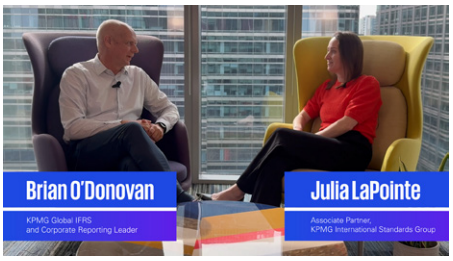


KPMG

Corporate Reporting Today

Our series on current issues around corporate reporting

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TRANSCRIPT

Amendments to the fair value option in IAS 28

Brian

Hello, I'm Brian O'Donovan. I'm Global IFRS and Corporate Reporting Leader at KPMG. We're just a few months from the effective date of IFRS 18, the new standard on presentation and disclosure. Companies are rethinking how their income statement will look, including how to present income and expenses from investments in associates and joint ventures. The IASB has recently issued amendments to the fair value option in IAS 28 for those investments. I'm joined today by my colleague Julia LaPointe from KPMG's International Standards Group to discuss the amendments and what companies need to consider.

Hello Julia!

Julia

Hi Brian, and thanks for having me today. Now, while the amendments are quite targeted, they could have a really important impact for some companies as they get ready to apply IFRS 18.

Brian

So maybe we could start with some background.

Why was IAS 28 amended?

Brian

Why is the IASB making these amendments right now?

Julia

Well, it all comes down to the interaction between the two standards. And that's because the way that a company accounts for their investments and associates and joint ventures under IAS 28, that then impacts how they classify the related income and expenses in the statement of profit or loss under IFRS 18.

Brian

Yes. So if you apply the equity method to an investment in an associate or a joint venture, then the income and expense is always, always in investing. But if you apply the fair value option then the income and expense could be in operating if you make those investments as a main business activity.

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Julia

Exactly. And in the run-up to IFRS 18, it became apparent that there was diversity in how stakeholders were interpreting the scope of the fair value option. Who's eligible to apply it and who isn't? And then that was having knock-on impacts for presentation, especially in the insurance industry. To address this, the Board has extended the scope of the fair value option to include companies that invest in assets as a specified main business activity under IFRS 18.

Brian

So they're linking eligibility of the fair value option to an IFRS 18 concept.

Julia

That's right.

Who may be affected?

Brian

So, Julia, you mentioned diversity in the insurance industry. Are these amendments specific to insurers?

Julia

No. The amendments are not specific to any one industry because they impact any company that invests in assets as a main business activity. Now, IFRS 18 has a few examples of companies that might do that, like investment property companies and insurers. But it can definitely be an area where companies need to apply judgement and really consider their specific facts and circumstances.

Brian

But what if you are already measuring these investments at fair value, perhaps because you're a venture capital organisation?

Julia

Yes. So if you're already applying it, those companies are not impacted by the amendments, which are effectively an expansion in scope. I also want to remind everyone that it is a fair value *option*. So nobody is being forced to change any of their current measurement elections because of these amendments.

What should companies do now?

Brian

So companies that want to make the change and are eligible have a one-time opportunity to do this the first time they apply IFRS 18. Now what should those companies be thinking about right now?

Julia

I'd say they need to really work through the amendments in detail, assessing if they're now eligible for the fair value option and – if they are – what that election would mean for their statement of profit or loss. Now this analysis can actually be quite nuanced in some cases, especially for group structures where investments are held indirectly through a subsidiary.

Brian

Yes. So fair value measurement doesn't automatically result in operating classification.

Julia

That's right. And I think it's important for companies to really think broadly about all of the consequences of electing the fair value option. For example, that could mean introducing new processes and controls. And it could also introduce more volatility into the P&L.

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Brian

So this isn't just a question for the accounting team, is it? You need to involve maybe valuation specialists, tax people, maybe even investor relations.

Julia

Yes, that's right.

What's next?

Brian

Before we wrap up, Julia, is this the end of the story? Or could we ever see a completely unrestricted fair value option?

Julia

I think it's still possible, as the Board did consider an unrestricted fair value option as part of this project. But ultimately they decided that was too significant of a change to try to make so quickly ahead of IFRS 18. So it could come onto the agenda again, but I think it will depend on how it stacks up against the Board's competing priorities in its next agenda consultation.

Brian

So in the meantime, many companies will still be accounting for investments using the equity method. And that's subject to change as well, I think.

Julia

That's right. Actually in September, the Board just finalised their technical discussions on the equity method project so we can expect more amendments to IAS 28 to be coming in 2027, with the likely effective date in 2029.

Brian

Oh, interesting. Well, thank you, Julia. And thank you everybody for watching. For more information about these amendments and much, much more. Take a look at kpmg.com/ifrs.

Julia

Thank you!

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