KPMG
cutting through complexity

Equity method in separate financial statements

New option for subsidiaries, associates and joint ventures

August 2014, Issue 2014/14

IN THE HEADLINES

kpmg.com/ifrs

"To bring about this change, countries like Brazil – for which equity accounting in separate financial statements is of great significance for local statutory reporting – worked hard together with the IASB. These amendments will be very welcome in these countries."

– Ramon Jubels,
KPMG's IFRS network leader in Latin America

An option granted to accommodate the accounting in some countries

In some countries, local regulations require companies to present separate financial statements using the equity method to account for investments in subsidiaries, associates and joint ventures. However, IFRS does not currently permit this. In most cases, the use of the equity method would be the only difference between the separate financial statements prepared under IFRS and those prepared under local regulations.

Constituents therefore asked the IASB to introduce the option to report such investments using the equity method in their separate financial statements. In response to these requests – and to facilitate the convergence of IFRS with local GAAP for separate financial statements in those countries – the Board issued *Equity Method in Separate Financial Statements (Amendments to IAS 27)* on 12 August 2014. The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures, but also for subsidiaries.

Increased diversity in reporting practice

The amendments may lead to more companies applying IFRS in their separate financial statements. However, the introduction of equity accounting as a third option – in addition to the existing cost and fair value options – is also likely to increase diversity in reporting practice.

What is the equity method?

Both the IASB and the IFRS Interpretations Committee have previously discussed various issues on applying the equity method, including questions about its nature and purpose – i.e. whether it is a one-line consolidation, or just a type of financial instruments valuation accounting. The fact that the amendments allow the use of the equity method in separate financial statements – not just for associates and joint ventures, but also for subsidiaries – increases the need to resolve such questions.

In line with the aims of the amendments – i.e. to encourage the use of IFRS – the Board decided that the amendments will not provide further guidance on the equity method itself. Instead, comments received on potential application issues are expected to be addressed as part of the IASB's ongoing research project on the usefulness and difficulties of the equity method of accounting. However, as with any other research project of the IASB, developments are likely to take place over a longer period.

"The amendments underline the need to resolve fundamental questions about the nature of equity accounting."

– Mike Metcalf, KPMG's global IFRS business combinations and consolidation leader

Effective date

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016. Early adoption is permitted.

Next steps

For more information on the amendments, please go to the IASB press release or speak to your usual KPMG contact.

Publication name: *In the Headlines – Equity method in separate financial statements*
Publication number: Issue 2014/14
Publication date: August 2014
KPMG International Standards Group is part of KPMG IFRG Limited.