its publication, two significant changes have been introduced in the scope of application of the equity method, which have not yet been adopted in Spanish standards:

- In May 2011, IFRS 11 — *Joint Arrangements* — was issued, replacing IAS 31 — *Interests in Joint Ventures*. IFRS 11 broadened the scope of application of the equity method, requiring its use not only for investments in associates but also for joint ventures. Under the previous standard, IAS 31, interests in joint ventures could be accounted for using proportionate consolidation. However, current Spanish regulations are still based on IAS 31, despite its repeal.
- In August 2014, the IASB amended IAS 27 — *Separate Financial Statements*, allowing entities to use the equity method to account for investments in subsidiaries, jointly controlled entities and associates. This option, however, has not been incorporated into Spanish standards.

In April 2024, IFRS 18 — *Presentation and Disclosure in Financial Statements* was published. This standard replaces IAS 1 — *Presentation of Financial Statements*. The new standard introduces changes in the presentation of items relating to investments accounted for using the equity method.

The IASB is currently developing a project to improve the equity method, with the aim of introducing technical improvements to resolve uncertainties in its application.

This study aims to provide guidance on defining the standard-setting strategy to be followed in relation to three aspects: the amendments to the equity method criteria arising from the ongoing technical improvement project, the changes in the financial reporting requirements introduced by IFRS 18, and the current differences between local and international standards.

To achieve this overall objective, the study is accompanied by a prior review of the relevant academic literature, and by two empirical studies that highlight, on the one hand, the significance of the equity method in the main EU countries and, on the other, the views of Spanish professionals on possible proposals to improve the equity method.

The study is structured as follows:

- Review of the academic literature on the equity method (Section 2).
- Significance of the equity method in European companies (Section 3).
- Analysis of the standard-setting strategy relating to the equity method (Section 4).
- Opinion of professionals on possible improvement proposals (Section 5).

Finally, conclusions are presented with recommendations on the amendments that should be incorporated into accounting standards.

¹ The term 'equity method' corresponds to what in Spanish accounting literature is referred to as the 'método de la participación' and the 'método de puesta en equivalencia'.

2 Analysis of the academic literature

The academic literature analysed in relation to the equity method can be grouped into two main areas of research:

- Relevance of the information provided by the equity method versus the proportionate consolidation method.
- Conceptual approach to the equity method: measurement method or one-line consolidation method.

2.1. Relevance of information provided by the equity method versus the proportionate consolidation method

There are several empirical studies that examine the suitability and usefulness of the equity method compared with proportionate consolidation in explaining changes in financial variables (share price, bond ratings, default risk, shareholder return, etc.). However, **there is no clear consensus as to whether the equity method or proportionate consolidation provides categorically more useful information.** The following paragraphs set out some of the most relevant findings from these studies.

Kothavala (2003) provides evidence that **proportionate consolidation is more useful for explaining volatility in share prices, whereas the equity method is more useful for explaining bond credit ratings.** However, this conclusion was challenged by Bauman (2007), whose study found that the use of proportionate consolidation had greater relevance than the equity method when it comes to explaining credit ratings of debt instruments. The divergence in these findings is attributed to differing levels of homogeneity in the samples used.

There are also analyses that relate the usefulness of each accounting method to the reporting entity's **risk of default.** In this respect, for the entity's creditors, proportionate consolidation does not provide more useful accounting information. However, this conclusion changes when the underlying debt is guaranteed, in which case the equity method is the least relevant option (Stoltzfus and Epps, 2005).

With regard to shareholder returns, there is evidence that **proportionate consolidation provides better predictions of future return on equity** than the equity method (Graham et al., 2003).

For their part, the study by So et al. (2018) concludes that proportionate consolidation not only fails to provide more relevant information than the equity method in general terms, but that its **aggregation methodology may be confusing** for investors to understand the accounting treatment of a joint venture.

Based on the literature reviewed, Table 1 has been compiled to summarise each of these findings, indicating which method is more useful for explaining changes in the different financial variables:

//// TABLE 1 Proportionate consolidation vs. Equity method

Usefulness in explaining changes in variables	Proportionate consolidation	Equity method
Volatility in share prices	✓	
Credit rating of issued bonds	✓	✓
Risk of default with unsecured underlying debt		✓
Risk of default with secured underlying debt	✓	
Shareholder return	✓	
Ease of understanding the methodology		✓

Additionally, in entities that transition from one method to another (in either direction), evidence shows that their financial statements experience a reduction in the relevance of the reported values of their assets and liabilities for investors (Gavana et al., 2020; Richardson et al., 2012).

2.2. Conceptual approach: Measurement or one-line consolidation method

There is considerable debate as to whether, from a conceptual perspective, the equity method should be regarded as a measurement method or a one-line consolidation method. Based on its origins, it was conceived as an alternative or approximation to full consolidation at a time when full consolidation was not yet widely accepted (Nobes, 2002), and therefore it **could be seen as a one-line consolidation method**. However, given the maturity of consolidation procedures since then, the perception of the method has **increasingly come to resemble that of a measurement method** (EFRAG, 2014).

Currently, based on the requirements of both IAS 28 and the NOFCAC, the equity method may be understood as a **mixed approach** that reflects characteristics of both perspectives, although the standard-setters have not expressly stated their view on its conceptual nature.

According to the *Korean Accounting Standard Board* (2014), determining whether it is a one-line consolidation method or a measurement method would help ensure consistency in future standard-setting decisions, and support a better understanding of the most appropriate accounting treatments. For example, as explained later, adopting one conceptual approach or the other helps to justify the use of the equity method to account for investments in subsidiaries in individual financial statements.

Table 2 presents some of the differences between the various conceptual approaches, with those aspects currently exhibited by the equity method shaded in light grey, thereby illustrating its mixed nature.

//// TABLE 2 Equity method: conceptual approaches

	One-line consolidation method	Measurement method
Recognition of losses	Unlimited (negative balances on the statement of financial position)	Limited to the carrying amount of the investment
Difference between the cost of the investment and the fair value of the net assets acquired	Recognised as implicit goodwill or a negative difference (income)	Recognised as the cost of the investment (no special treatment required)
Transactions between investor and investee	Eliminated ²	Not eliminated
Uniform accounting policies	Required	Not required

2 In its Exposure Draft, the IASB proposes to discontinue the elimination of transactions between the group and the entity accounted for using the equity method. See section 41.3.G

In light of the recent project, the IASB still has not determined which of the two approaches is the most appropriate for understanding the equity method. However (as detailed in Section 4.1.3.G of this report), one of the IASB's tentative decisions involves **discontinuing the elimination of transactions with entities accounted for using the equity method**. This is based on the view that such entities lie outside the group boundary, which **supports the perspective of viewing the method more as a measurement method**, although the IASB has not formally expressed a definitive position.

Conceptual approach to applying the equity method in individual financial statements

IAS 27 - *Separate Financial Statements* permits investments in subsidiaries, jointly controlled entities and associates to be measured using (i) cost, (ii) in accordance with the requirements of IFRS 9, or (iii) the equity method. According to the Basis for Conclusions, the fact that the IASB allows a range of options in this respect is due to the heterogeneity of requirements across local standards and the difficulties involved in defining a single convergent model.

According to the *Korean Accounting Standard Board* (2014), from a conceptual standpoint, **if the equity method is understood as a measurement method, its use in the individual financial statements for investments in group entities, joint ventures and associates would be more coherent**, as it would more transparently reflect the economic reality of the returns on those investments by the reporting entity on a stand-alone basis. It would not reflect the assets (resources controlled economically) or the legal, contractual or implied obligations (liabilities), as the reporting entity on its own does not meet the accounting requirements for their recognition, but it would reflect the legal rights held over the residual interest in the investees' assets after deducting liabilities, which provides more useful information than cost.

This reasoning is in line with the view of Nobes (2002), who argues that "*This use of the equity method [on subsidiaries] in investor's [separate] financial statements could be seen as an example of attempts by accountants to express substance over legal form. Since an investor could usually obtain its share of profits in a subsidiary merely by requesting them, to recognise only dividends might seem like a legal nicety*". In other words, according to Nobes, **accounting for these investments at cost may be inappropriate when the investor is able to control the payment of dividends** from the investee.

3 Significance of the equity method in European companies

For the purpose of analysing the accounting policies applicable to the equity method, particularly for the cost-benefit analysis to be considered when defining an accounting standard, the following section presents an empirical analysis of the significance of this method in the financial statements of companies.

3.1. Methodology and sample design

In addressing the equity method, we considered it relevant to examine the practical significance of this method today, in terms of both its level of use and the weight that investments accounted for using the equity method represent on the balance sheet and income statement of listed European entities.

The database used to collect the information necessary for the work is Thomson Reuters Eikon Dastream (2024).

We have selected the 13 European Union countries with the highest Gross Domestic Product, these being: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Poland, Portugal, Spain and Sweden.

The data are obtained from the consolidated accounts of listed companies in each country, compiling information for the last six years. Given that the most recent data download was in May 2024, the most current period we have been able to analyse covers 2018 to 2023³.

This brings our initial total to 5,574 entities. Once all information had been gathered for these entities, the following adjustments were made:

- Entities for which the most recent reporting date was unknown were excluded, as without this information it is not possible to relate the data to the corresponding financial year.
- All entities without investments accounted for using the equity method were excluded.
- Entities in which data errors were detected due to the observation of extreme outliers in certain variables or abnormal fluctuations in data over the analysed period were not considered.

Table 3 shows the distribution of the sample over the period 2018-2023, for the 13 largest EU countries.

3 A study of similar characteristics focused exclusively on a sample of listed Spanish groups for the period 1997-2003 can be found in Lamas and Meitong (2006).

//// **TABLE 3** Sample distribution by country and year

COUNTRY	2018	2019	2020	2021	2022	2023	Total	%
Germany	260	271	266	269	268	278	1,612	17%
Austria	44	45	43	42	42	42	258	3%
Belgium	62	64	60	64	65	66	381	4%
Denmark	51	53	53	57	57	57	328	3%
Spain	112	127	129	138	143	147	796	8%
Finland	69	74	79	85	82	83	472	5%
France	245	250	248	258	256	242	1,499	16%
Ireland	24	28	29	30	29	29	169	2%
Italy	214	229	251	277	289	289	1,549	16%
The Netherlands	61	60	58	64	64	63	370	4%
Poland	142	140	136	143	138	142	841	9%
Portugal	22	25	24	26	26	25	148	2%
Sweden	201	213	196	207	209	212	1,238	13%
Totals	1,507	1,579	1,572	1,660	1,668	1,675	9,661	100%
%	16%	16%	16%	17%	17%	17%	100%	

It can be seen that, over the time interval analysed, the number of entities reporting investments in associates accounted for using the equity method under their assets rose, from a total of 1,507 in 2018 to 1,675 in 2023.

The distribution of the sample by industry sector (see Table 4), shows higher representation from the consumer goods and services sector (36%) and the basic materials sector (27%), followed by the financial services sector (13%), the technology and telecommunications sector (13%), and the real estate services sector (9%). The oil and energy sector, at 3%, has the lowest number of observations with investments in associates accounted for using the equity method reported under their assets.

//// **TABLE 4** Sectoral classification of the sample⁴

COUNTRY	Consumer goods and services	Basic materials, industry and construction	Oil and energy	Financial services	Real estate services	Technology and telecommunications	Totals
Germany	525	414	37	257	129	250	1,612
Austria	54	92	6	54	24	28	258
Belgium	99	101	19	48	83	31	381
Denmark	110	96	6	76	10	30	328
Spain	237	205	17	69	184	84	796
Finland	152	150	6	92	21	51	472
France	687	348	44	122	145	153	1,499
Ireland	95	37	4	18	0	15	169
Italy	631	423	43	168	55	229	1,549
The Netherlands	123	102	24	48	21	52	370
Poland	280	247	45	101	35	133	841
Portugal	57	53	12	11	4	11	148
Sweden	390	309	27	154	168	190	1,238
Totals	3,440	2,577	290	1,218	879	1,257	9,661
%	36%	27%	3%	13%	9%	13%	100%

⁴ As shown in the table, when broken down by sector, the number of observations is very low or even zero in some countries. For this reason, the sectoral impact analyses have been carried out in aggregated form.

3.2. Main indicators of the significance of the equity method in European companies

Proportion of companies applying the equity method relative to the total number of listed companies in each country

To gauge the extent to which the application of the equity method (hereinafter, EM) is significant in the main European countries, and therefore also in our own country, we calculated the percentage of entities — for each country and each of the years analysed — that report a positive amount under “Investments accounted for using the equity method” on the balance sheet, relative to the total number of entities recorded in the full Datastream database by country, specifically 3,909 entities⁵.

Table 5 presents the breakdown of these proportions by country and year, the average values observed for the entire period analysed, and the relative change over the period 2018-2023. Figure 1 shows the average values and cumulative change over the full period for each country. These show that in most of the countries analysed, around 45% of listed companies hold investments to which the EM is applied. These average percentages are lower only in Sweden (24%), Poland (27%), Denmark (34%) and Ireland (34%), but are significantly higher in other countries such as Austria (69%), Italy (65%) and Portugal (63%). Furthermore, this significance has shown an upward trend between 2018 and 2023.

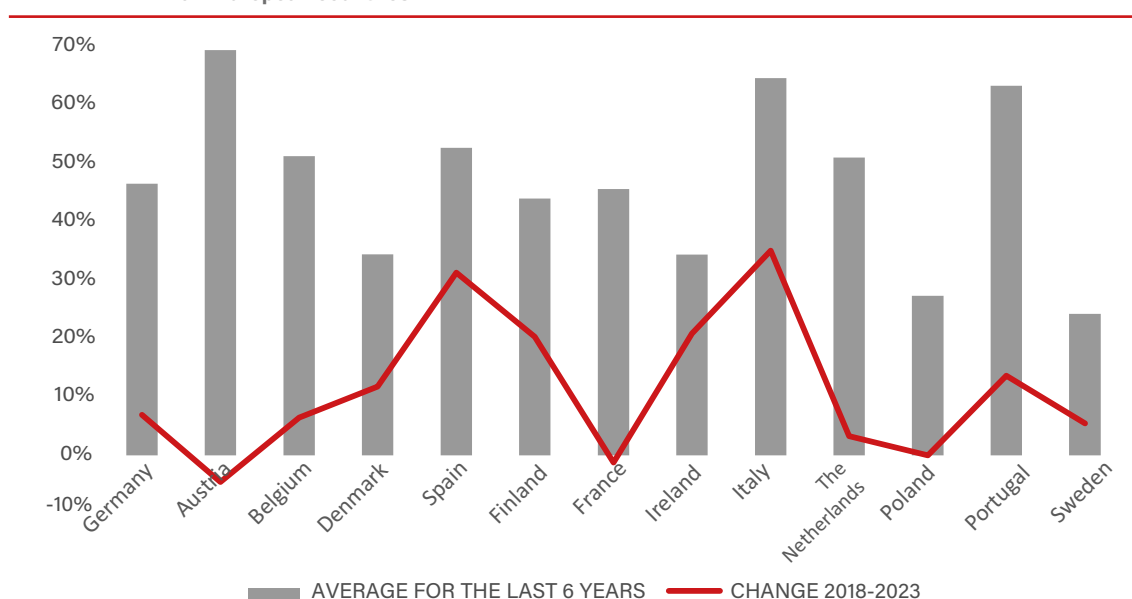
In fact, the relative changes calculated are mostly positive, with increases of around 20%-35% in Spain, Finland, Ireland and Italy. Accordingly, we can say that regulatory changes affecting the application of the EM will impact, on average, 47% of European groups, which gives a clear sense of its significance. Moreover, the figures suggest potential growth in that percentage.

//// TABLE 5 Proportion of entities applying the EM in the main European countries

COUNTRY	AVERAGE	2018	2019	2020	2021	2022	2023	CHANGE 2023-2018
Germany	46%	45%	47%	46%	47%	46%	48%	7%
Austria	69%	71%	73%	69%	68%	68%	68%	-5%
Belgium	51%	50%	52%	48%	52%	52%	53%	6%
Denmark	34%	32%	33%	33%	36%	36%	36%	12%
Spain	53%	44%	50%	51%	55%	57%	58%	31%
Finland	44%	39%	41%	44%	47%	46%	46%	20%
France	46%	45%	46%	45%	47%	47%	44%	-1%
Ireland	34%	29%	34%	35%	37%	35%	35%	21%
Italy	65%	54%	57%	63%	69%	72%	72%	35%
The Netherlands	51%	50%	50%	48%	53%	53%	52%	3%
Poland	27%	28%	27%	27%	28%	27%	28%	0%
Portugal	63%	56%	64%	62%	67%	67%	64%	14%
Sweden	24%	24%	25%	23%	24%	25%	25%	5%
Average	47%	44%	46%	46%	48%	48%	48%	11%

⁵ As previously mentioned, from the initial 5,574 entities, those for which the reporting date was unknown or which contained data errors were excluded.

//// **FIGURE 1** Average proportion and change over the period 2018–2023 of companies applying the EM in the main European countries



When analysing the importance of equity-accounted investments across sectors, the financial sector stands out from the rest, since, on average across all countries analysed, 60% of entities in that sector report such assets on their consolidated balance sheets. In contrast, in technology they are present, on average, in only 36% of cases.

//// **TABLE 6** Proportion of entities applying the EM by sector

COUNTRY	Consumer goods and services	Basic materials, industry and construction	Oil and energy	Financial services	Real estate services	Technology and telecommunications
Germany	47%	56%	56%	45%	51%	35%
Austria	64%	73%	50%	75%	80%	58%
Belgium	38%	73%	79%	62%	48%	47%
Denmark	35%	43%	50%	53%	15%	15%
Spain	66%	61%	47%	77%	33%	61%
Finland	45%	42%	33%	73%	70%	24%
France	49%	50%	43%	52%	58%	26%
Ireland	45%	27%	11%	60%	0%	21%
Italy	67%	66%	80%	60%	71%	57%
The Netherlands	54%	59%	67%	53%	32%	39%
Poland	26%	30%	54%	31%	28%	22%
Portugal	50%	80%	100%	92%	67%	46%
Sweden	20%	28%	26%	44%	42%	16%
Average	47%	53%	54%	60%	46%	36%

To calculate the indicators for the following sections, we had to exclude entities which, despite having investments in associates accounted for using the equity method, did not have available data in the database on the results obtained by the group from such equity-accounted entities.

In addition, extreme values were eliminated to avoid significantly distorting the data analysis and leading to incorrect conclusions, using as a criterion values of the variable in question falling outside the 2.5 to 97.5 percentile range. After this filtering process, we ultimately worked with 5,199 observations, whose distribution is shown in Table 7.

//// **TABLE 7** Distribution of the filtered sample by country and year

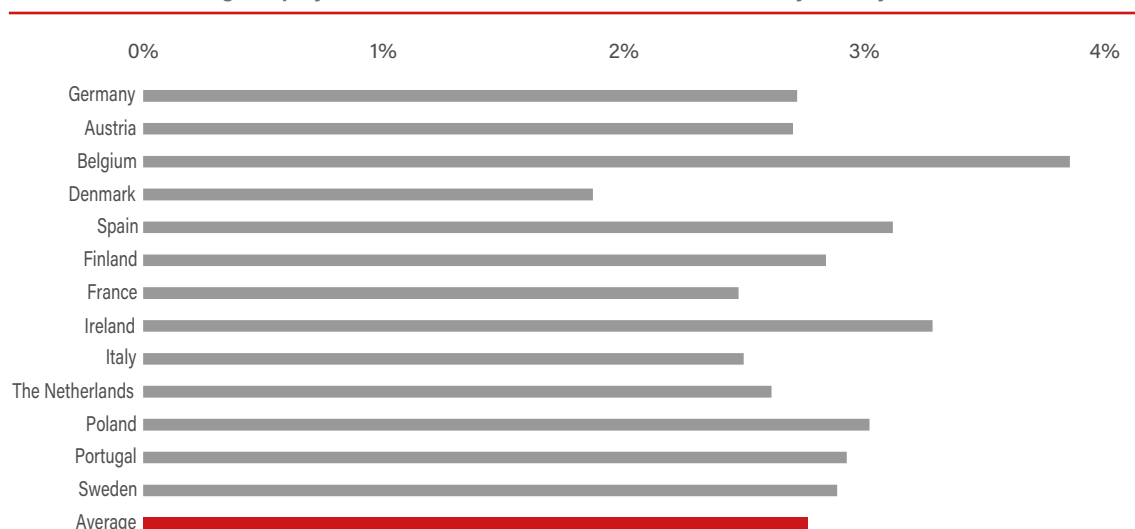
COUNTRY	2018	2019	2020	2021	2022	2023	Total	%
Germany	149	146	156	159	141	170	921	18%
Austria	33	33	35	32	32	35	200	4%
Belgium	46	46	42	47	46	49	276	5%
Denmark	30	30	31	38	34	36	199	4%
Spain	65	66	67	70	77	79	424	8%
Finland	36	41	39	55	53	58	282	5%
France	140	145	156	155	154	166	916	18%
Ireland	12	17	20	17	16	19	101	2%
Italy	89	101	101	111	114	118	634	12%
The Netherlands	36	41	38	43	45	46	249	5%
Poland	50	52	53	60	58	69	342	7%
Portugal	17	18	17	18	18	19	107	2%
Sweden	69	81	85	99	101	113	548	11%
Totals	772	817	840	904	889	977	5,199	100%
%	15%	16%	16%	17%	17%	19%	100%	

Proportion of equity-accounted investments relative to total assets on the consolidated balance sheet of listed groups

Table 8 shows the percentage that the line item "Investments accounted for using the equity method" represents relative to total assets, by country and year. Figure 2 shows the average for the whole period.

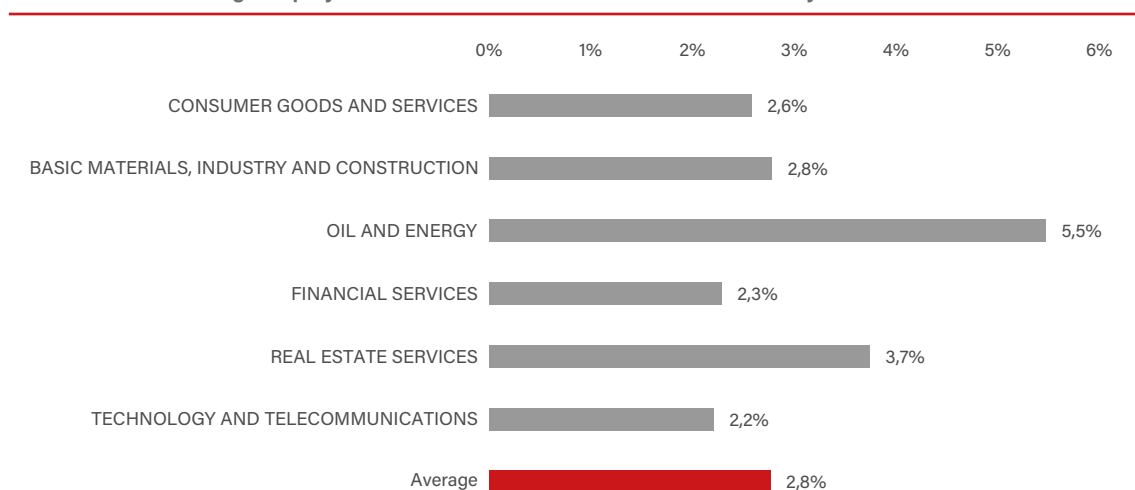
//// **TABLE 8** Equity-accounted investments / Total Assets ratio. Breakdown by country and year

COUNTRY	2018	2019	2020	2021	2022	2023	AVERAGE
Germany	2.8%	2.8%	2.8%	2.7%	2.7%	2.6%	2.7%
Austria	3.1%	2.9%	2.8%	2.8%	2.4%	2.3%	2.7%
Belgium	4.0%	3.9%	3.6%	3.8%	3.8%	4.0%	3.9%
Denmark	2.2%	1.9%	1.9%	1.8%	1.8%	1.7%	1.9%
Spain	2.4%	3.2%	3.3%	3.5%	3.7%	2.7%	3.1%
Finland	3.6%	3.0%	3.1%	2.6%	2.4%	2.8%	2.8%
France	2.6%	2.5%	2.3%	2.5%	2.4%	2.7%	2.5%
Ireland	3.3%	3.5%	4.0%	2.5%	3.4%	2.8%	3.3%
Italy	2.8%	2.4%	2.6%	2.2%	2.3%	2.8%	2.5%
The Netherlands	2.7%	2.8%	2.7%	2.7%	2.3%	2.6%	2.6%
Poland	2.5%	2.9%	3.0%	3.1%	2.9%	3.5%	3.0%
Portugal	3.3%	2.6%	2.4%	2.9%	3.1%	3.4%	2.9%
Sweden	2.2%	2.6%	3.1%	3.5%	2.9%	2.8%	2.9%
Average	2.8%	2.8%	2.8%	2.8%	2.7%	2.8%	2.8%

//// FIGURE 2 Average “Equity-accounted investments / Total Assets” ratios by country

There is notable stability in these ratios across each of the years analysed, as well as among the different countries in the sample. The average values for all years are around 2.8%, and in almost all countries the relative share of equity-accounted investments lies between 2% and 3% of total assets, with the exception of Belgium, where it approaches 4%. Therefore, in terms of impact on the assets of listed groups, regulatory changes do not appear likely to produce very significant effects on consolidated balance sheet⁶.

When examining the impact by economic sector (Figure 3), it can also be seen that there are no major differences among the sectors included in our study. Only in the oil and energy sector (5.5%)⁷ and the real estate services sector (3.7%) do the equity-accounted investments / total assets ratios stand above the average (2.8%). These could therefore be more affected by regulatory changes, although the differences do not appear particularly significant.

//// FIGURE 3 Average “Equity-accounted investments / Total Assets” ratios by sector

6 These results are consistent with those reported by Lamas and Meitong (2006) in a sample of listed Spanish companies during the period 1997-2003, although during that period the figure did not reach 2.5% in any year, whereas in our study it exceeds 3% in Spain for the 2018-2023 interval.

7 This sector represents a very small portion of the overall sample.

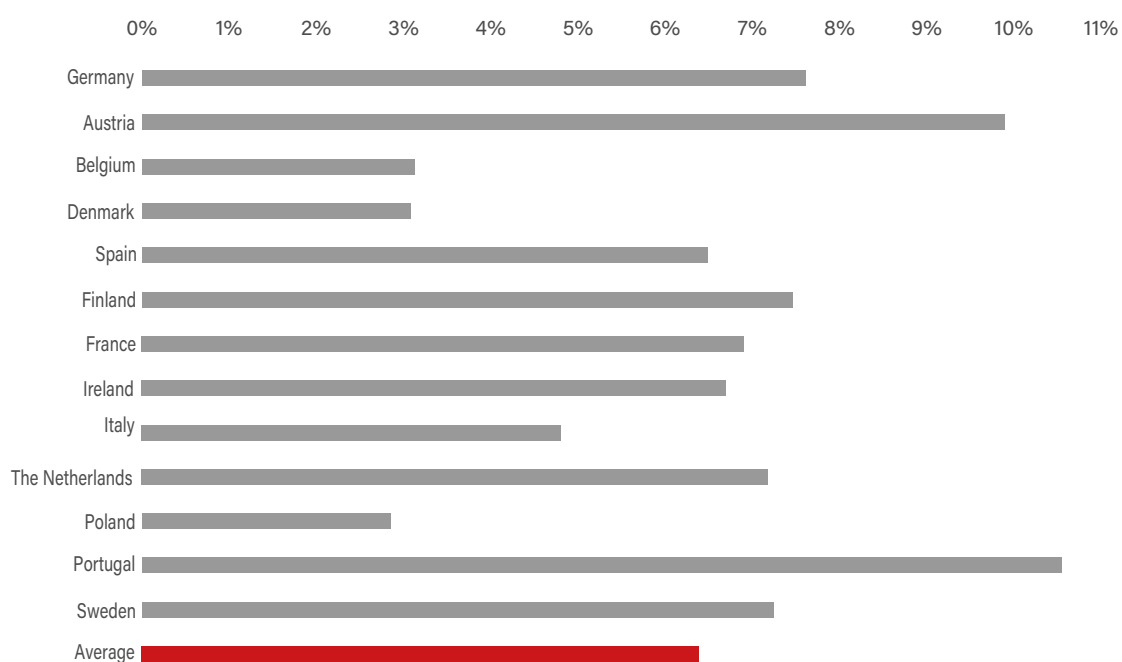
Average return on Equity-accounted investments

While the impact on the balance sheet appears to be relatively limited, we were also interested in assessing, by country and over the 2018–2023 period, the average return on investments to which the EM is applied. This is calculated as the ratio between the net profits generated and the carrying amount of the equity-accounted investments. The summary of average returns by country and year are shown in Table 9.

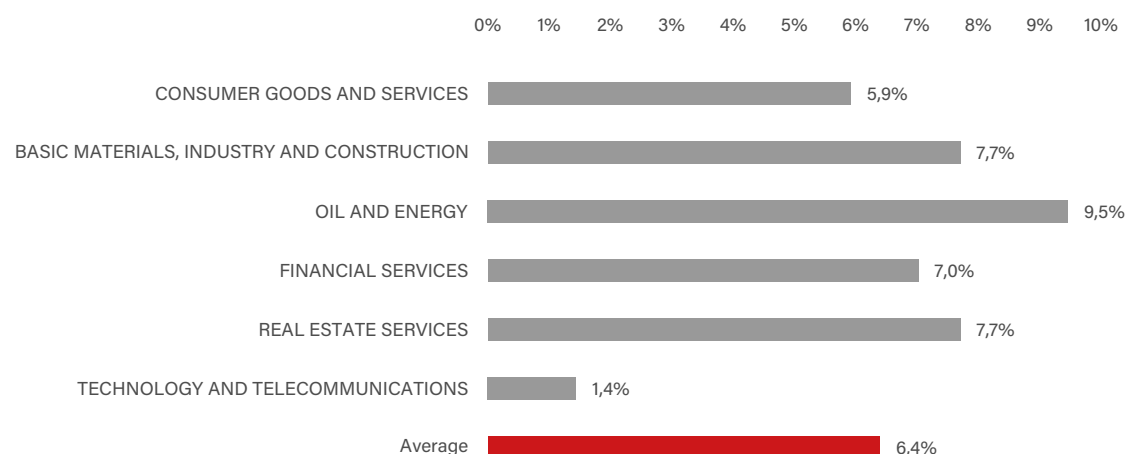
//// TABLE 9 Average returns on Equity-accounted investments by country and year

COUNTRY	2018	2019	2020	2021	2022	2023	AVERAGE
Germany	5.5%	8.8%	6.7%	10.3%	8.9%	5.7%	7.6%
Austria	8.4%	5.5%	3.5%	13.7%	14.1%	14.4%	9.9%
Belgium	7.3%	3.5%	0.4%	8.1%	-1.0%	0.3%	3.1%
Denmark	7.0%	0.5%	0.8%	4.0%	1.9%	3.9%	3.1%
Spain	5.8%	7.3%	2.3%	5.8%	9.5%	7.6%	6.5%
Finland	10.0%	9.7%	9.6%	11.9%	5.5%	0.5%	7.5%
France	6.1%	7.4%	5.9%	7.9%	9.1%	5.1%	6.9%
Ireland	10.7%	13.3%	2.7%	5.9%	8.2%	1.9%	6.7%
Italy	3.4%	3.9%	2.6%	8.3%	4.1%	5.9%	4.8%
The Netherlands	9.1%	8.6%	5.8%	13.5%	4.8%	2.0%	7.2%
Poland	-2.2%	0.5%	1.9%	6.8%	6.5%	2.5%	2.9%
Portugal	12.9%	5.1%	-0.4%	12.5%	23.5%	9.2%	10.5%
Sweden	8.2%	7.3%	11.1%	12.3%	4.3%	1.9%	7.2%
Average	6.0%	6.5%	5.1%	9.2%	7.0%	4.6%	6.4%

When analysing the trend in these returns over the 2018–2023 period, there is a clear decline in the year of COVID, followed by a strong recovery which seems to have slowed in the most recent year, 2023, consistent with the economic slowdown in Europe in 2022 and 2023. In any case, the average return for the entire period analysed stands at 6.4%, which, according to García Puente (2024), places the average return on these investments well above the structural interest rate framework in force during the same period, owing to the risk premium associated with equity investments. The average return in Spain (6.5%) is close to the European average, but some countries show significantly higher returns, such as Portugal (10.5%) and Austria (9.9%), while in others, such as Belgium, Denmark and Poland, average returns are below the overall average (Figure 4).

//// **FIGURE 4** Average return on Equity-accounted investments by country

When the return on equity-accounted investments is analysed by sector, it becomes clear that returns exceed the average in the oil and energy sector (9.9%), while returns are considerably lower than average in the technology and telecommunications sector (1.4%).

//// **FIGURE 5** Average return on Equity-accounted investments by sector

Profits contributed by Equity-accounted investments to the investor's net profit

Another indicator that may provide insight into the significance of applying the EM at the level of the main EU countries is its impact on the income statement. Specifically, this refers to the share of the investor's net profit that comes from equity-accounted investees.

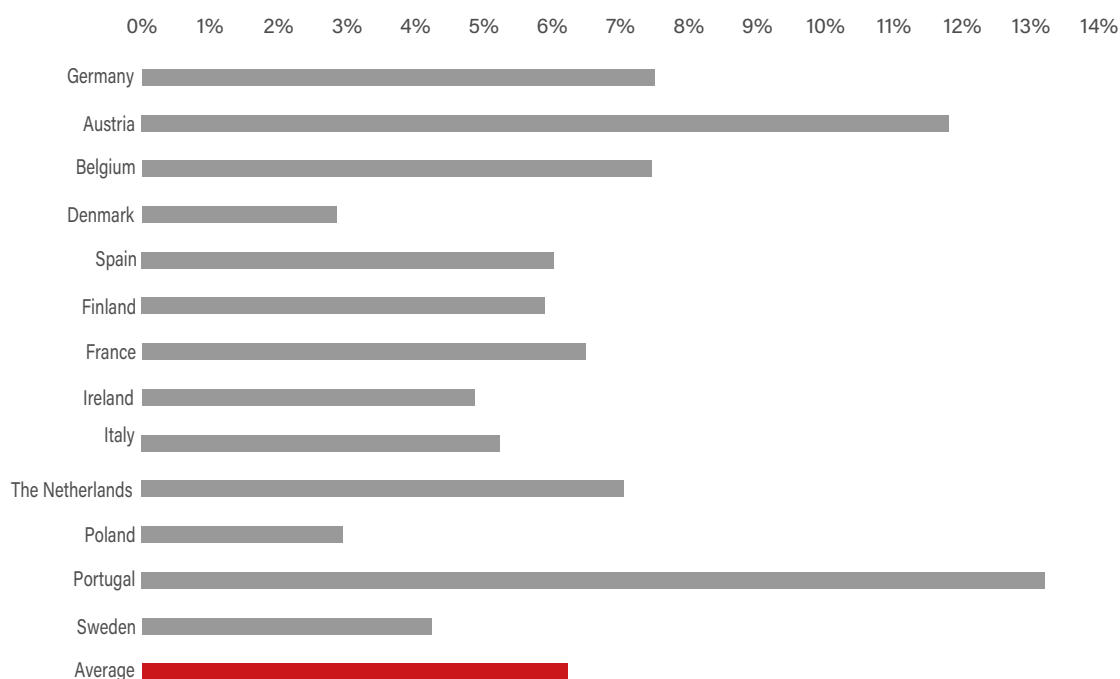
To analyse this, we calculated, for each observation, the ratio between the profit from entities accounted for using the EM and the group's consolidated profit. The average amounts obtained for each country and year are shown in Table 10. It can be seen that, over the period analysed, the average contribution of EM entities to the group's net profit across the European countries studied is 6.2%, with a slight drop during the year of COVID, followed by a recovery in 2021 and 2022, and a significant decline in 2023. We believe this reflects, once again, the slowdown in economic activity in Europe.

Comparing the country averages over the whole period (Figure 6), it can be seen that Austria (with an average contribution of 11.8%) and Portugal (13.2%) are well above the European average. At the other end of the spectrum are countries such as Denmark (2.8%), Poland (2.9%) and Sweden (4.2%). In Spain, with an average of 6.0% for the 2018-2023 period, the contribution of EM entities to net profit shows a growing trend. In the pre-COVID years it did not exceed 5%, but in later years it reached 9.6% in 2022 and 6.9% in 2023.

//// **TABLE 10** Profit from Equity-accounted investments / Profit after tax — Breakdown by country and year

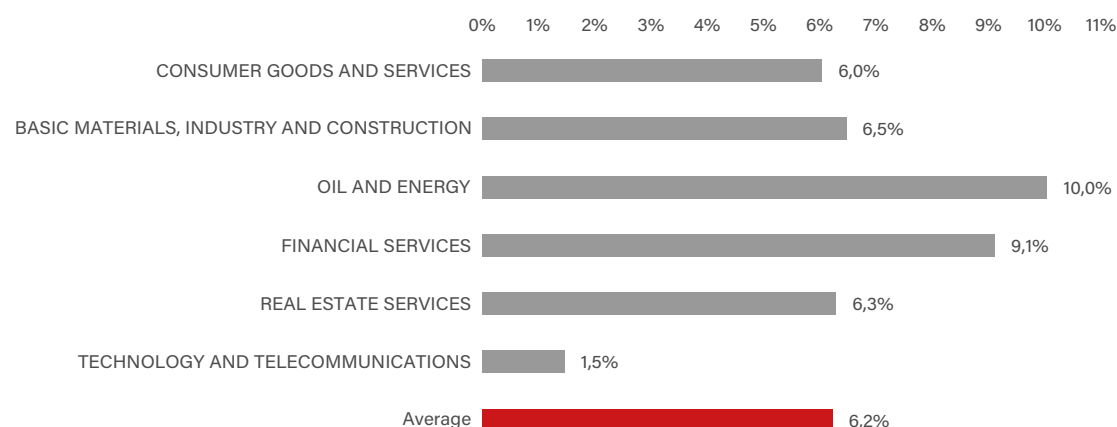
COUNTRY	2018	2019	2020	2021	2022	2023	AVERAGE
Germany	7.3%	8.8%	5.8%	7.7%	8.6%	7.0%	7.5%
Austria	16.0%	8.3%	11.3%	18.0%	11.1%	6.7%	11.8%
Belgium	7.2%	4.4%	9.5%	10.6%	7.3%	5.9%	7.5%
Denmark	2.6%	3.6%	2.7%	3.2%	2.7%	2.4%	2.8%
Spain	4.1%	4.8%	4.3%	5.7%	9.6%	6.9%	6.0%
Finland	8.6%	6.2%	12.1%	4.3%	4.2%	2.9%	5.9%
France	8.8%	5.8%	5.4%	9.5%	5.7%	4.1%	6.5%
Ireland	4.8%	9.6%	7.2%	1.1%	3.2%	3.0%	4.9%
Italy	5.6%	4.5%	3.1%	7.7%	5.1%	5.2%	5.2%
The Netherlands	9.9%	8.8%	3.3%	10.2%	7.6%	2.9%	7.1%
Poland	1.0%	3.2%	1.9%	2.6%	6.6%	2.2%	2.9%
Portugal	14.8%	9.1%	1.9%	21.9%	20.0%	11.1%	13.2%
Sweden	3.6%	3.4%	5.2%	4.0%	7.0%	2.3%	4.2%
Average	6.9%	6.0%	5.4%	7.5%	7.0%	4.7%	6.2%

//// **FIGURE 6** Profit or loss from Equity-accounted investments / Profit after tax. Average ratios by country

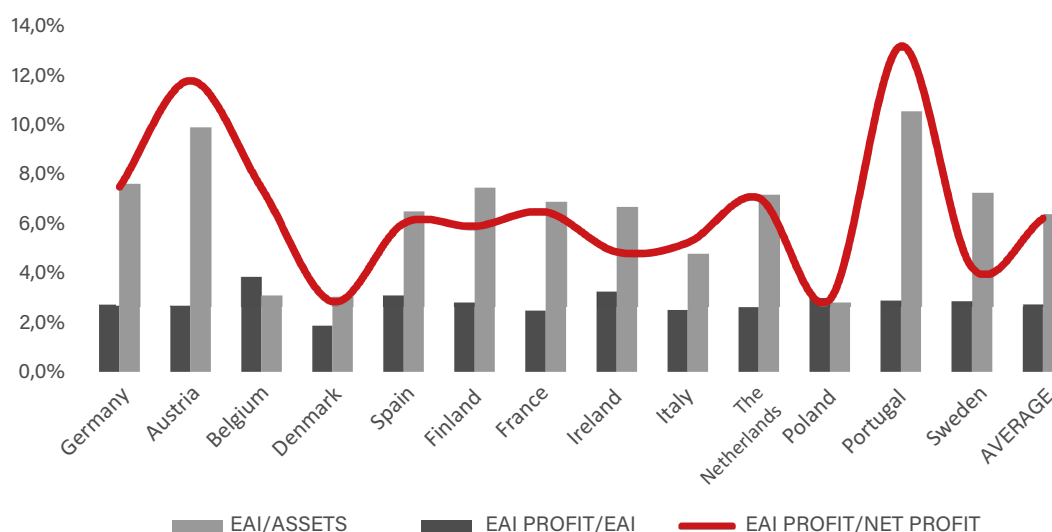
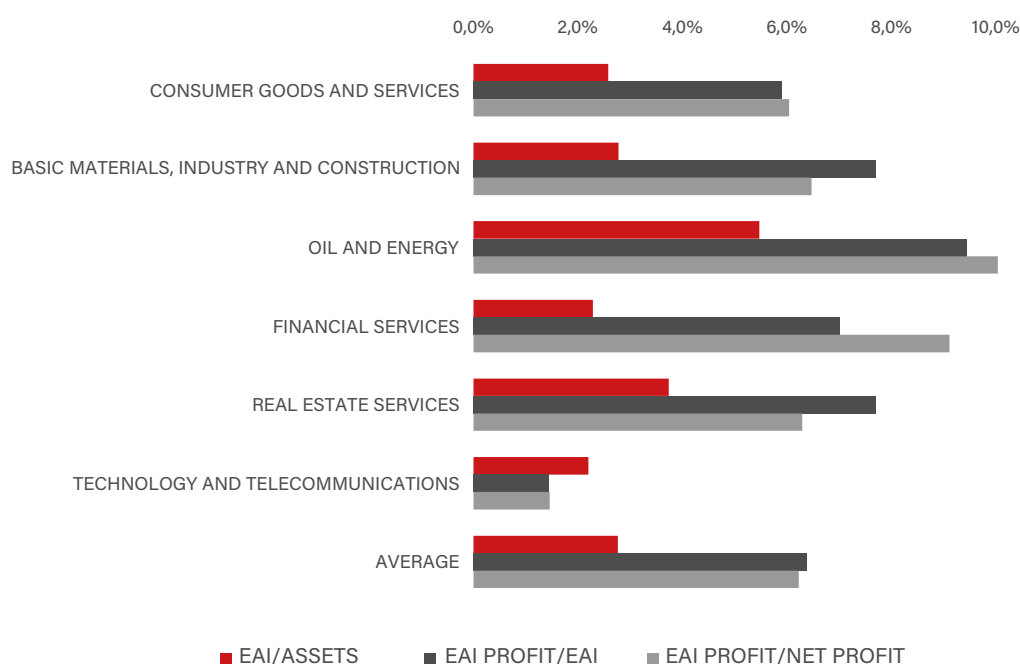


By sector, the average contribution of equity-accounted investments to the group's net profit (Figure 7) is again above the mean in the case of companies in the oil and energy sector (10%) and also in the financial sector (9.1%), while it is clearly lower in the technology and telecommunications sector (1.5%). These values, except for the financial sector, correspond to the highest and lowest relative proportions of equity-accounted investments on the balance sheet. It is worth highlighting the atypical situation of the financial sector, where despite equity-accounted investments accounting for only 2.3% of total assets, their contribution to consolidated profit is close to 10%.

//// **FIGURE 7** Profit or loss from Equity-accounted investments / Profit after tax. Average ratios by sector



In summary, based on all the analysis above, we agree with García Puente (2024) that the equity method is an accounting treatment that has a reasonably significant impact in Europe and particularly in Spain. We have seen that nearly 50% of listed European entities hold interests to which this method is applied, which gives weight to the IASB's project and the potential regulatory revision that could be carried out by the ICAC to address the differences observed in practice and achieve more consistent reporting between entities.

//// **FIGURE 8** Equity-accounted investments//// **FIGURE 9** Equity-accounted investments

However, as summarised in Figure 8 and Figure 9, the potential balance sheet impact of the proposed changes does not appear likely to be particularly significant, given that equity-accounted investments represent, on average, no more than 3% of total assets, with no major differences between countries. These investments, which yielded an average return of 6.4% over the period analysed, contributed around 6.2% of net profit. Therefore, we do not believe that the proposed improvements would significantly alter the structure of group profits either. By sector, on average, those potentially most affected, either due to balance sheet impact or the composition of their profits, would be the oil and energy sector, and to some extent the financial sector.

4 Standard-setting strategy in relation to the equity method. Project proposal, IFRS 18 and current standards

This section analyses the standard-setting strategy to be followed in relation to the equity method, structured as follows:

- Standard-setting strategy in relation to the IASB equity method project (Section 4.1).
- Standard-setting strategy in relation to IFRS 18 (Section 4.2).
- Standard-setting strategy relating to the current standards (section 4.3).

4.1. Standard-setting strategy in relation to the IASB equity method project

4.1.1. IASB equity method project

The IASB is currently developing a project on accounting using the equity method aimed at addressing specific application issues under IAS 28.

Its origin lies in the IASB's 2011 Agenda Consultation project (IASB, 2012). The feedback report on that Agenda Consultation concluded that there were criticisms of the method, including whether it provides useful information, the complexity of its practical application, and potential inconsistencies with other standards (goodwill impairment, share-based payments, joint arrangements). Initially, the equity method project was established as a research project to evaluate the equity method in terms of its usefulness for users and the difficulties it presents for preparers of financial statements (IASB, 2022 a).

Following the 2015 Agenda Consultation, it was concluded that although the equity method has been in use for many years, many application issues had been raised with the IFRS Interpretations Committee. It was decided to remove the project from the list of active research projects until feedback had been received from the post-implementation reviews of IFRS 10, IFRS 11 and IFRS 12 (IASB, 2012).

In October 2020, the project was reintroduced as part of the active research project pipeline, with a focus on application issues relating to the standard.

In May 2023, the equity method project was transferred from the research programme to the standard-setting work plan.

At the time of drafting this document (September 2024), the Exposure Draft of amendments to IAS 28 has just been published.

4.1.2. Project objective and methodology

The objective of the project is to assess whether application questions relating to the equity method, as defined in IAS 28, can be addressed by identifying and explaining the implicit principles in IAS 28.

The methodology for addressing the issues includes the following phases:

- Identify areas requiring clarification regarding the application of IAS 28.
- Identify the implicit principles in IAS 28.
- Apply those principles to resolve the application issues in IAS 28.

In the first phase, the following six areas were identified where application issues exist:

//// **TABLE 11** IAS 28. Application issues identified by the IASB

Changes in ownership interest	Deferred taxes
Recognition of losses	Variable consideration
Transactions between the investor and the equity-accounted investee	Impairment
 IDENTIFICATION OF IMPROVEMENTS IN DISCLOSURES	

The second phase identifies the principles shown in Table 12 below⁸.

//// **TABLE 12** Underlying principles in IAS 28

Principles Identified	
CLASSIFICATION	
A	Power to participate is an investor's shared power to affect changes in, and to access net assets. IAS 28.3 <i>Definition</i> IAS 28.5-9 IAS 28.12-14
BOUNDARY OF THE REPORTING ENTITY	
B	Application of the equity method includes an investor's share in the associate's or joint venture's net asset changes in an investor's statement of financial position. IAS 28.3 <i>Definition</i> IAS 28.10-11 IAS 28.35
C	An investor's share of an associate's or joint venture's net assets is part of the reporting entity. IAS 28.28
MEASUREMENT ON INITIAL RECOGNITION	
D	Fair value at the date that significant influence or joint control is obtained provides the most relevant information and faithful representation of an associate's or joint venture's identifiable net assets. IAS 28.30-31B IAS 28.32 IFRS 3 BC25/198

8 IASB 2022a

SUBSEQUENT MEASUREMENT

- An investor recognises changes in an associate's or joint venture's net assets. An investor recognises the share of changes in net assets that it can currently access. IAS 28.3 *Definition* IAS 28.10–13 IAS 28.26 IAS 28.28 IAS 28.30–31B IAS 28.33–36 (includes 35) IAS 28.37
- F An investor's maximum exposure is the gross interest in an associate or joint venture. IAS 28.14A/29/38–43
- G When an investor has a decrease in its ownership interest in an associate or joint venture and continues to apply the equity method, it reclassifies amounts previously recognised in other comprehensive income. IAS 28.24–25

DERECOGNITION

- H An investor: (a) applies IFRS 3 and IFRS 10 if it obtains control of an associate or joint venture; (b) applies IFRS 9 if it no longer has significant influence or joint control but retains an interest in a former associate or joint venture; and (c) recognises a gain or loss and reclassifies amounts recognised in other comprehensive income on the date that significant influence or joint control is lost. IAS 28.22–23 IFRS 3.41–42

UNALLOCATED (NOT BEING ADDRESSED IN THE PROJECT)

Presentation. IAS 28.15/20–21

Exceptions to the application of the equity method. IAS 28.16–19 IAS 28.27 IAS 28.26A

4.1.3. Proposals from the equity method project to clarify application issues in IAS 28

Having identified the areas of doubt and the principles underlying IAS 28, these principles are applied to resolve the application issues.

Below are the equity method project's proposals for each of the issues identified as requiring clarification.

The explanation focuses on an associate accounted for using the equity method, although it also applies to a joint venture accounted for using the equity method. It also applies to subsidiaries when accounted for using the equity method in individual financial statements.

4.1.3.A. Initial measurement in the case of step acquisitions of significant influence**Issue raised**

Significant influence is acquired over an entity in which a previous interest was already held. How is the interest initially accounted for? Is the previously held interest measured at cost, fair value, or its previous carrying amount?

Project proposal

An investor shall measure the cost of an investment when it obtains significant influence at the fair value of the consideration given, including the fair value of any previous interest in the entity.

As a result, the previously held interest is measured at fair value. Although this is not explicitly stated, it follows from this treatment that a gain or loss is recognised on the previously held interest as if it had been sold (the difference between the carrying amount of the interest and its fair value).

Treatment in Spanish regulations

Under Spanish regulations, the treatment is different, as interests are measured at cost or at the previous carrying amount if different. In addition, where there are gains or losses pending recognition in profit or loss, they continue to be recognised in equity until disposal or reversal of the gain or loss.

Article 54 of the NOFCAC — Extract. Where previously held interests exist, to determine the cost of the investment in the equity-accounted entity, the cost of each individual transaction is considered. Boicac No. 85/2011 ICAC's Consultation Guidance 22 On the accounting treatment of step acquisition of significant influence, the previously held interest is measured at cost, understood as its previous carrying amount. If gains or losses remain pending recognition in profit or loss, they continue to be recognised until disposal, impairment of the accumulated gain or recovery of the loss.

Recommendation

Convergence on this matter would require amending the NOFCAC. It seems reasonable to assess convergence on this issue when reforming the NOFCAC.

The IASB project treatment is more consistent with the view of the equity method as a one-line consolidation method, as it would be similar to the treatment applied in the case of step acquisition of control.

The IASB treatment regards the acquisition of significant influence as the acquisition of a new asset and derecognition of the financial instrument.

The treatment proposed by the IASB is more consistent with the general approach in the financial instruments standard, where equity instruments are measured at fair value.

The IASB project treatment breaks the alignment between the measurement of the interest in the separate and consolidated financial statements. The main criticism of the IASB approach is that it assumes a definition of cost that differs from that used in individual financial statements. It would be necessary to assess whether the same logic should apply in individual financial statements.

Example

In January Year 1, M acquires a 10% interest in A for 100. The ownership interest does not give control, joint control or significant influence.

In January of year 4, M acquires an additional 20% ownership interest in A for an amount of 400. Following this acquisition, M holds a 30% ownership interest in A and considers that it has significant influence over A.

Before the additional acquisition, M's initial ownership interest in A was recognised in the accounts at 100.

Regulations	Initial equity method measurement
	$200 + 400 = 600$
IASB Project	(The previously held interest is measured at fair value, calculated from the consideration paid for the new interest: $400 \times 10\% / 20\% = 200$)
Spanish standard	$100 + 400 = 500$

4.1.3.B. Acquisition of an additional ownership interest in an entity accounted for using the equity method

Issue raised

An additional ownership interest is acquired in an entity already accounted for using the equity method. How is the new interest accounted for? Is goodwill or a bargain purchase gain recognised?

Project proposal

An investor that acquires an additional ownership interest in an associate while maintaining significant influence recognises any difference between the cost of the additional interest and its share of the fair value of the identifiable assets and liabilities as goodwill or a bargain purchase gain. If a bargain purchase gain arises, it is recognised in profit or loss.

Treatment in Spanish regulations

Under Spanish regulations the treatment is the same, except that under Spanish regulations, if a negative difference arises, it is used to reduce goodwill.

Article 56 NOFCAC, 1. - Extract. In a new acquisition of ownership interests in an equity-accounted investee, the additional investment and the resulting goodwill or negative consolidation difference shall be determined in the same way as the initial investment and based on the percentage of equity corresponding to the new investment. If, for the same investee, both goodwill and a negative consolidation difference arise, the negative difference shall be reduced up to the amount of the implicit goodwill.

Recommendation

Convergence on this issue would mean amending the NOFCAC. Conceptually, the proposal appears more appropriate, as it applies the same principle used for the initial investment.

It seems reasonable to assess convergence when reforming the NOFCAC.

Example

In January Year 1, M acquires a 25% interest in A for 300. The interest provides significant influence. The fair value of A's identifiable assets and liabilities at that date is 1,000.

In January of year 4, M acquires an additional 20% ownership interest in A for an amount of 400. After this acquisition, M holds a 45% ownership interest in A. The fair value of A's identifiable assets and liabilities at that date is 1,500.

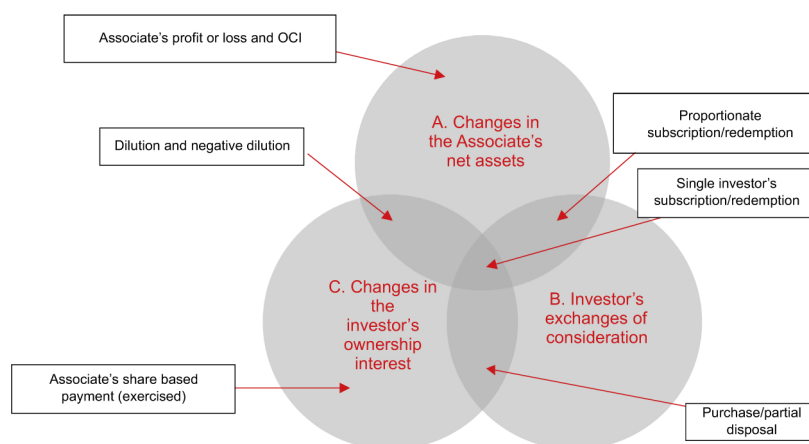
Regulations	Measurement of equity-accounted ownership interest after additional acquisition			
IASB Project	Investment	Cost	% share of identifiable net assets	Goodwill
	Investment 1	300	250	50
	Investment 2	400	300	100
Spanish standard	The treatment of acquisitions is the same. Beyond the additional acquisition, a difference arises because under Spanish rules goodwill is amortised (Spanish General Accounting Plan, PGC, NRV 6), whereas under IFRS it is not (IFRS 3 para. B63). If Investment 2 gives rise to a negative difference, a discrepancy arises: under Spanish regulations, it would reduce the implicit goodwill in the ownership interest, whereas under the project proposal, it would be recognised as income.			

4.1.3.C. Treatment of changes in an associate's net assets that change the investor's ownership interest

Issue raised

How to apply the equity method to transactions that change the investor's ownership interest in the associate and result in changes in the associate's net assets, such as when the associate issues or repurchases equity instruments.

//// **FIGURE 10** Types of transactions that may affect the measurement of an investor's interest in an associate (IASB, 2022 c)



Examples of transactions are as follows:

- The associate carries out a capital increase, and the investor subscribes above or below its existing ownership interest, resulting in an increase or decrease in its ownership interest in the associate.
- The associate increases capital and the investor does not subscribe, leading to dilution of its ownership interest.
- The associate repurchases its own shares.
- The associate cancels equity instruments held by one of its investors.

Project proposal

The IASB tentatively decided that when the investor's shareholding:

- increases and the investor retains significant influence, the investor should account for that increase as the purchase of an additional ownership interest.
- decreases and the investor retains significant influence, the investor should account for that decrease as a partial disposal.

The IASB tentatively decided not to develop proposals for how an investor applies the equity method when an associate grants equity-settled share-based payments or a share warrant⁹.

The IASB tentatively decided to amend paragraph 10 of IAS 28 to refer to changes in the investor's share of the net assets of the associate.

9 López Santacruz Montes, del Busto Méndez, and Villanueva García (2023) address this issue. See marginal 8670.

Treatment in Spanish regulations

Under Spanish regulations, for transactions involving investment or divestment (Articles 56.1 and 56.2 of the NOFCAC), the treatment is the same as the one proposed in the IASB Exposure Draft. In IAS 28, this issue, unlike under Spanish regulations, was not previously regulated.

However, the NOFCAC treatment differs from the IASB Exposure Draft in the case of an increase or reduction in the percentage of ownership interest without any additional investment or divestment, in which case the resulting gain or loss is recognised.

NOFCAC Article 56.4. — Extract. If the increase or reduction in the percentage of ownership interest without any additional investment or divestment results in a change in the value of the investments in the investee, the corresponding gain or loss will be recognised under “Share of profit (loss) of equity-accounted investees” in the consolidated income statement.

The case of changes in capital share involving investment/divestment (for example, capital increases with non-proportional subscription) is not expressly regulated, but it seems reasonable that such operations can be broken down into two parts: a proportional part, and the excess/shortfall of the investor over the rest.

Recommendation

Convergence on this matter would require amending the NOFCAC.

The IASB proposal entails greater complexity in some cases. It would be advisable, when analysing this issue, to take into account the costs associated with the IASB proposal, and to consider the feasibility of developing more practical methods. In particular, it should be noted that in many cases it does not seem feasible to allocate the purchase price (e.g. calculation of identifiable asset gains and calculation of the implied goodwill) in cases where the ownership interest increases without a direct purchase by the investor.

The IASB Exposure Draft is based on the principle that a change in the ownership interest in the associate, while retaining significant influence, is economically similar to an additional share purchase, and that a decrease in ownership interest is economically similar to a sale of shares.

From a conceptual standpoint, a stronger justification is needed for treating as economically equivalent to a sale those operations in which the investor has not made an investment.

The methodology proposed in the Exposure Draft, in certain cases, may not provide information that reflects the true economic impact of the transactions. Examples of such cases might include capital reductions due to business spin-offs or capital increases where part of the contributions made is not identifiable (see examples 3 and 4 below).

Other transactions that lead to changes in net assets are not regulated, such as changes in the reserves of an associate that is a parent due to changes in the percentage of ownership interest in the subsidiary (López Santacruz Montes, del Busto Méndez, and Villanueva García, 2023, marginal 8660).

It seems reasonable that this proposal be evaluated for adoption into domestic regulations once the methodology is further developed and the treatment of other transactions that result in changes in the associate's net assets is analysed.

Example 1

In January of Year 1, M acquired 20% of A's capital for an amount of 35 when the fair value of A's net assets was 150. This investment gives M significant influence.

In January of Year 4, the fair value of A is 340 (100 shares × 3.4), and A carries out a 50% capital increase, issuing shares at 170 (50 × 3.4). M subscribes to the entire capital increase.

Following the acquisition, M's ownership interest in A is 46.66% and M continues to have significant influence.

At the dates indicated, A's equity and the fair value of its identifiable net assets are as follows:

Company A	January Year 1	January Year 4 – before the capital increase	January Year 4 – after the capital increase
Equity	Capital: 100 Reserves: 50	Capital: 100 Reserves: 200	Capital: 100 Reserves: 320
Fair value of identifiable net assets	150	300	470

In the initial 20% investment, the implied goodwill is 5 (purchase price: 35 - share of identifiable net assets: 150×0.2).

In January of year 4, before the enlargement, the adjustment, in the form of a book entry, to account for M's interest in A by the equity method (disregarding amortisation/impairment of goodwill) is as follows:

	Dr	Cr
Investment accounted for using the equity method	65	
Investment in associate		35
Reserves		30

Regulations	Treatment of the capital increase under the equity method								
	The capital increase is equivalent to the acquisition of a 26.66% interest in A for an amount of 90.66 ($26.66 \text{ shares} \times 3.4 = 90.66$). In the purchase of a 26.66% interest for 91, the implied goodwill would be 11 (purchase price: 91 - amount attributable to identifiable net assets: $0.2666 \times 300 = 80$). After the transaction, the carrying amount of the investment accounted for using the equity method is: <table> <tr> <td>Investment accounted for using the equity method</td><td>235</td></tr> <tr> <td>Attributable amount of net assets</td><td>219</td></tr> <tr> <td>Goodwill</td><td>16</td></tr> <tr> <td colspan="2">(5 from the initial investment and 11 from the increased interest)</td></tr> </table> The carrying amount of the investment accounted for using the equity method before the transaction was 65. With the transaction it increases by 170.	Investment accounted for using the equity method	235	Attributable amount of net assets	219	Goodwill	16	(5 from the initial investment and 11 from the increased interest)	
Investment accounted for using the equity method	235								
Attributable amount of net assets	219								
Goodwill	16								
(5 from the initial investment and 11 from the increased interest)									
IASB Project									
Spanish standard	In this example, the treatment is, in general terms, the same as that proposed by the IASB, although in practice, in the case of acquisition via non-proportional capital subscription, implied goodwill was rarely calculated. However, in other transactions where there is no additional investment or disposal, and the investee's net assets change, for example, if the investor's ownership interest increases because the associate reduces capital held by shareholders other than the investor, or if it acquires its own shares, the treatment under the Spanish standard differs from that of the IASB project.								

Example 2

M, parent of a group of entities, acquires 20% of the shares of associate A when the capital is 100. Shortly afterwards, the entity reduces capital, acquiring shares with a nominal value of 20 for an amount of 25.

Initially, the investment accounted for using the equity method is measured at 20.

After the capital reduction, M has a 25% ownership interest. A's equity is 75.

Under Spanish regulations, a "loss from investments accounted for using the equity method" of 1.25 would be recognised, corresponding to the difference between the amount of net assets before and after the transaction ($100 \times 0.2 = 20$ before the transaction and $75 \times 0.25 = 18.75$ after the transaction).

According to the IASB project, the transaction should be accounted for as the acquisition of an additional percentage of shares. The theoretical price paid by M is 6.25, since:

- The fair value of A, based on the price paid in the capital reduction, is 125 (if 25 is paid for 20%, the 100% value is 125).
- The theoretical cost of the 5% increase in M's ownership interest in A is 5% of 125 = 6.25.

A's identifiable net assets are 75, therefore the implied goodwill is: theoretical price of the shares: 6.25 – share in identifiable assets (3.75) = 2.5.

Below are two cases in which we consider that the methodology of the project may provide information that does not reflect the economic impact of the transaction.

Example 3

In January of Year 1, Group M acquired a 20% interest in A's capital, paying 40. At that date, A's equity was composed of share capital of 100. A's total goodwill amounted to 100.

In Year 5, A's equity consists of share capital of 100 and reserves of 400. A's total goodwill remains at 100.

On that date, A carries out a capital reduction of 20, delivering assets with a carrying amount of 20. This capital reduction is executed by cancelling shares held by a shareholder other than Group M. As a result of the transaction, the goodwill of 100 is eliminated. A's balance sheet before and after the capital reduction is as follows:

Year 5	Before	Impact	After
Business 1 assets	80	-20	60
Business 2 assets	420		420
Total	500	-20	480
Capital	100	-20	80
Reserves	400		400
Total	500	-20	480

The fair value of A before and after the transaction is 600 and 480, respectively. The fair value of the assets delivered in the capital reduction includes goodwill of 100, which was associated with Business 1. Before the capital reduction, the carrying amount of the investment accounted for using the equity method was 120, with implied goodwill of 20.

After the reduction, there should be no goodwill. However, applying the principles of the IASB Equity Method Project, reaching this conclusion would be complex.

Example 4

In January of Year 1, Group M acquired a 40% interest in A's capital, paying 50. At that date, A's equity was composed of share capital of 100. A's total goodwill amounted to 25.

In Year 5, A's equity consists of share capital of 100 and reserves of 400. A's total goodwill remains at 25.

On that date, A increases its capital by 100 to admit a strategic shareholder. A's balance sheet before and after the capital increase is as follows:

Year 5	Before	Impact	After
Non-current assets	80	100	180
Current assets	420		420
Total	500	100	600
Capital	100	100	200
Reserves	400		400
Total	500	100	600

The fair value of A before and after the transaction is 525 and 1,050, respectively. The contribution of the new shareholder in A's capital increase includes identifiable assets of 100, but also amounts of 425 that do not meet the criteria for recognition as identifiable assets.

Before the capital increase, the carrying amount of M's investment in A under the equity method was 210, with implied goodwill of 10.

From an economic standpoint, it does not appear reasonable to treat the transaction as equivalent to a disposal of an ownership interest, but rather as the acquisition of a strategic asset. Under the methodology proposed in the IASB project, a loss of 85 arises which does not reflect the actual impact of the transaction on the investor.

4.1.3.D. *Treatment of partial disposals of an interest in an associate*

Issue raised

How to determine the amount to be derecognised from an investment accounted for using the equity method when the investor has acquired interests in the associate on different dates and the carrying amounts of the various shareholdings differ.

Two options are considered:

- Treat the total investment as a single item, derecognising an amount in proportion to the number of shares sold relative to the total shares held.
- Determine the carrying amount of the portion disposed of using a specific identification method or the LIFO method.

Project proposal

The IASB provisionally decided that when applying the equity method to an investment in an associate, the investor is accounting for a single investment. Consequently, in the case of a partial disposal, the investor should derecognise the proportion of the investment being disposed of in proportion to the carrying amount of the investment at the date of disposal.

Treatment in Spanish regulations

Under Spanish regulations, for transactions involving investment or divestment (Articles 56.1 and 56.2 of the NOFCAC), the treatment is the same as the one proposed in the IASB Exposure Draft. Unlike Spanish regulations, IAS 28 did not previously provide guidance on this issue.

NOFCAC Article 56.2. — Extract. In a reduction of the investment involving a decrease in the ownership interest in the entity, where significant influence is nevertheless retained, the carrying amount of the investment shall be measured by applying the rules set out in the preceding paragraphs, in amounts corresponding to the ownership interest that is retained.

Recommendation

The IASB proposal aligns with the requirements of the NOFCAC. The current IAS 28 does not regulate the issue, so there is diversity in practice.

The approach proposed in the IASB project provides a faithful representation of the investment, which from the investor's perspective is a single asset, recovered through sale and receipt of dividends. It is also simpler.

Example

In January of Year 1, M acquired 20% of A's capital for an amount of 40 when the fair value of A's net assets was 150. This investment gives M significant influence.

In January of Year 3, M acquired an additional 10% for 32.

In January of Year 4, M sold a 15% interest in A for 90.

At the dates indicated, A's equity and the fair value of its identifiable net assets are as follows:

Company A	January Year 1	January Year 3	January Year 4 - before the sale
Equity	Capital: 100 Reserves: 50	Capital: 100 Reserves: 200	Capital: 100 Reserves: 400
Fair value of identifiable net assets	150	300	500

In January of Year 4, before the sale, the adjustment in the form of an accounting entry to recognise M's investment in A under the equity method (disregarding amortisation or impairment of goodwill) is as follows:

	Dr	Cr
Investment accounted for using the equity method	162	
Investment in associate		72
Reserves (350 x 0.2 + 200 x 0.1)		90

In the initial 20% investment, the implied goodwill is 10 (purchase price: 40 - share of identifiable net assets: 150×0.2). For the additional 10% interest, the implied goodwill is 2: (price paid: 32 - share of identifiable net assets: 300×0.1)

Regulations	Treatment of partial disposals of an associate under the equity method
IASB Project	50% of the shares M holds in A are sold, so that proportion is derecognised. The carrying amount of the investment accounted for using the equity method is derecognised by 81 (162×0.5). As the sale proceeds are 90, a gain on disposal of 9 arises ($90 - 81$).
Spanish standard	The treatment is the same.

4.1.3.E. Acquisition of an additional interest in an investment accounted for using the equity method with unrecognised losses by the investor

Issue raised

The issue relates to the following situation:

- An investor in an associate has an investment accounted for using the equity method with a carrying amount of zero, due to the recognition of the associate's losses.
- There are losses of the associate that have not been recognised, in accordance with paragraph 38 of IAS 28, which states that "if an entity's share of losses of an associate or a joint venture equals or exceeds its interest in the associate or joint venture, the entity discontinues recognising its share of further losses".
- The entity acquires an additional interest in the associate.

This situation raises the question of whether the previously unrecognised losses should be recognised as part of the carrying amount of the additional interest acquired.

Project proposal

The IASB Equity Method project proposes that an investor applying the equity method, who has reduced the carrying amount of its investment in the associate to zero and, therefore, has discontinued recognising its share of the associate's losses, does not recognise the previously unrecognised losses upon acquiring an additional interest in the associate.

Treatment in Spanish regulations

The treatment under Spanish regulations is consistent with the current wording of IAS 28 and therefore does not incorporate the clarifications or developments proposed in the IASB project.

NOFCAC Article 55.3 — Extract. b) However, if the investee incurs losses, the reduction in the account representing the investment shall be limited to the carrying amount of the investment calculated using the equity method, unless there are other items that form part of the investor's net investment in the investee, as defined in Article 64.2). In this case, the excess losses beyond the investment in equity instruments shall be applied to the other components of the net investment in reverse order of priority in liquidation. Once the carrying amount of the investment has been reduced to nil, additional losses, and the corresponding liability, shall be recognised only to the extent that the investor has incurred legal, contractual, implicit or constructive obligations, or the group of entities has made payments on behalf of the investee. If the investee subsequently generates profits, they shall be recognised in the consolidated financial statements once they offset the previously unrecognised losses. Income and expenses of the investee that have not been recognised in profit or loss shall be treated analogously.

Recommendation

It appears reasonable to adopt the clarification provided in the project, as it is inferred from the principles implicit in the NOFCAC, and could be formally adopted via an official ICAC's Consultation Guidance.

Example

In January of Year 1, M acquired 20% of A's capital for 40.

At the end of Year 4, the associate has accumulated losses of 300 since the acquisition.

In applying the equity method, M has recognised losses of 200, reducing the carrying amount of the investment to zero ($200 \times 0.2 = 40$), and has not recognised losses of 20 (100×0.2).

In January of Year 5, M acquired an additional 20% interest in A for 10. Following the acquisition, M continues to have significant influence.

Regulations	Treatment of unrecognised losses following an additional acquisition.
IASB Project	No losses are recognised in respect of the newly acquired interest.
Spanish standard	There is no specific treatment, although the most reasonable approach appears to be the one set out in the IASB project.

4.1.3.F. Equity method and limitation on the recognition of losses. Treatment of income and expenses recognised in OCI

Issue raised

The issues raised are as follows:

- Whether the limit on the recognition of losses in an investment accounted for using the equity method also applies to "other comprehensive income"

- Whether, when an investment accounted for using the equity method has a carrying amount of zero as a result of recognising losses, profit or loss and other comprehensive income that offset each other should be recognised, or whether nothing should be recognised.
- Whether there is a priority order in the recognition of results (profit or loss and other comprehensive income) when losses exceed the carrying amount of the investment accounted for using the equity method.

Project proposal

The project proposes the following:

- Clarify that an investor must recognise its share of all of the associate's results (profit or loss and other comprehensive income) until the value of the equity interest is reduced to zero.
- Once an investor has reduced the carrying amount of its investment in an associate to zero, it must recognise each component of total comprehensive income (profit or loss and other comprehensive income) separately.
- If an investor's share of an associate's total comprehensive income is a loss greater than the carrying amount of the investment accounted for using the equity method, the investor must recognise, in order: first, its share of the associate's profit or loss; and second, its share of the associate's other comprehensive income.

Treatment in Spanish regulations

The treatment under Spanish regulations is consistent with the current wording of IAS 28 and therefore does not reflect the clarifications or developments proposed in the IASB project. However, unlike IAS 28, it expressly states that: "Income and expenses of the investee that have not been recognised in profit or loss shall be treated in a similar manner".

NOFCAC Article 55.3 - Extract. b) However, if the investee incurs losses, the reduction in the account representing the investment shall be limited to the carrying amount of the investment calculated using the equity method, unless there are other items that form part of the investor's net investment in the investee, as defined in Article 64.2). In this case, the excess losses beyond the investment in equity instruments shall be applied to the other components of the net investment in reverse order of priority in liquidation. Once the carrying amount of the investment has been reduced to nil, additional losses, and the corresponding liability, shall be recognised only to the extent that the investor has incurred legal, contractual, implicit or constructive obligations, or the group of entities has made payments on behalf of the investee. If the investee subsequently generates profits, they shall be recognised in the consolidated financial statements once they offset the previously unrecognised losses. Income and expenses of the investee that have not been recognised in profit or loss shall be treated analogously.

Recommendation

It appears reasonable to adopt the clarification provided in the project, as it is inferred from the principles implicit in the NOFCAC, and could be formally adopted via an official ICAC's Consultation Guidance.

Example 1

In January of Year 1, M acquired 20% of A's capital for 60.

At the end of Year 3, the associate has accumulated losses of 300 since the acquisition.

In Year 4, the associate has no profit or loss and other comprehensive expense of 100.

Regulations	Application of the limit on the recognition of an associate's losses to other comprehensive income.
IASB Project	No results are recognised, whether from profit or loss or other comprehensive income, that would reduce the carrying amount of the investment below nil.
Spanish standard	NOFCAC already includes the treatment proposed in the IASB project.

Example 2

In January of Year 1, M acquired 20% of A's capital for 60.

At the end of Year 3, the associate has accumulated losses of 300 since the acquisition.

In Year 4, the associate has a loss of 100 and other comprehensive income of 80.

Regulations	Application of the limit on the recognition of an associate's losses when there are profit or loss and other comprehensive income items that offset each other.
IASB Project	Losses of 80 must be recognised ($80 \times 0.2 = 16$), and other comprehensive income of 80 must also be recognised ($80 \times 0.2 = 16$).
Spanish standard	The current treatment in NOFCAC does not provide an express position on this matter. A valid interpretation is the one proposed in the project.

Example 3

In January of Year 1, M acquired 20% of A's capital for 50.

At the end of Year 1, the associate had accumulated a loss of 200 and other comprehensive loss of 100.

Total losses exceed the value of the investment: $300 \times 0.2 = 60$

Regulations	Priority in recognising an associate's losses when both profit or loss and other comprehensive income are present.
IASB Project	The losses of 200 must be recognised first ($200 \times 0.2 = 40$). Since the investment has a carrying amount of 50, after recognising 40 in profit or loss, only 10 remains available to recognise other comprehensive loss. Accordingly, of the 100 in other comprehensive loss, only $50 \times 0.2 = 10$ is recognised.
Spanish standard	The current treatment in NOFCAC does not provide an express position on this matter. A valid interpretation is the one proposed in the project.

4.1.3.G. Recognition of gains and losses on transactions between the group and the associate**Issue raised**

Should gains and losses on transactions between the group and the associate be recognised?

The issue arises from a conflict between standards in the case of the sale (or contribution) of a subsidiary to an associate. IFRS 10 (para. 25 and B97-B99) states that on the loss of control of a subsidiary, the entire gain or loss is recognised. IAS 28, para. 28 requires that gains and losses on transactions between the associate and the group not be recognised, but only in the portion attributable to the group's interest in the associate.

Although the conflict in standards arises from a specific transaction, the project extends the issue to all transactions between the group and the associate.

Project proposal

The IASB project proposes:

- that an investor should recognise the full gain or loss on transactions between the associate and the group.
- introducing improved disclosure requirements when an investor recognises the full gain or loss on transactions between the group and the associate.

Although the IASB project is intended to clarify or address gaps in the standard, in this case it involves a revision of an existing requirement in IAS 28, which clearly stated that gains and losses between the group and the associate must be eliminated to the extent of the group's interest in the associate.

Arguments in favour of the proposal include:

- Simplicity.
- The difficulty of obtaining information from the associate.
- The fact that, in practice, in many cases, only the first year's elimination is carried out, and not the recognition of previously eliminated profit or loss when realised.
- It is considered more aligned with the entity perspective in the consolidated financial statements, as it limits eliminations to the accounting entity (the parent and its controlled entities).

In discussions on this matter, the IASB maintains that this approach does not imply adopting the view that the equity method is a measurement basis rather than a one-line consolidation mechanism.

Treatment in Spanish regulations

This issue is regulated under Spanish regulations in line with the current wording of IAS 28, and the same conflict exists in Spanish regulations as in international standards in the case of the contribution/sale of a subsidiary to an associate. According to Article 31 of the NOFCAC, when control of a subsidiary is lost, the gain or loss is recognised. However, Article 55, when setting out the criteria for the application of the equity method, states that gains and losses between the associate and the group must be eliminated.

NOFCAC Article 55.1. Adjustments to the initial carrying amount of the investment - Extract.

1. The carrying amount of the investment in the consolidated balance sheet shall be adjusted, upward or downward, in the proportion attributable to the group entities, to reflect the changes in the investee's equity since the initial measurement, after eliminating the portion relating to unrealised gains or losses generated in transactions between the investee and the group entities.

Such eliminations of gains or losses include those from transactions in which the investee is the seller as well as those in which it is the purchaser. These eliminations shall be made in accordance with the provisions of Articles 42 to 47, but shall be limited to the percentage of the investee's gains or losses attributable to the group entities and only to the extent that the necessary information can be obtained.

In the NOFCAC, under the rules governing proportionate consolidation, it is stated that in non-monetary business contributions, the full gain or loss is recognised. Therefore, by analogy to the equity method, no gain or loss would be eliminated in the case of business contributions.

NOFCAC, Article 51. Applicable criteria. - Extract

1. To apply the proportionate consolidation method, the rules set out in Articles 16 to 49 relating to the full consolidation method shall be applied with the necessary adjustments, taking into account the following:

(...)

e) In the case of non-monetary business contributions by group entities to a jointly controlled entity, the provisions of Article 31 shall apply.

In any case, and as in IFRS, the interpretive uncertainty relates to a very specific scenario (contribution/sale of subsidiaries), and for all other transactions between the group and the associate it is clear that gains and losses between the group and the associate must be eliminated in proportion to the group's interest in the associate.

Recommendation

This is the most significant change proposed in the project. It is not conceptually justified, and it does not serve to clarify an unresolved issue, but rather introduces a fundamental change to the principles of IAS 28. It contradicts criteria explicitly established in the standard.

Although the approach may offer certain advantages, such as simplification, it does not appear appropriate to support it until the nature of the equity method is clearly defined (i.e. whether it constitutes one-line consolidation or a measurement method).

The rationale for this change has many limitations, and many of the arguments put forward would equally apply to the allocation of the acquisition price in the initial measurement of an investment accounted for using the equity method (identification of gains associated with identifiable assets and liabilities and with goodwill).

The IASB justifies not eliminating gains or losses between the group and the equity-accounted investee on the grounds that the equity-accounted investee is not part of the reporting entity (i.e. the parent and its subsidiaries). However, this contradicts one of the fundamental principles implicit in IAS 28: that the equity-accounted investee is, for the purpose of recognising profit or loss, part of the reporting entity to the extent of the investor's ownership interest.

Furthermore, the IASB supports not eliminating gains or losses when applying the equity method in individual financial statements, when the option is selected to measure investments in group entities, jointly controlled entities and associates using the equity method. This would result in recognising gains or losses between group entities that do constitute a single reporting entity.

In addition, when considering whether to introduce this principle into Spanish regulations, it must be noted that, unlike international standards, Spanish regulations allow jointly controlled entities to be accounted for either by the proportionate consolidation method or the equity method. It would not be logical for gains or losses to be eliminated under one method but not under the other.

Consequently, introducing this change would only be meaningful as part of a broader restructuring of the NOFCAC framework.

Example

In January of Year 1, entity M acquires 40% of entity A.

In that year, M sells an item of property, plant and equipment to the associate for 1,500. The carrying amount of the asset was 1,000.

Regulations	Treatment of internal transactions
IASB Project	No adjustment is made for the internal transaction.
Spanish standard	40% of the internal gain must be eliminated (40% of 500 = 200). Profit and the equity-accounted investment are reduced. A gain of 200 is eliminated from the statement of profit or loss.

4.1.3.H. Recognition of taxes

Issue raised

Should an investor be required to consider deferred taxes associated with the fair value gains or losses on identifiable assets and liabilities when determining the fair value of the identifiable net assets attributable to the equity-accounted investment and in calculating goodwill?

Project proposal

The IASB project proposes requiring that, when applying the equity method, an investor considers deferred taxes associated with fair value gains or losses on identifiable assets and liabilities when determining the fair value of the identifiable net assets attributable to the equity-accounted investment.

The IASB project also proposes that this be applied in the treatment of an additional acquisition in an associate.

Treatment in Spanish regulations

Unlike IAS 28, this issue is addressed in Spanish regulations under the NOFCAC, and it appears clear that deferred taxes associated with the fair value gains of identifiable elements of the associate must be considered when measuring the group's interest in the identifiable net assets. The relevant provisions are as follows:

- Article 54.1 of the NOFCAC states that "When the equity method is applied for the first time, the investment in the entity shall be measured in the consolidated balance sheet at the amount that the group entities' percentage interest represents of the entity's equity, after making the adjustments provided for in Article 25"
- Article 25.1 of the NOFCAC provides that "As a general rule, the identifiable assets acquired and liabilities assumed of the subsidiary shall be measured at their fair value on the acquisition date, using the methodology and exceptions set out in section 2.4 of Recognition and Measurement Standard 19 – Business combinations of the Spanish General Accounting Plan (PGC). Subsequent measurement shall be carried out in accordance with section 2.9 of that standard"
- Paragraph 2.4 of Recognition and Measurement Standard 19 of the PGC requires that: "The acquirer shall measure the identifiable assets acquired and liabilities assumed at their fair value on the acquisition date, provided that such fair values can be determined with sufficient reliability". It sets out several exceptions to the recognition and measurement criteria, including the requirement that "Deferred tax assets and liabilities shall be recognised and measured in accordance with the standard on income taxes"

Recommendation

The IASB proposal, which is the same as that set out in Spanish regulations, faithfully reflects the investment in and the results of an associate, in accordance with the logic of the equity method.

Example

In January of Year 1, entity M acquires 40% of entity A for 520. Entity A has equity of 700 and an unrecognised intangible asset with a fair value of 400.

The associate's tax rate is 25%.

Regulations	Tax effect of fair value gains or losses on identifiable elements																	
	The value of the identifiable assets and liabilities and the calculation of goodwill are as follows:																	
	<table><tr><th>Item</th><th>Amount</th></tr><tr><td>A. Carrying amount of identifiable net assets</td><td>700</td></tr><tr><td>B. Fair value of unrecognised intangible asset</td><td>400</td></tr><tr><td>C. Deferred tax liability (B x 0.25)</td><td>-100</td></tr><tr><td>D. Total fair value of identifiable net assets</td><td>1,000</td></tr><tr><td>E. Identifiable assets and liabilities attributable to the investor</td><td>400</td></tr><tr><td>F. Consideration paid for the investment</td><td>520</td></tr><tr><td>G. Goodwill (F-E)</td><td>120</td></tr></table>	Item	Amount	A. Carrying amount of identifiable net assets	700	B. Fair value of unrecognised intangible asset	400	C. Deferred tax liability (B x 0.25)	-100	D. Total fair value of identifiable net assets	1,000	E. Identifiable assets and liabilities attributable to the investor	400	F. Consideration paid for the investment	520	G. Goodwill (F-E)	120	
Item	Amount																	
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F. Consideration paid for the investment	520																	
G. Goodwill (F-E)	120																	
IASB Project																		
	Accordingly, of M's investment in A totalling 520, 400 corresponds to its share in the fair value of the identifiable assets and liabilities, and 120 to implicit goodwill.																	
Spanish standard	The treatment is the same.																	

If the deferred tax liability had not been recognised, the amount of goodwill would be different. Moreover, the fair value gain would distort the effective tax rate in future periods.

4.1.3.1. Contingent consideration in the acquisition of an associate

Issue raised

Initial and subsequent treatment of contingent consideration in the acquisition of an associate under the equity method.

Project proposal

The IASB project proposes that:

- 1) On obtaining significant influence in an associate, recognise contingent consideration as part of the consideration transferred and measure it at fair value; and
- 2) subsequently,
 - If the contingent consideration is classified as an equity instrument, the investor shall recognise its subsequent settlement in equity.
 - For all other contingent consideration, the investor shall measure it at fair value and recognise changes in fair value in profit or loss.

The IASB proposes applying the same treatment when an additional interest in an associate is acquired.

That is, the project proposes adopting the methodology applied to contingent consideration in business combinations (IFRS 3, paragraphs 39, 40 y 58).

Treatment in Spanish regulations

As in IAS 28, the NOFCAC does not address this issue, but ICAC's Consultation Guidance 3 from BOICAC No. 132/December 2022 clarifies the treatment. The criterion established is to follow the treatment for contingent consideration in business combinations, which is the same as that proposed in the IASB project.

Recommendation

The IASB proposal, which is the same as that set out in Spanish regulations, faithfully reflects the investment in and the results of an associate, in accordance with the logic of the equity method.

Example

In January of Year 1, entity M acquires 40% of entity A for 500 and agrees to contingent consideration of 200, payable within two years if certain milestones are met.

In Year 1, payment of the contingent consideration is considered probable, and its fair value is estimated at 160.

In year 2, the payment is made.

Regulations	Treatment of contingent consideration
IASB Project	Initially, the investment is measured at 660. In Year 2, an expense of 40 is recognised due to an increase in the contingent liability.
Spanish standard	The treatment is the same.

4.1.3.J. Impairment of investments accounted for using the equity method

Issue raised

Regarding the recognition of impairment losses on an equity-accounted investment, paragraph 41C of IAS 28 states that “a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is also objective evidence of impairment”.

The main question is whether that evidence should be assessed by comparing fair value with cost or with the carrying amount.

Project proposal

The IASB’s improvement project proposes amending IAS 28 as follows:

- replace the term “cost” with “carrying amount” in paragraph 41C of IAS 28.
- add as objective evidence of impairment a purchase price paid by an investor for an additional interest in an associate, or a sale price for part of the interest, that is lower than the carrying amount of the investment in the associate at the date of that purchase or sale.
- remove the phrase “significant or prolonged” in paragraph 41C of IAS 28.

Treatment in Spanish regulations

The NOFCAC does not establish specific criteria and refers instead to the impairment criteria for investments in subsidiaries, joint ventures and associates under the Spanish PGC (note: the NOFCAC reference to the PGC is outdated).

Recommendation

The changes are not applicable to Spanish regulations, as they concern drafting changes to criteria not currently reflected in Spanish standards.

However, under Spanish regulations, it would be possible to clarify indicators of impairment through a formal ICAC’s Consultation Guidance.

The proposed amendments appear appropriate to improve the financial reporting of impairments of investments, enhancing comparability across entities.

Example

In January of Year 1, entity M acquires 30% of entity A for 300.

At the end of Year 6, the equity-accounted investment has a carrying amount of 1,000.

The fair value of M's interest in A is 600. Entity M acquires an additional 10% interest for 200.

Regulations	Treatment of impairment
IASB Project	There is an indication of impairment, as the fair value of the investment is lower than its carrying amount. In addition, interests were acquired at a price significantly below the same amount.
Spanish standard	There are no express regulations, but according to the general principles of impairment the same conclusion could be drawn.

4.2. IFRS 18 and presentation-related issues

IAS 28 contains many issues that raise questions regarding the presentation of the results of equity-accounted investments. These have not been addressed in the IASB's Equity Method project, as they have been resolved through the publication of a new standard: IFRS 18 — Presentation and Disclosure in Financial Statements. The standard was issued in April 2024 and is applicable for annual periods beginning on or after 1 January 2027.

It specifies, in paragraphs 53 to 55, that all income and expenses from equity-accounted investees are presented in the investing category, which appears after the operating category.

The income and expenses of investments included in this category comprise: income generated by the investment assets; the income and expenses that arise from the initial and subsequent measurement of these assets, including on derecognition of the assets. It also includes the incremental expenses directly attributable to the acquisition and disposal of these assets, for example, transaction costs and costs to sell the assets.

Given the importance of achieving convergence on matters as significant as financial statement formats, it is essential to align the presentation of income and expenses from equity-accounted investees with this format. Moreover, the presentation is, in general terms, practically identical to the NOFCAC standards, except that Spanish standards do not provide for a separate line item for investment results.

4.3. Standard-setting strategy in relation to the current standards

4.3.1. Current differences between Spanish standards and international standards relating to the equity method

The three main differences in the application of the equity method between Spanish standards and IFRS are as follows:

- Option to apply the proportionate consolidation method to investments in jointly controlled entities.
- Application of the equity method to associates or jointly controlled entities when consolidated financial statements are not prepared.
- Possibility of accounting for investments in subsidiaries, jointly controlled entities, and associates using the equity method in individual financial statements.

Each of these differences is discussed below.

Difference 1. Option to apply the proportionate consolidation method to investments in jointly controlled entities.

Under Spanish standards, when consolidating an investment in a jointly controlled entity, there is an option to use either the proportionate consolidation method or the equity method (Article 12 of the NOFCAC). The Spanish standard is based on IAS 31, Interests in Joint Ventures, which was withdrawn in 2011.

Under current international standards, IFRS 11 requires a joint arrangement to be classified either as a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement (IFRS 11 para. 14). A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities (IFRS 11 para. 15). A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement (IFRS 11 para. 16).

A joint operator shall recognise in relation to its interest in a joint operation its share in the assets, liabilities, revenue and expenses of the joint arrangement (IFRS 11 para. 20). An interest in a joint venture is accounted for using the equity method (IFRS 11 para. 24).

Most jointly controlled entities qualify as joint ventures, in which case the treatment under Spanish regulations and IFRS differs: under Spanish regulations, either the proportionate consolidation method or the equity method may be applied, while under international standards, only the equity method may be used.

Difference 2. Application of the equity method to associates or jointly controlled entities when consolidated financial statements are not prepared.

Under Spanish accounting standards, the equity method is applied only in the consolidated financial statements of a group of entities. Therefore, where an investor holds interests in associates but does not prepare consolidated financial statements, either because it is not part of a group or is exempt from the obligation to consolidate, investments in associates and jointly controlled entities are not accounted for using the equity method.

Under IFRS, in accordance with IAS 28, if an investor does not have investments in subsidiaries but does have investments in associates or joint ventures, those interests are accounted for using the equity method.

For example, if an investor has only an equity interest in an associate:

- Under Spanish standards, the entity prepares only individual financial statements, in which the investment in the associate is measured at cost.
- Under IFRS, the entity must prepare financial statements in which the investment is accounted for using the equity method. In addition, it may present, as supplementary financial statements, individual financial statements in which the investment in the associate may be measured at cost.

Difference 3. Under Spanish regulations there is no option to account for investments in subsidiaries, jointly controlled entities, and associates using the equity method in individual financial statements.

IAS 27 permits investments in subsidiaries, joint ventures, and associates to be accounted for in separate financial statements at cost, in accordance with IFRS 9, or using the equity method.

This option does not exist in the Spanish General Accounting Plan (PGC), specifically in Recognition and Measurement Standard No. 9, paragraph 2.4.

4.3.2. Standard-setting strategy regarding current differences in the equity method

The following analyses the optimal standard-setting strategy for each of the three differences identified above.

Issue 1. Eliminate the option of proportionate consolidation?

IFRS 11 permits only the use of the equity method for interests in joint ventures.

Eliminating the option of proportionate consolidation for joint ventures would offer significant advantages:

- Harmonisation with IFRS and with US GAAP.
- Reduction in diversity of practice, by establishing a single method for interests in joint ventures.
- Elimination of the inconsistency of proportionate consolidation, which involves recognising assets and liabilities of the jointly controlled entity that do not meet the definition of elements.

Moreover, the proportionate consolidation method has limited use in practice for entities that qualify as joint ventures.

From an academic research perspective, there is no consensus on the matter, although most studies do not distinguish between joint operations and joint ventures, that is, whether the parties to the arrangement have rights to the assets and obligations for the liabilities, or rights to the net assets of the arrangement.

For all these reasons, adapting Spanish regulations to the requirements of IFRS 11 appears to be a reasonable course of action.

Issue 2. Apply the equity method to investments in associates when consolidated financial statements are not prepared?

This is a highly relevant difference between Spanish standards and IFRS.

The prevailing logic, and this is supported by most academic research, is that the equity method provides more informative content than the cost method. Accordingly, in cases where an entity does not publish consolidated financial statements, it seems relevant that its financial statements reflect investments in associates using the equity method.

From the perspective of financial information comparability, this would also be desirable. Under the current accounting treatment in Spanish regulations, the measurement of an investment in an associate or jointly controlled entity depends on whether the investor has investments in subsidiaries or not.

The best way to address this difference would be to introduce a requirement to prepare primary financial statements other than individual financial statements. Just as a parent entity prepares consolidated financial statements in addition to separate statements, applying full consolidation to subsidiaries, it would be appropriate for an investor that holds an interest in an associate but does not hold interests in subsidiaries to prepare financial statements in which the associate is accounted for using the equity method, as such statements would provide useful information. It would not be appropriate to introduce this change within individual financial statements if investments in subsidiaries continue to be measured at cost.

Issue 3. Optionally allow the application of the equity method in individual financial statements for accounting for investments in group entities, jointly controlled entities or associates?

The option to apply the equity method in separate financial statements for investments in subsidiaries, jointly controlled entities and associates was introduced in the August 2014 amendment to IAS 27. Its purpose was to enable the use of IFRS financial statements in jurisdictions where local regulations required the use of the equity method (paragraphs FC10A and FC10B of IAS 27).

In the current Spanish context, there is no justification for adopting this option, as it would increase diversity in practice and could also create certain reconciliation issues with company law requirements based on accounting figures.

5 The profession's position on possible proposals to improve the equity method

Section 4 of this report has analysed the IASB's proposals in the equity method project, the changes introduced by IFRS 18 regarding the presentation of results from equity-accounted investments, and the main existing differences between current Spanish and international standards in relation to the equity method, along with their implications, offering recommendations on each point.

In this regard, we considered it relevant to gather the views of various professional groups at the national level, on the understanding that knowledge of their positions may help assess the level of acceptance that certain regulatory changes may receive. To this end, we collected their opinions through a questionnaire that, while not covering all the issues analysed in the preceding section, does address the changes considered most significant and most easily identifiable by users.

5.1. Methodology

To understand the implications of the proposed improvements to the equity method from a practical application perspective, as well as the level of acceptance among the relevant professional groups, we developed a questionnaire aimed at collecting information on these aspects. Specifically, professionals were asked to indicate their level of agreement or disagreement with a number of the previously identified proposed improvements or modifications.

Once the questionnaire was drafted, it was reviewed jointly with various accounting and audit professionals to confirm its suitability for the intended objectives and the correct formulation of the questions. This process helped to ensure the questionnaire's relevance, clarity, and appropriate structure.

The circulated questionnaire (Annex I) combined closed-ended questions with open-ended ones that allowed respondents to provide comments. To facilitate distribution and data collection, the form was created using Google's questionnaire tool.

The research team aimed to gather the opinions of a diverse range of professionals, primarily auditors, preparers of financial statements, analysts, and academics. The questionnaire was disseminated to each of these groups through various channels. For auditors, distribution was made possible thanks to the cooperation of their professional associations, namely the Institute of Chartered Accountants of Spain (ICJCE) and the Register of Economist Auditors (REA), which sent the Google-format questionnaire to their practising members by email. The same process was followed for academics, in this case with the Spanish Association of University Professors of Accounting (ASEPUC) distributing it to its members. We sincerely thank all these organisations for their collaboration in circulating the questionnaire, which was re-sent on three occasions, spaced 15 days apart, to improve the response rate. The first distribution took place in the second half of May 2024, and data collection was completed at the end of June 2024.

In addition, the research team gathered the email addresses of analysts from the websites of major Spanish companies, obtaining contacts for 85 analysts to whom the questionnaire was also sent. The questionnaire was also shared via the social network LinkedIn and sent to the research team's professional contacts. The results were analysed using Excel pivot tables.

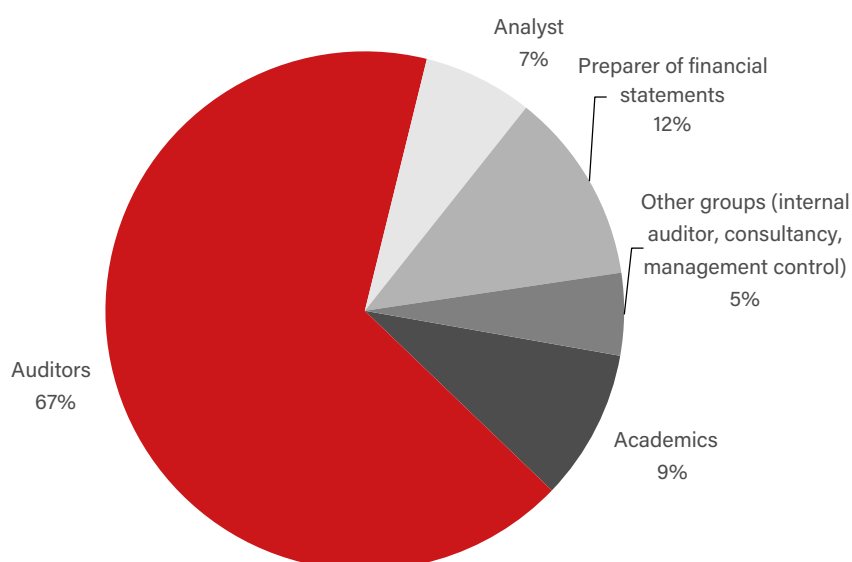
A total of 117 completed questionnaires were received, with participation from all targeted groups. However, as shown in Table 13 and Figure 11, auditors accounted for two-thirds of the responses, while the remaining third was made up of the other professional groups.

//// TABLE 13 Respondent Profile

Respondent profile	Responses	%
Academics	11	9%
Analyst	8	7%
Auditors	78	67%
Preparers of financial statements	14	12%
Other groups (internal auditors, consultants, controllers, etc.)	6	5%
Totals	117	100%

Respondents who prepare financial statements were also asked to indicate the economic sector to which their company belongs. The following sectors were represented: basic materials, industrials and construction (4), oil and energy (1), consumer services (2), financial services (1), technology and telecommunications (3), and holding companies (3).

//// FIGURE 11 Respondent Profile



5.2. Analysis of results

We now proceed to analyse and summarise the feedback collected, grouping the issues into topic areas.

Presentation of the share of profit or loss of equity-accounted investees

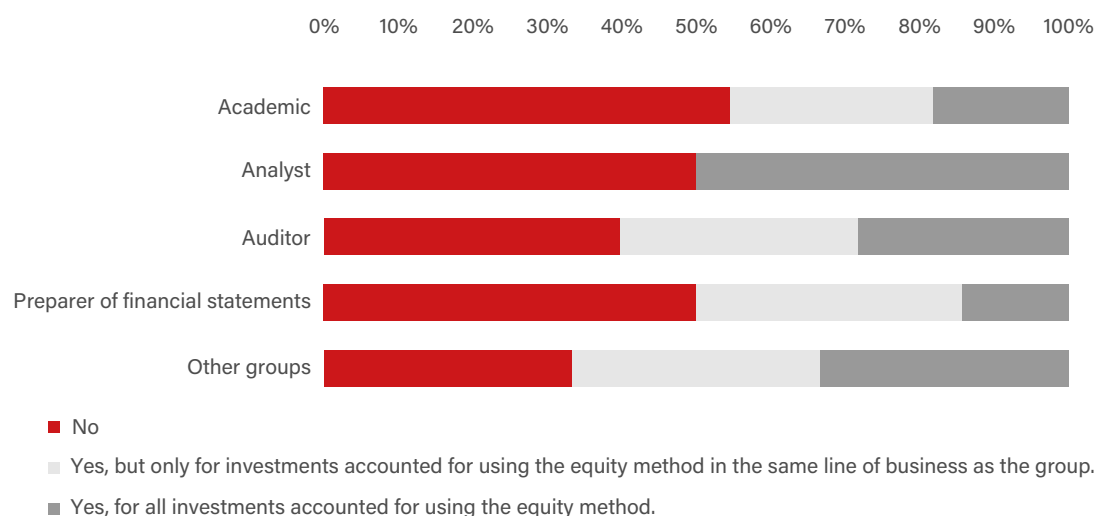
As the reader will know, under the NOFCAC, the share of profit or loss of equity-accounted investees is presented below net finance income or expense. As an alternative to this placement, Question 3 of the questionnaire asked respondents whether they would support including the share of profit or loss of equity-accounted investees within **operating profit or loss**, offering three closed response options: No; Yes, for all investments accounted for using the equity method; and Yes, but only for investments accounted for using the equity method in the same line of business as the group.

//// **TABLE 14** Presentation of the share of profit or loss of equity-accounted investments in operating profit or loss

Respondent group	No	Yes, for those operating in the same line of business as the group	Yes, for all investments accounted for using the equity method
Academics	6	3	2
Analyst	4	4	
Auditors	31	25	22
Preparers of financial statements	7	5	2
Other groups	2	2	2
Totals	50	39	28
%	43%	33%	24%

If we analyse the results presented in Table 14, it is evident that there is no clear consensus on this proposal. In fact, 43% of respondents are opposed to presenting the share of profit or loss of equity-accounted investees within operating profit or loss, while the remaining 57% support the proposal, either in general terms (24%) or only for equity-accounted investee operating in the same line of business as the group (33%).

//// **FIGURE 12** Presentation of the share of profit or loss of equity-accounted investees within operating profit or loss. Opinions by respondent group



If we break down the analysis by group (Figure 12), it can be seen that the groups most reluctant to the proposed change are academics (55%) and preparers of financial statements (50%). Analysts appear fairly evenly split between rejecting the change outright or accepting it only for investments in entities operating in the same line of business as the group. Auditors, the most represented group in the sample, as previously noted, appear more receptive to the proposals: approximately 60% consider it appropriate to include the share of profit or loss of equity-accounted investments within operating profit, either when the investee operates in the same line of business as the group (32%) or, to a lesser extent, in general (28%).

In Question 4 of the questionnaire, we asked respondents about another possible presentation alternative for the share of profit or loss of equity-accounted investments that is occasionally observed in the financial statements of listed groups, with Nestlé being one such example. This basically entails **presenting the share of profit or loss of equity-accounted investments below the income tax expense**, as illustrated in Table 15. As previously noted, this proposal is based on the argument that these results are reported in consolidated financial statements net of tax, and therefore should not interfere with or be mixed into the sections for which income tax must be calculated.

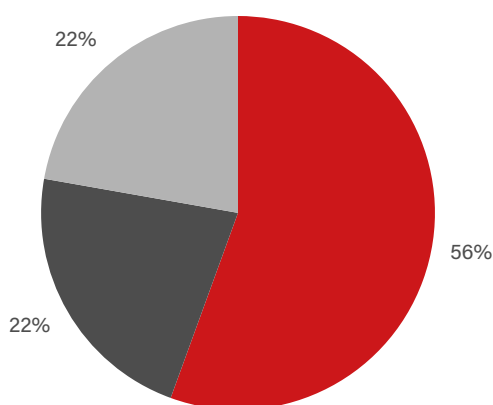
//// **TABLE 15** Presentation of the share of profit or loss of equity-accounted investments below income tax line

Profit before tax, associates and joint ventures
Income tax expense
Share of profit or loss of associated companies and joint ventures
Profit from continuing operations
Discontinued operations
Profit for the year

//// TABLE 16 Opinion on allowing the share of profit or loss of equity-accounted investments to be presented below the income tax line

Respondent group	No	Yes	Yes, but only non-related businesses
Academics	5	3	3
Analyst	2	3	3
Auditors	46	16	16
Preparers of financial statements	8	3	3
Other groups	4	1	1
Totals	65	26	26
%	56%	22%	22%

For this Question 4, three closed-ended responses were offered: No, Yes and Yes, but only for those not operating in the same line of business as the group, since results from investments in aligned businesses should be presented within operating profit¹⁰. The results obtained for this question (Table 16 and Figure 13) show a higher degree of reluctance to allow the share of profit or loss of equity-accounted investments to be presented below the income tax expense (56% on average). Meanwhile, 22% consider the proposal acceptable, and another 22% support it only in the case of those not operating in the same line of business as the group — as their preference is for the share of profit or loss from related businesses to be presented within operating profit.

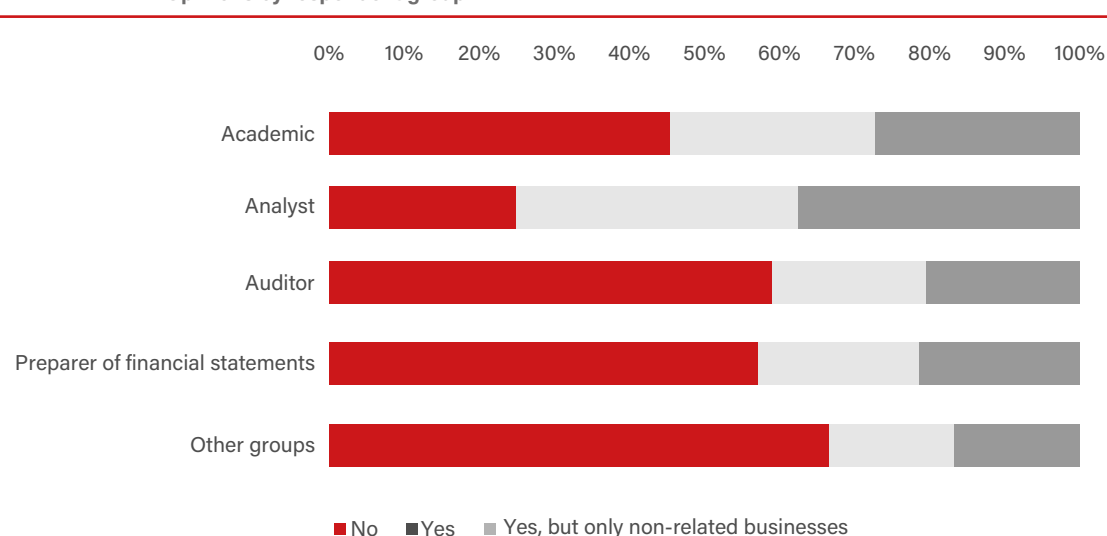
//// FIGURE 13 Opinion on allowing presentation of the share of profit or loss of equity-accounted investments below income tax (Average)

If we differentiate by group (Figure 14), we can observe that those most opposed to presenting the share of profit or loss of equity-accounted investments below the income tax expense are auditors, preparers of financial statements, and other professionals, with around 60% of each group rejecting the option. The remaining 40% is roughly evenly split between accepting the option generally or only for non-related businesses.

Academics and, especially, analysts appear more undecided, with their responses more evenly distributed across the three options and no clear majority.

¹⁰ The inclusion of this third option aimed to establish a preference ranking, allowing respondents to indicate a stronger preference for placing the share of profit or loss of equity-accounted investments from related businesses within operating profit (as per Question 3).

//// **FIGURE 14** Presentation of the share of profit or loss of equity-accounted investments below income tax line.
Opinions by respondent group



Question 12 of the questionnaire was also related to the presentation of the share of profit or loss of equity-accounted investments. Specifically, it sought to gather respondents' views on the **new statement of profit or loss model introduced by IFRS 18**. As previously mentioned, IFRS 18 introduces three result categories: operating, investing, where all income and expenses from equity-accounted investments are reported, and financing, as shown in Table 17.

//// **TABLE 17** Income categories in IFRS 18

Statement of Profit or Loss		
Operating	Revenue	X
	Cost of Sales	(X)
	Gross profit	X
	Other operating income	X
	Other operating expenses	(X)
	Operating profit	X
Investing	Share of profit or loss of associated companies and joint ventures	X
	Other investment income	X
	Profit before financing and income tax	X
Financing	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities and provisions	(X)
	Profit before tax	X
	Income tax expense	(X)
	Profit from continuing operations	X
	Discontinued operations	
	Profit for the year	X

In relation to the above-mentioned model, respondents were asked: Would you be in favour of presenting the share of profit or loss of equity-accounted investments in a **separate "Investing" category between operating profit and net finance income or expense**? The closed response options offered for this question were: No, Yes and Yes, but the profit or loss from investments in entities

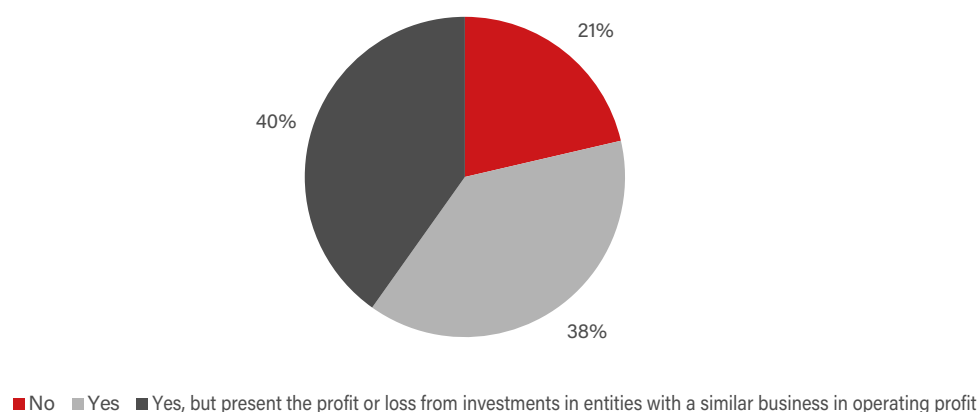
with a similar business should be presented within operating profit¹¹. Alongside these closed options, question 12 allowed respondents to justify their opinion in an open-text field.

The answers given by the different groups surveyed are shown in Table 18, and the average for all of them in Figure 15.

TABLE 18 Opinion on presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category in line with IFRS 18

Respondent group	No	Yes	Yes, but present the profit or loss from investments in entities with a similar business in operating profit
Academics	3	3	5
Analyst	3	2	3
Auditors	16	32	30
Preparers of financial statements	2	5	7
Other groups	1	3	2
Totals	25	45	47
%	21%	38%	40%

FIGURE 15 Opinion on presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category in line with IFRS 18

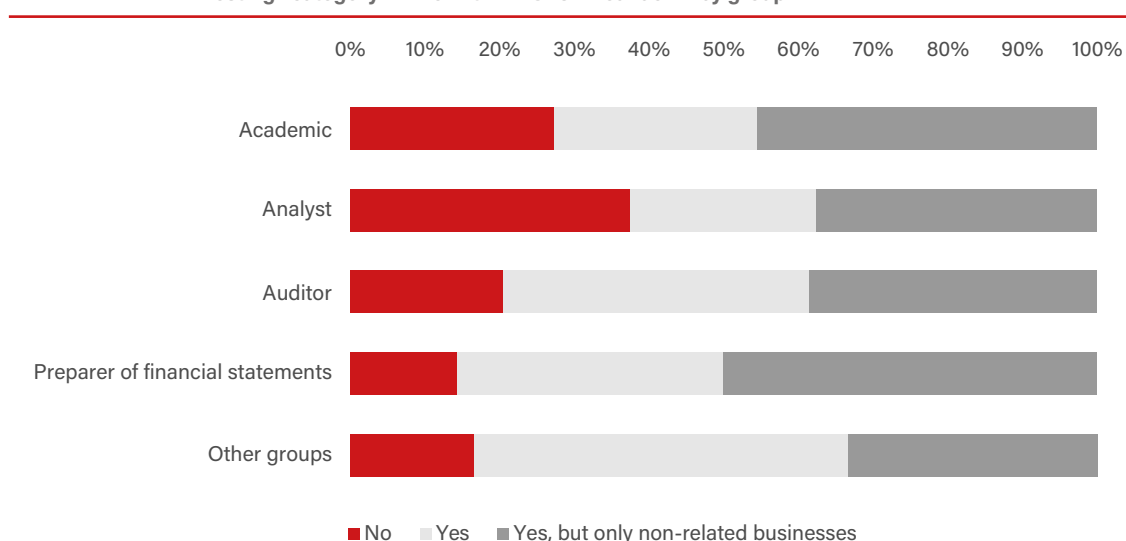


As can be seen, the new statement of profit or loss model proposed in IFRS 18 appears to have been well received by Spanish professionals, with nearly 80% expressing a favourable view of including the share of profit or loss from investments accounted for using the equity method in the new 'Investing' category, although approximately half of them prefer that the results from investments in entities with a similar business be presented within operating profit. Accordingly, respondents' opinions appear broadly consistent with the recommendation put forward in section 4.2 of this paper, in that they positively assess aligning the presentation of the profit or loss from equity-accounted investments with the model established in IFRS 18.

If we differentiate by groups (Figure 16), the least supportive of presenting the results from equity-accounted investments in a new 'Investing' category are analysts (37.5%) and academics (27.3%).

¹¹ This third option again sought to accommodate, where applicable, respondents' preference for presenting the results from investments in entities with a similar business within operating profit, while aligning with the proposal in IFRS 18.

FIGURE 16 Opinion on presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category in line with IFRS 18. Breakdown by group



As previously noted, Question 12 of the questionnaire allowed respondents to justify their stated opinion regarding the presentation of the share of profit or loss of equity-accounted investments in a separate "Investing" category, in line with IFRS 18. Of the 117 professionals who participated in the study, 22 provided qualitative comments, which are summarised in the following tables, grouped by their stated position.

Among the arguments put forward by those in favour of presenting the profit or loss of equity-accounted investments in a distinct 'Investing' category in line with IFRS 18, the following were highlighted: the information is useful, cost-free for the company, easy to interpret, and better reflects the economic nature of the result.

TABLE 19 Arguments in favour of presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category

Academic	A more detailed breakdown of investing profit or loss always provides useful information, and there are no preparation costs for the company.
Auditor	I believe it accurately reflects the economic reality, that is, it shows the result that arises from investment in associates. It is an international standard that has undergone extensive scrutiny and debate. Equity-accounted results do not relate to operating activities, but to investing activities. Greater control. It may be visually useful for the result to be in a dedicated 'Investing' section. It would better reflect the nature of the results. These are investment rather than financing operations. It makes sense for easy grouping and interpretation by a third party not used to analysing consolidated accounts.
Preparer of financial statements	To summarise where the profit or loss from equity-accounted investments should go: I don't think it belongs in Operating Profit, and even less so if only for those with the same activity (influence is the same in all cases and I already have the segment note to see activity sectors). I also wouldn't fully agree with including it in the Net Finance Income/Expense (although this is not asked in the questionnaire). I do see it going after Income Tax Expense tax because, at the end of the day, the profit of equity-accounted investments is already net of tax. I also agree with having a single line item, with disaggregation provided in the notes. That being said, I am fine with where it is going at the moment and I would also be fine with it being as shown in Question 12.
Other Groups	I believe the profit or loss from equity-accounted investments should not be mixed with operating profit generated directly.

//// TABLE 20 Arguments in favour of presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category, but presenting results from investees with related business activities within operating profit

Academic	My answer assumes that the equity method is a consolidation method (not a measurement method), and my answers are based on that assumption. If it were a measurement method, my answers would be different.
	Every associate is essentially a joint venture with varying degrees of decision-making power, so its profit or loss is part of operating activities.
Auditor	Indeed, if the investee's business is related, its share should be presented within operating profit.
	It would be more understandable.
Other Groups	There needs to be consistency with the answer to Question 3, in the sense that two equity accounting models seem to be under discussion(*): the investor/investing model and the operating/associate model. Therefore, this proposal makes sense within that approach, of course. (*) This would require preparers to assess (based on criteria to be established in the standard) and disclose their judgements when applying one model or the other to their equity-accounted investees.

Among those supportive of the proposal but who believe the share from investees with related business activities should be included in operating profit, the argument is that there are two models for equity accounting: an investor model and an operating model. Based on this view, they argue that the share of profit or loss should be presented differently, in the "Investing" category or within operating profit, respectively.

The counter-arguments (Table 21) refer to the fact that IASB Standard 18 is still new and that its usefulness should be assessed before amending the NOFCAC accordingly. They also point out that the concept of significant influence, or the equity method, involves more than just a simple investment.

//// TABLE 21 Arguments against presenting the share of profit or loss of equity-accounted investments in a separate "Investing" category

Academic	These are earnings from investments in which there is no control, and they should be presented accordingly as financial instruments.
Analyst	In general, I prefer to place the equity-accounted profit or loss between EBIT and PBT. I do not fully understand the reasoning for placing it above EBIT. Ultimately, it is the net profit of another company, and presenting it above EBIT would affect analysts' ability to calculate a NOPAT close to cash generation (by adding back depreciation) and would hinder comparison via multiples if different accounting rules are applied in Europe versus the US.
	While not discontinued operations from a cash flow perspective, the link between a company and its associates is often very weak. I believe it should be reported below income tax.
Auditor	That treatment would be in line with the new IFRS 18, but I believe it may be complex for certain entities. Probably, after two or three years have passed since the implementation of the five profit or loss categories under IFRS, we will have a clearer idea of whether the information provided to stakeholders is more valuable than that generated under IAS 1 and, if so, whether the NFCAC should be amended accordingly.
Preparer of financial statements	I believe that the concept of significant influence or equity accounting goes beyond a mere investment. That is why I consider it more accurate to present its profit or loss according to the business activity of the investee.

Also related to presentation aspects, in question 5 we sought to gather the views of professionals on the advisability of grouping the three line items— detailed in Table 22—that exist in the current consolidated profit and loss account model (NOFCAC) relating to the equity method, into a single line item without prejudice to presenting the breakdown in the Notes.

//// **TABLE 22 Breakdown of the components of profit or loss from equity-accounted investments (NOFCAC)**

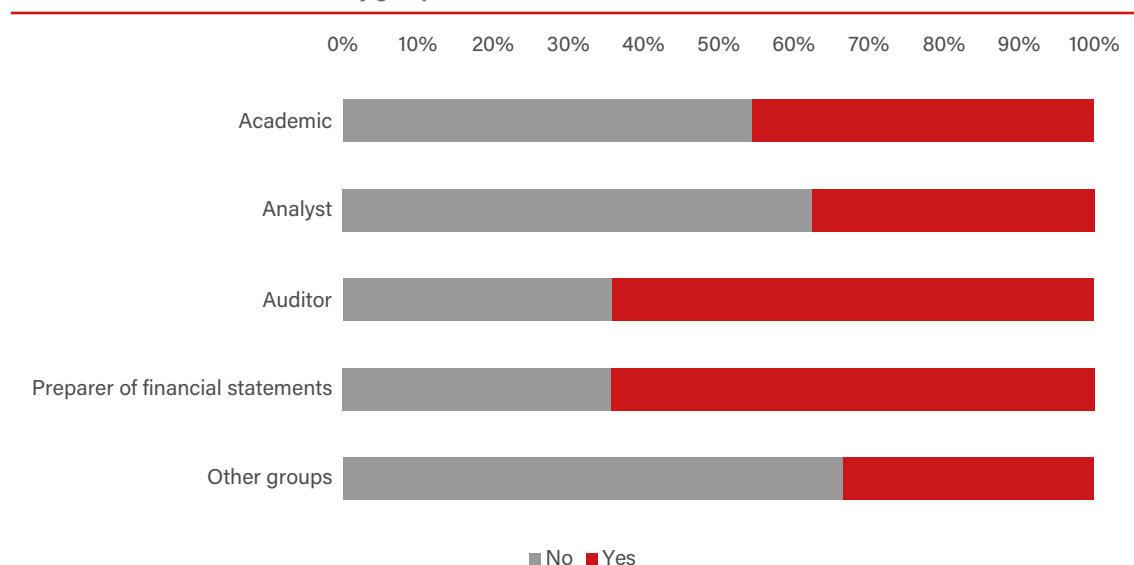
A.2) Net finance income/(expense) (15 +16+17+18+19+20)
21. Share in profit (loss) of equity-accounted investees
22. Impairment and gain or loss from loss of significant influence over investments accounted for using the equity method or of joint control over a jointly controlled entity
23. Negative goodwill from equity-accounted investments

//// **TABLE 23 Opinion on aggregating all components of profit or loss from the equity method into a single line item**

Respondent group	No	Yes
Academics	6	5
Analyst	5	3
Auditors	28	50
Preparers of financial statements	5	9
Other groups	4	2
Totals	48	69
%	41%	59%

Overall, the majority opinion in the sample appears to support aggregating all components into a single line item, with nearly 60% of respondents in favour (Table 23). However, when responses are broken down by respondent group (Figure 17), auditors and preparers of financial statements show greater agreement with aggregation (over 64%), whereas most respondents in other categories are opposed.

//// **FIGURE 17 Opinion on aggregating all components of profit or loss from the equity method into a single line item. Breakdown by group**



Eliminate the option to apply proportionate consolidation to jointly controlled entities

One of the differences that persist between the NOFCAC and international standards is the possibility under Spanish regulations to apply the proportionate consolidation method when incorporating jointly controlled entities in the consolidated financial statements, whereas international standards only allow the equity method for both associates and joint ventures. This has led to the widespread use of the equity method in consolidation, while the use of proportionate consolidation has become increasingly rare in practice.

In this regard, Question 6 of the questionnaire asked the following: Do you consider it appropriate to eliminate the option of applying proportionate consolidation for jointly controlled entities as provided in the NOFCAC? and the closed response options were: No, Yes, and Yes, except in certain specific cases, such as a temporary joint venture (UTE) in which the participants effectively hold the proportionate share of assets and liabilities.

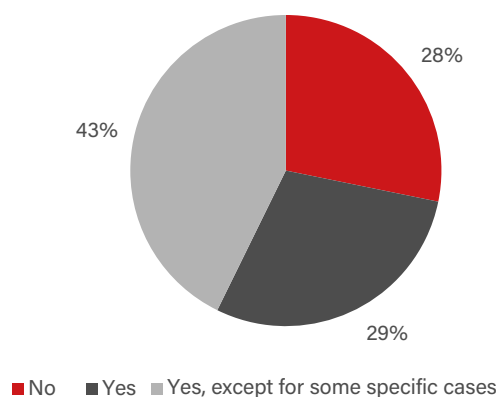
//// TABLE 24 Opinion on eliminating the option of applying proportionate consolidation for jointly controlled entities

Respondent group	No	Yes	Yes, except for some specific cases
Academics	5	2	4
Analyst	1	3	4
Auditors	21	24	33
Preparers of financial statements	4	4	6
Other groups	2	1	3
Totals	33	34	50
%	28%	29%	43%

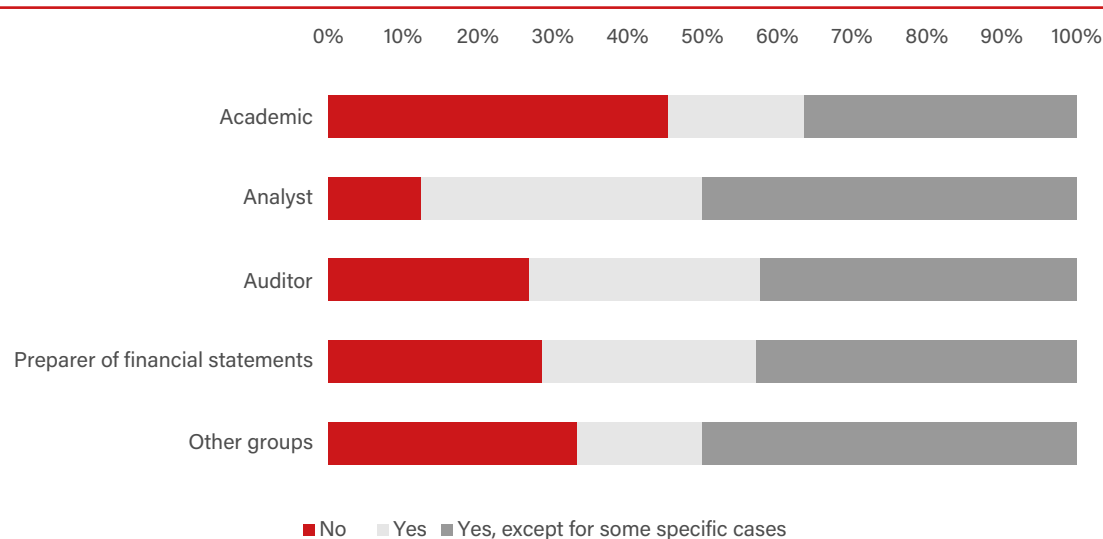
If we look at the summary of responses obtained in relation to this question (Table 24 and Figure 18), we can see that over 70% of respondents were in favour of eliminating the proportionate consolidation option, either fully (29%) or retaining it only for specific cases (43%). This supports the proposal for elimination set out in Section 4.3.2 of this document.

When broken down by group (Figure 19), it can be seen that analysts were the most supportive of eliminating the option (only 12.5% opposed it), while academics were the most resistant, with 45% believing the option should not be removed.

//// FIGURE 18 Opinion on eliminating the option of applying proportionate consolidation for jointly controlled entities



//// **FIGURE 19** Opinion on eliminating the option to apply proportionate consolidation for jointly controlled entities. Breakdown by group



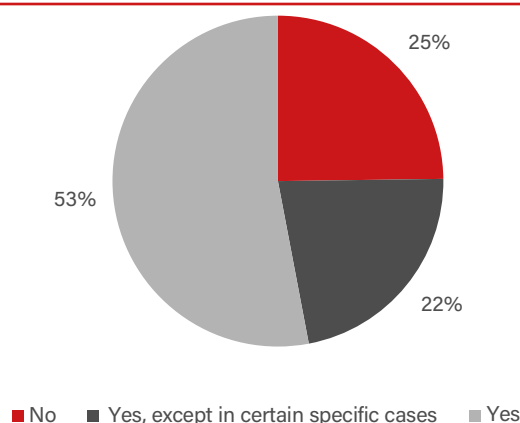
Elimination of gains or losses on transactions between group entities and equity-accounted investees

In developing how the equity method should be applied in consolidation, the NOFCAC establish the obligation to eliminate gains or losses arising from transactions between the group and equity-accounted investees. In contrast, such eliminations are not required under the approach proposed in the IASB's equity method project.

In this regard, the corresponding question in the questionnaire asked: Do you agree with the IASB's approach of not eliminating these gains or losses and therefore treating them as realised? (Question 7), and the closed response options were: No, Yes — because the equity-accounted investee is not part of the group's economic entity and such eliminations are not justified — Yes, except in specific cases (e.g. investees owned 50:50, where both investors recognise the same gain or loss).

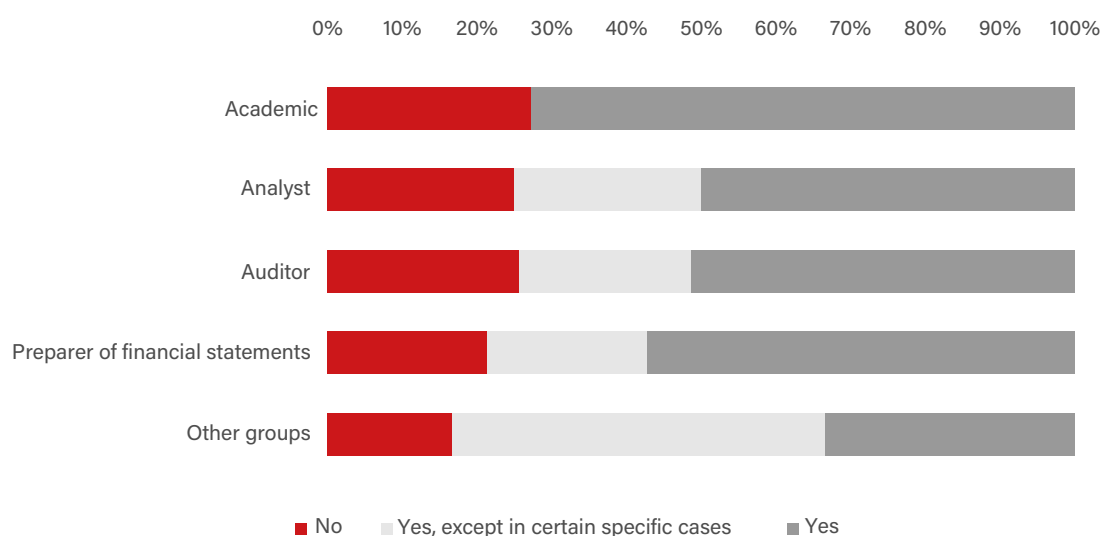
//// **TABLE 25** Opinions on not eliminating internal gains and losses when applying the equity method

Respondent group	No	Yes	Yes, except in certain specific cases
Academics	3	8	
Analyst	2	4	2
Auditors	20	40	18
Preparers of financial statements	3	8	3
Other groups	1	2	3
Totals	29	62	26
%	25%	53%	22%

//// FIGURE 20 Opinion on not eliminating internal gains and losses when applying the equity method. Average.

The opinions collected in relation to this proposal (Table 25 and Figure 20) show that Spanish professionals are broadly favourable to it: in fact, over 70% believe it would be appropriate to treat such gains and losses as realised and, consequently, do not consider elimination necessary.

If we look at the opinions broken down by groups (Figure 21), it can be seen that all of them share this opinion.

//// FIGURE 21 Opinion on not eliminating internal gains and losses when applying the equity method. Break-down by group

As previously noted (4.1.3.G), this proposal from the IASB's equity method project is justified on the grounds of its greater simplicity, the difficulty of obtaining information from the associate, and the idea that it is more aligned with the reporting entity concept in consolidated financial statements, which includes only the parent and its controlled entities. However, we do not consider it appropriate to endorse this approach unless the objective of measurement under the equity method is clearly defined.

Other issues related to the application of the equity method

In addition to the matters discussed above, concerning the presentation of results or the application of the equity method in the consolidation process, we were also interested in professionals' views on other uses of this method under international standards.

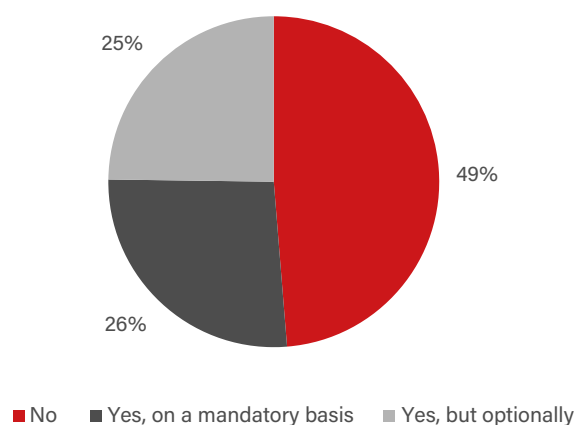
Firstly, it is worth noting that under the IASB framework, the equity method is not conceived solely as a procedure to be applied in the preparation of consolidated financial statements. Indeed, international standards treat the equity method as a genuine measurement basis for investments held by an entity and, therefore, one that may be applied in individual financial statements. This approach, which is not yet established in Spain, is one we believe is worth exploring. Therefore, in item 8, the professionals were asked: Would you be in favour of accounting for **investments in group entities, jointly controlled entities and associates in individual financial statements using the equity method**? The response options offered were: Yes, optionally, No and Yes, mandatory. Alongside these closed options, question 9 allowed respondents to justify their opinion in an open-text field.

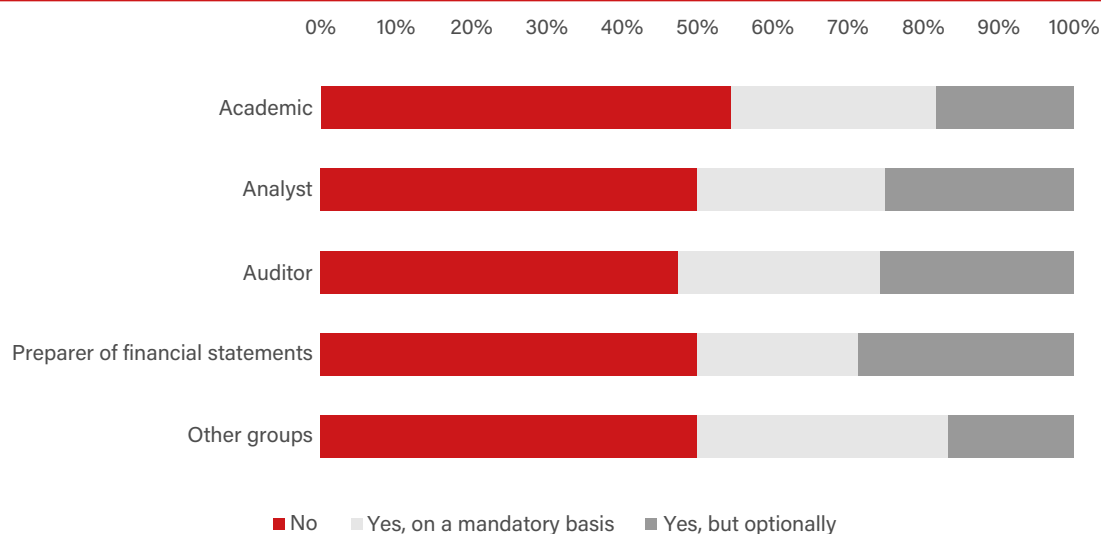
As can be seen in Table 26 and Figure 22 (average for all groups), half of the respondents expressed opposition to this proposal; 25% would accept it if it were optional, and only 26% would support it as mandatory. When analysing the responses by respondent group, the opinions appear relatively consistent (Figure 23).

//// **TABLE 26** Opinion on applying the equity method in individual financial statements

Respondent group	No	Yes, on a mandatory basis	Yes, but optionally
Academics	6	3	2
Analyst	4	2	2
Auditors	37	21	20
Preparers of financial statements	7	3	4
Other groups	3	2	1
Totals	57	31	29
%	49%	26%	25%

//// **FIGURE 22** Opinion on applying the equity method in individual financial statements. Average



//// FIGURE 23 Opinion on applying the equity method in individual financial statements. Breakdown by group

Among the 117 professionals who participated in the study, 44 provided comments explaining the reasoning behind their opinion on this issue. The following tables summarise the arguments given in favour of and against applying the equity method in individual financial statements.

//// TABLE 27 Arguments in favour of the mandatory use of the equity method in individual financial statements

Auditor	So that the parent's assets would at least reflect the carrying amount of the investee, instead of being measured at cost (less impairment, if any).
	I think it reflects reality better.
	It would improve the information by also including the financial position of those entities.
	It would result in more accurate information for readers of the financial statements.
	Greater control.
Preparer of financial statements	Economically, in my view, equity-accounting, being essentially a percentage of the investee's net assets, provides a more reasonable and realistic measure than measurement at cost or minimum carrying amount. Under the current approach, the individual financial position of the parent is very disconnected from the financial position of the group, which undermines the true and fair view at individual level.
	Applying the equity method would value the effects of the investment at fair value, which would result in a more accurate and realistic figure.

//// TABLE 28 Arguments in favour of the optional use of the equity method in individual financial statements

Other groups	I understand that we are referring to accounting standards in Spain. In this respect, since there is no option for "individual" financial statements (as distinct from "separate" financial statements under IFRS), optional application would be a good solution to address this gap in Spanish accounting standards.
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From the comments received, it appears that those who support the broader, mandatory application of the equity method in individual financial statements (31 respondents, 26% of the sample) base their opinion on the belief that this method better reflects reality and provides more accurate information for financial statement users.

Among those supporting the intermediate position, i.e. the optional application of the equity method in individual financial statements (29 respondents, 25% of the sample), only one respondent justified this view by pointing to its potential to bridge the gap between Spanish standards and international standards.

//// TABLE 29 Arguments against the use of the equity method in individual financial statements

Academics	There must be consistency. If the equity method is a method of consolidation, then any investee whose activity qualifies must be recognised in operating profit, internal gains and losses must be eliminated, and it should not be applied in individual financial statements. If it is a measurement method, then it makes sense to recognise everything in net finance income or expense, not to eliminate, and to apply it to individual statements as an option. The IASB is consistent in this respect, but the objective meaning of the method must be clearly defined.
	Individual financial statements serve different functions from consolidated ones.
	I would keep the cost method, as it is simpler, and the notes can include information on changes in the investees' equity, but the balance sheet and the income statement are easier to understand using the cost criterion.
Analyst	For me the only relevant thing is the cash generated. As a rule, I would only recognise dividends and/or other cash flows, where applicable. The equity method tends to overstate the influence that an investor has when there is no actual control.
	In consolidated groups, the main usefulness of individual financial statements is to view the structure as pure holding companies and isolate any effects that might affect the rest of the consolidation scope. I prefer to see them "clean" and without adjustments.
	I believe the current approach gives a true and fair view, and I do not see what further disclosure would add.
	I apologise for the bluntness of my argument. The income statement is misleading. No bank lends on this basis. Only cash generation matters. In my view, only the impact through dividends should be recognised, and the income statement should be aligned as far as possible with the cash flow statement.
Auditor	I see no logic in accounting for group entities using the equity method in the individual financial statements and using full consolidation in the consolidated accounts.
	The cost-benefit is not worth it.
	Due to the tax impact, I believe the cost method is the most appropriate. Otherwise, adjusting the cost via the equity method creates temporary differences that complicate the individual financial statements. If the economic view of a group is required, the consolidated financial statements should be consulted.
	Otherwise, the operation becomes more complicated. Possible differences in reporting dates between the parent and the investees; should approved or submitted accounts be used; if they are unavailable, should prior-year accounts be used; tax implications etc.
	Anything that changes annually is subjective, so better not to alter it and leave it at cost. The notes can be used to explain anything necessary to present the evolution of the investment.
	They are different legal entities and would be a different type of financial statement.
	Because I believe they should continue to be measured at cost.
	Otherwise, the result would show an image that is not individual.
	It would distort the measurement. If the cost method is maintained but equity accounting is used, this would introduce volatility in the measurement and would add no value in assessing these investments, which is already possible using the information in the related note.
	It is already visible in the consolidated statements.
Preparer of financial statements	I do not believe it is prudent to revalue the investment based on the profits of the investee.
	It would complicate the reading of the financial statements. Other parts of the accounts already disclose the result of the investments, so the reader has the necessary information.
	The reasons are: (i) The existence of consolidated financial statements; (ii) The individual notes to the accounts already provide information on the investees; (iii) If equity-accounted investments are recognised in individual financial statements, why shouldn't the rest of the assets be measured at fair value (for example, real estate assets)?
	It would be inconsistent with the treatment of other balance sheet items.
	If applied at the level of individual financial statements, it would no longer serve any purpose in consolidation and appropriate reclassifications would need to be made in the balance sheet and income statement.
	It adds complexity and distorts the individual view of the company. To see the overall picture of the business, the consolidated financial statements are already available.

The most explicit objections were raised by those who opposed the use of the equity method in individual accounts (57 respondents, 49% of the sample). Among these, we compiled 23 comments (Table 29) explaining their opposition, mainly on the grounds of the additional complexity involved and the distinct function served by individual and consolidated financial statements. Others argued that such information is already included in the consolidated accounts and in the note on investees in the individual statements. They consider that applying the equity method in individual financial statements would create inconsistency in the measurement of other assets that remain at cost. For

example, real estate assets were mentioned. One academic offered the following reflection, consistent with the reasoning already set out in this document: *"There must be consistency. If the equity method is a method of consolidation, then any investee whose activity qualifies must be recognised in operating profit, internal gains and losses must be eliminated, and it should not be applied in individual financial statements. If it is a measurement method, then it makes sense to recognise everything in net finance income or expense, not to eliminate, and to apply it to individual statements as an option. The IASB is consistent in this respect, but the objective meaning of the method must be clearly defined".*

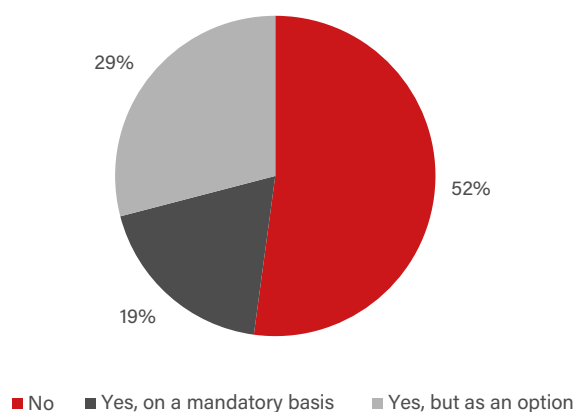
Finally, respondents were asked whether it would be appropriate to present additional financial statements. Specifically, item 10 asked the following question: Would you support the requirement for **a company that holds interests in associates but has no subsidiaries to present additional financial statements in which the investments are recognised using the equity method**? The responses, compiled in Table 30 and Figure 24, show that the majority (52%) are not in favour of presenting these additional statements. 22% would support the proposal if it were optional. Only 19% believe such additional financial statements should be required.

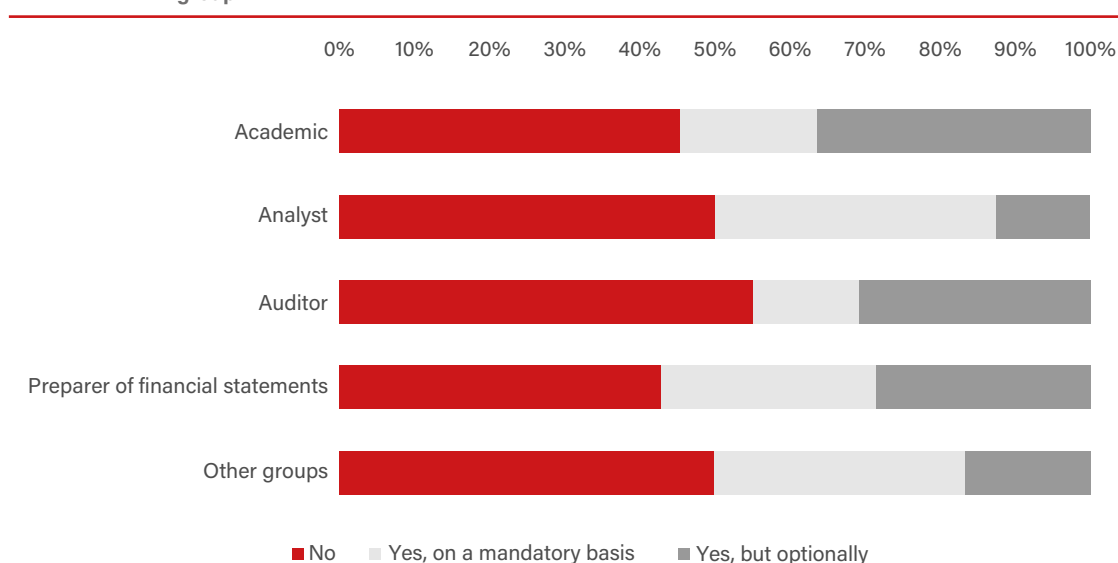
There are no major differences between the groups surveyed (Figure 25), although analysts (37%), preparers of financial statements (28.6%), and other professionals (33.3%) were the most supportive of the proposal being made mandatory.

//// TABLE 30 Opinion on requiring additional financial statements using the equity method

Respondent group	No	Yes, on a mandatory basis	Yes, but as an option
Academics	5	2	4
Analyst	4	3	1
Auditors	43	11	24
Preparers of financial statements	6	4	4
Other groups	3	2	1
Totals	61	22	34
%	52%	19%	22%

//// FIGURE 24 Opinion on presenting additional financial statements using the equity method. Average



//// FIGURE 25 Opinion on presenting additional financial statements using the equity method. Breakdown by group

Alongside the closed-ended response options, question 11 allowed respondents to justify their opinion in open text format. In this case, among the 117 professionals who participated in the study, 22 provided the rationale for their opinion, which is summarised in the tables below and grouped according to their stance for or against requiring a company that holds interests in associates, but has no subsidiaries, to present additional financial statements applying the equity method.

//// TABLE 31 Arguments in favour of presenting additional statements, applying the equity method, on a mandatory basis

Auditor	For the same reason that parent companies of a group are required to do so.
	If Question 8 is answered affirmatively and mandatorily, additional statements would no longer be necessary. Otherwise, these additional statements would be very useful and transparent.
	Because this would provide more information, since if there are no subsidiaries, the group likely does not present consolidated financial statements as it is not required to.
	Greater control.
Preparer of financial statements	For the financial statements to reflect and support the operation of equity-accounted affiliates.
Other Groups	To the extent that the information is not in individual accounts, it seems to me representative irrespective of whether a group exists.

//// **TABLE 32** Arguments in favour of optional presentation of additional statements applying the equity method

Academic	Rather than as an option, I would say that if it is considered a measurement method, it does not make sense to allow it in some cases and not in others. If it is a consolidation method then I would not allow it.
Auditor	In my experience, it is a very complicated additional statement to prepare due to the difficulty companies face in obtaining timely financial information from investees. Usually, when companies do not have control and a third party prepares the financial information, it takes a very long time to obtain it. From an audit perspective, this could also pose a problem if investees refuse to report due to confidentiality or cost issues. You have to look at the circumstances. And encourage simplification. Those who choose to do so will always provide more information. Optionally, it would allow for better information on the reality of the company and its subsidiaries. It would be additional information that could be useful for users, and would not distort the picture of individual accounts.
Preparer of financial statements	For certain companies (funds) it could be a good alternative. I would not make it mandatory because, in the event of losses, the individual accounts would already reflect them through impairment and because it may not provide additional value in other cases. It would provide a global view of the business in these cases, although it would add complexity, especially for small companies, so optionality would be preferable.
Other Groups	It could actually be optional or necessary if a financial institution or similar requested it. I believe allowing "individual" financial statements would add value to capital markets.

//// **TABLE 33** Arguments against optional presentation of additional statements applying the equity method

Academic	As a reader or analyst, the more information the better, but one must consider the cost of preparing and disclosing new additional statements. Individual financial statements serve different functions from consolidated ones. Better not to confuse the poor reader. It is better not to add additional statements, but an explanatory note might be useful.
Analyst	Generally speaking, apart from temporary joint ventures (UTEs), shareholders' interests are not fully aligned. Control is essential to the distribution of cash. If there is no control or veto power, the cash is at others' disposal and there's no way to reflect the actual ownership numerically. For me the only relevant thing is the cash generated. As a rule, I would only recognise dividends and/or other cash flows, where applicable. The equity method tends to overstate the influence that an investor has when there is no actual control.
Auditor	I believe there should only be individual financial statements, under whatever accounting basis is used, since in this case there is no group. Holding interests in associates, preparing additional financial statements does not improve the presentation of the entity's position as the required information can be provided in the notes. Furthermore, without control over the investees, no decisions can be made regarding dividends or the control of assets and liabilities. I do not believe any advantage is gained. Under Spanish law, consolidation is tied to the existence of a group and, therefore, requires a parent and at least one subsidiary. Allowing pseudo-consolidation with only associates adds no value and deviates from a well-established doctrine. Not everyone knows how to apply it. The information can be disclosed in the notes rather than through additional financial statements. Information on associates must already be disclosed in the notes. This would be unnecessary and would increase the administrative burden on companies.
Preparer of financial statements	I do not believe an additional financial statement would be necessary. I believe including the concept of equity-based measurement in the individual view would sufficiently meet that need.

As previously noted, the possibility of requiring companies with interests in associates, but without subsidiaries, to present additional statements applying the equity method, is not considered appropriate by 52% of the sample. Among those who justified their negative response, many pointed out that investees are already disclosed in the notes, so the proposal is unnecessary and would increase the company's costs.

Those in favour of mandatory presentation noted that such information is relevant and would otherwise not be available if no group exists. However, they also noted that these additional statements would not be necessary if individual accounts measured interests using the equity method.

The optional presentation of additional statements (Table 32) on the grounds that it could be useful for users and would not distort the image of individual accounts.

6 Conclusions

1) In relation to academic research:

- Contrary to international standards, Spanish regulations allow the use of either the equity method or the proportionate consolidation method to account for investments in joint ventures. However, despite numerous research articles on the subject, there is no consensus on which method provides more relevant information for users of financial statements.
- On the other hand, the equity method can be conceived as either a measurement method or a one-line consolidation method, with arguments in favour of both perspectives. Currently, no regulator has stated explicitly how the standard was conceived, but both international standards and the NOFCAC seem to follow a mixed model. However, in light of the future amendments to IAS 28, the IASB appears to conceive of it as a measurement method (without having stated this explicitly).

2) Proposals for standard-setting strategy relating to the equity method project:

- The equity method project includes 10 proposals to amend IAS 28. Table 34 provides recommendations on each of these.

3) Proposals for a standard setting strategy relating to IFRS 18:

- IFRS 18 introduces changes in the presentation of profit or loss from equity-accounted investees. This standard comes into force in 2027. Paragraphs 53 to 55 of the standard specify that all profit or loss from equity-accounted investees is presented in a category called "investing income", which is placed after operating profit.
- Given the importance of convergence in something as significant as financial statement formats, it is essential to align the presentation of profit or loss from equity-accounted investees with that format. Moreover, the presentation is, in general terms, practically identical to the NOFCAC standards, except that Spanish standards do not provide for a separate line item for investment results.

4) The following recommendations are made as part of the standard-setting strategy in relation to the current Spanish regulations:

- Align with IFRS 11 by eliminating the option to apply the proportionate consolidation method.
- Where an investor holds interests in jointly controlled entities or associates but has no interests in group entities, in addition to preparing individual financial statements, the investor should be required to prepare primary financial statements applying the equity method.
- Not to adopt the option provided under international standards that allows investments in group entities, jointly controlled entities and associates to be recognised using the equity method.

//// TABLE 34 IASB Equity Method Project. Proposed amendments to IAS 28 and related recommendations for each of them

Issues under review in the IASB project	Recommendation
A. Initial measurement in the case of step acquisitions of significant influence.	The treatment differs from NOFCAC. It seems appropriate to consider convergence when the NOFCAC are amended.
B. Additional acquisition of an interest in an equity-accounted investee.	The treatment differs from NOFCAC. It seems appropriate to consider convergence when the NOFCAC are amended.
C. Accounting for changes in ownership interest in an associate when the associate's net assets change.	Convergence on this matter would require amending the NOFCAC. The IASB proposal increases complexity. In some cases, the IASB proposal does not adequately reflect the economic substance of the transaction that gives rise to the change in ownership interest. It does not address other transactions that lead to changes in net assets, such as changes in the net assets of an associate that is a parent and that alters its interest in a subsidiary, or those arising from share-based payment schemes. It seems reasonable to assess this proposal for adoption in Spanish law once it has been confirmed that the methodology adequately reflects the economic effect of the regulated transactions in their various forms, and that the treatment of other transactions that change the associate's net assets has been analysed.
D. Treatment of the partial disposal of an interest in an associate.	The IASB proposal aligns with the requirements of the NOFCAC. The current IAS 28 does not regulate the issue, so there is diversity in practice. The IASB's proposed treatment provides a faithful representation of the investment, which from the investor's perspective is a single asset, recovered through sale and dividend receipts. It is also simpler.
E. Acquisition of an additional interest in an investment accounted for using the equity method with unrecognised losses.	There is no explicit treatment in the NOFCAC, and the IASB's proposal aligns with the principles implicit in the NOFCAC. It may be clarified through an ICAC's Consultation Guidance.
F. Equity method and limitation on loss recognition. Treatment of other comprehensive income.	There is no explicit treatment in the NOFCAC, and the IASB's proposal aligns with the principles implicit in the NOFCAC. It may be clarified through an ICAC's Consultation Guidance.
G. Recognition of gains and losses on transactions between the group and the associate.	This is the most significant change proposed in the project. It is not conceptually justified and does not respond to an unresolved issue but rather to a change in the standard's criteria. Although the approach may have advantages, it does not seem appropriate to support it until the objective of measurement under the equity method is clearly defined.
H. Recognition of taxes.	The treatment is the same as in Spanish regulations.
I. Contingent consideration in the acquisition of an associate.	The treatment is the same as in Spanish regulations (ICAC's Consultation Guidance 3 BOICAC 132/December 2022).
J. Impairment of investments accounted for using the equity method.	Not applicable in Spanish legislation. It is a wording correction not reflected in Spanish regulations.

Legend:

	Consistent with current NOFCAC
	Not applicable to NOFCAC
	No express treatment but consistent with general NOFCAC principles. Can be introduced via ICAC's Consultation Guidance
	Advisable to introduce in the NOFCAC
	Should not be adopted until the international standard is finalised

5) Significance of the equity method in European companies:

- The results obtained from a large sample of listed European groups during the period 2018-2023 show that the equity method is a widely used accounting treatment in Europe, particularly in Spain. We have verified that around 50% of listed European companies hold investments to which this method is applied. This highlights the relevance of the IASB project and the potential review of the regulation of this method that could be carried out by the ICAC, with a view to addressing the differences observed in practice and achieving more consistent reporting across entities.
- However, the potential balance sheet impact of the proposed changes does not appear to be particularly significant, as equity-accounted investments represent, on average, no more than 3% of total assets, with no major differences between countries. These investments, which yielded an average return of 6.4% over the period analysed, contributed around 6.2% of net profit. Therefore, we do not believe that the proposed improvements would significantly alter the structure of group profits either.

6) The profession's position on possible proposals to improve the equity method:

Based on the analysis of 117 questionnaires collected from auditors, preparers of financial statements, academics, analysts and other professionals, the following conclusions can be drawn, grouped by topic area:

- In relation to the **presentation of the equity-accounted profit or loss**, of the alternatives included in the questionnaire, the option that appears to receive the greatest level of support (80%) is presenting equity-accounted income in a specific "Investing" category in line with IFRS 18. Respondents argued that it is useful information, has no cost for the company, is easy to interpret, and better reflects the economic substance of the income. Additionally, 60% of the sample supports grouping all components of equity-accounted income into a single line item. Therefore, respondents' views support the recommendation to converge towards the presentation model set out in IFRS 18.
- 70% of respondents are in favour of **eliminating the option of applying proportionate consolidation for jointly controlled entities**, which is also consistent with the proposal made in that regard.
- Spanish professionals also support the IASB project's proposal **not to eliminate gains and losses on transactions with equity-accounted investees**; in fact, over 70% of respondents on average consider that such results should be regarded as realised. However, this proposal, which is justified on the grounds of simplicity, the difficulty of obtaining information from the investee, and alignment with the "entity perspective" of consolidated financial statements, should not, in our view, be supported until the objective of measurement under the equity method is clearly defined.
- Professionals do not express a clear position on whether the equity method should be applied to investments in group entities, jointly controlled entities or associates in individual financial statements, nor on whether an entity holding investments in associates but no subsidiaries should be required to present additional financial statements applying the equity method. The sample is practically divided on both questions between rejecting the proposal (50%) or accepting it optionally or on a mandatory basis (50%).

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Annex I: Circulated questionnaire

The equity method Reflection on selected issues related to its application.

Responses will be treated with complete anonymity, and only aggregated results will be published. The questionnaire consists of 13 questions and will take no more than 10 minutes to complete. Thank you very much

Respondent profile

1. You are responding to this survey as:
 - ☐ Preparer of financial statements
 - ☐ Auditor
 - ☐ Analyst
 - ☐ Academic
 - ☐ Other...

 2. If you are a preparer, what sector does your company belong to?:
 - ☐ Oil and energy
 - ☐ Basic materials, industry and construction
 - ☐ Consumer goods
 - ☐ Consumer services
 - ☐ Financial services
 - ☐ Technology and telecommunications
 - ☐ Real estate services
 - ☐ Holding company
-

The equity method and its application in the Spanish rules for the preparation of consolidated financial statements (NOFCAC)

3. Presentation of the share of profit or loss from equity-accounted investments.

Under the NOFCAC, the share of profit or loss of equity-accounted investees is presented below net finance income or expense (see image).

A.2) NET FINANCE INCOME/(EXPENSE)

- 21. Share in profit (loss) of equity-accounted investees
- 22. Impairment and gain or loss from loss of significant influence over investments accounted for using the equity method or of joint control over a jointly controlled entity
- 23. Negative goodwill from equity-accounted investments

Would you be in favour of **including the share of profit or loss within operating profit?**

- ☐ Yes, but only for investments accounted for using the equity method in the same line of business as the group.
 - ☐ No
 - ☐ Yes, for all investments accounted for using the equity method.
-

4. Presentation of the share of profit or loss from equity-accounted investments.

Following on from the previous question: would you be in favour of allowing the share of profit or loss of equity-accounted investments **to be presented below the income tax expense**? (see example image).

Profit before tax, associates and joint ventures
Income tax expense
Share of profit or loss of associated companies and joint ventures
Profit from continuing operations
Discontinued operations
Profit for the year

- ☐ Yes, but only those not engaged in the same line of business, as those with related business activities should be presented within operating profit.
- ☐ No
- ☐ Yes

5. Presentation of the various components of profit.

In the consolidated statement of profit or loss under NOFCAC, **there are three line items related to the equity method** (see image). An alternative presentation could be to **aggregate all the share of profit or loss from investments accounted for using the equity method in a single line item**, with detailed breakdowns provided in the notes

A.2) NET FINANCE INCOME/(EXPENSE)
21. Share in profit (loss) of equity-accounted investees
22. Impairment and gain or loss from loss of significant influence over investments accounted for using the equity method or of joint control over a jointly controlled entity
23. Negative goodwill from equity-accounted investments

Would you be in favour of presenting it under a single line item?

- ☐ Yes
- ☐ No

6. Elimination of the proportionate consolidation option for jointly controlled entities.

Do you consider it appropriate to eliminate the option of applying proportionate consolidation for jointly controlled entities under NOFCAC?

- ☐ Yes
- ☐ No
- ☐ Yes, except in certain specific cases, such as a temporary joint venture (UTE) where the parties economically hold their proportional share of assets and liabilities.

7. Elimination of intra-group results.

NOFCAC requires the elimination of results from transactions between the group and investees accounted for using the equity method.

Do you support the IASB's approach of **not eliminating such results, thus treating them as realised**?

- ☐ Yes, since the equity-accounted investee is not part of the group's economic unit, and therefore such eliminations are not justified.
 - ☐ No
 - ☐ Yes, except in specific cases (e.g. 50% joint ownership where both investors recognise the same result).
-

Other issues related to the application of the equity method at the international level

8. Application in individual financial statements.

Would you support the use of the equity method for investments in group entities, jointly controlled entities and associates **in individual financial statements**?

- ☐ Yes, on an optional basis.
 - ☐ No
 - ☐ Yes, on a mandatory basis.
-

9. If you wish, please provide **your reasoning for the previous answer.**

.....

10. Additional financial statements.

Would you support the requirement for a company that holds interests in associates but has no subsidiaries **to present additional financial statements in which the investments are recognised using the equity method**?

- ☐ Yes, optionally.
 - ☐ No
 - ☐ Yes, on a mandatory basis (subject to the same exemptions as for groups).
-

11. If you wish, you may provide us with **the basis for your opinion expressed in the previous question.**

.....

12. Presentation of the share of profit or loss from equity-accounted investments.

Under the IASB framework, IFRS 18 introduces three categories of profit: operating, investing and financing.

Would you be in favour of presenting the share of profit or loss of equity-accounted investments in a **separate “Investing” category between operating profit and net finance income or expense**, as illustrated in the image below?

Statement of Profit or Loss under IFRS 18		
Operating	Revenue	X
	Cost of Sales	(X)
	Gross profit	X
	Other operating income	X
	Other operating expenses	(X)
	Operating profit	X
Investing	Share of profit or loss of associated companies and joint ventures	X
	Other investment income	X
	Profit before financing and income tax	X
Financing	Interest expense on borrowings and lease liabilities	(X)
	Interest expense on pension liabilities and provisions	(X)
	Profit before tax	X
Taxes	Income tax expense	(X)
	Profit from continuing operations	X
	Discontinued operations	
	Profit for the year	X

- ☐ Yes.
- ☐ No
- ☐ Yes, but the share of profit or loss from investments in entities with related business activities should be included within operating profit.

13. If you wish, please provide **your reasoning** for the previous answer.

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