ED/IndAS/2018/08

Exposure Draft

Long-term Interests in Associates and Joint Ventures

(Amendments to Ind AS 28)

(Last date for the comments: 11th July, 2018)

Issued by

Accounting Standards Board

The Institute of Chartered Accountants of India

ED/IndAS/2018/08

Exposure Draft

Long-term Interests in Associates and Joint Ventures (Amendments to Ind AS 28)

Following is the Exposure Draft of Long-term Interests in Associates and Joint Ventures (Amendments to Ind AS 28) issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments.

The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.

How to Comment

Comments should be submitted using one of the following methods, so as to receive not later than **11th July, 2018:**

1	Electronically:	Click on the below mentioned option to submit a comment letter or visit at the following link (Preferred method): **http://www.icai.org/comments/asb/**
2	Email:	Comments can be sent at commentsasb@icai.in
3	Postal:	Secretary, Accounting Standards Board, The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002

Further clarifications on any aspect of this Exposure Draft may be sought by e-mail to asb@icai.in.

Amendments to
Ind AS 28, *Investments in Associates and Joint Ventures*

Paragraphs 14A and 45F–45J are added and paragraph 41 is deleted. Deleted text is struck through.

Equity method

...

14A An entity also applies Ind AS 109 to other financial instruments in an associate or joint venture to which the equity method is not applied. These include long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture (see paragraph 38). An entity applies Ind AS 109 to such long-term interests before it applies paragraph 38 and paragraphs 40–43 of this Standard. In applying Ind AS 109, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying this Standard.

…

Application of the equity method

…

41 [Refer Appendix 1] ~~The entity applies the impairment requirements in Ind AS 109 to its other interests in the associate or joint venture that are in the scope of Ind AS 109 and that do not constitute a part of the net investment~~

…

Effective date and transition

…

45F *Long-term Interests in Associates and Joint Ventures*, added paragraph 14A and deleted paragraph 41. An entity shall apply those amendments retrospectively in accordance with Ind AS 8 for annual reporting periods beginning on or after 1 April, 2019[1], except as specified in paragraphs 45G–45J. Earlier application is permitted. If an entity applies those amendments earlier, it shall disclose that fact.

45G An entity that first applies the amendments in paragraph 45F at the same time it first applies Ind AS 109 shall apply the transition requirements in Ind AS 109 to the long-term interests described in paragraph 14A.

45H An entity that first applies the amendments in paragraph 45F after it first

[1] Since these amendments will be notified by the Ministry of Corporate Affairs (MCA), the effective date as mentioned in paragraph 45F, is subject to the notification of MCA with the same effective date.

applies Ind AS 109 shall apply the transition requirements in Ind AS 109 necessary for applying the requirements set out in paragraph 14A to long-term interests. For that purpose, references to the date of initial application in Ind AS 109 shall be read as referring to the beginning of the annual reporting period in which the entity first applies the amendments (the date of initial application of the amendments). The entity is not required to restate prior periods to reflect the application of the amendments. The entity may restate prior periods only if it is possible without the use of hindsight.

45I [Refer Appendix 1].

45J If an entity does not restate prior periods applying paragraph 45H , at the date of initial application of the amendments it shall recognise in the opening retained earnings (or other component of equity, as appropriate) any difference between:

(a) the previous carrying amount of long-term interests described in paragraph 14A at that date; and

(b) the carrying amount of those long-term interests at that date.

Appendix 1

Paragraphs 4 and 5 are added.

4. Paragraph 45I of IAS 28 related to temporary exemption from IFRS 9 in accordance with IFRS 104, *Insurance Contracts*, has not been included in Ind AS 28 since the said exemption has not been given under Ind AS 104.

5. Paragraphs 41 and 45I appear as 'deleted' in IAS 28. In order to maintain consistency with paragraph numbers of IAS 28, the paragraph numbers are retained in Ind AS 28.

Illustrative Example—Long-term Interests in Associates and Joint Ventures

This example portrays a hypothetical situation illustrating how an entity (investor) accounts for long-term interests that, in substance, form part of the entity's net investment in an associate (long-term interests) applying Ind AS 109 and Ind AS 28 based on the assumptions presented. The entity applies Ind AS 109 in accounting for long-term interests. The entity applies Ind AS 28 to its net investment in the associate, which includes long-term interests. The analysis in this example is not intended to represent the only manner in which the requirements in Ind AS 28 could be applied.

Assumptions

The investor has the following three types of interests in the associate:

(a) O Shares—ordinary shares representing a 40% ownership interest to which the investor applies the equity method. This interest is the least senior of the three interests, based on their relative priority in liquidation.

(b) P Shares—non-cumulative preference shares that form part of the net investment in the associate and that the investor measures at fair value through profit or loss applying Ind AS 109.

(c) LT Loan—a long-term loan that forms part of the net investment in the associate and that the investor measures at amortised cost applying Ind AS 109, with a stated interest rate and an effective interest rate of 5% a year. The associate makes interest-only payments to the investor each year. The LT Loan is the most senior of the three interests.

The LT Loan is not an originated credit-impaired loan. Throughout the years illustrated, there has not been any objective evidence that the net investment in the associate is impaired applying Ind AS 28, nor does the LT Loan become credit-impaired applying Ind AS 109.

The associate does not have any outstanding cumulative preference shares classified as equity, as described in paragraph 37 of Ind AS 28. Throughout the years illustrated, the associate neither declares nor pays dividends on O Shares or P Shares.

The investor has not incurred any legal or constructive obligations, nor made payments on behalf of the associate, as described in paragraph 39 of Ind AS 28. Accordingly, the investor does not recognise its share of the associate's losses once the carrying amount of its net investment in the associate is reduced to zero.

The amount of the investor's initial investment in O Shares is ₹200, in P Shares is ₹100 and in the LT Loan is ₹100. On acquisition of the investment, the cost of the investment equals the investor's share of the net fair value of the associate's identifiable assets and liabilities.

This table summarises the carrying amount at the end of each year for P Shares and the LT Loan applying Ind AS 109 but before applying Ind AS 28, and the associate's profit (loss) for each year. The amounts for the LT Loan are shown net of the loss allowance.

At the end of	P Shares applying Ind AS 109 (fair value)	LT Loan applying Ind AS 109 (amortised cost)	Profit (Loss) of the associate
Year 1	₹110	₹90	₹50
Year 2	₹90	₹70	₹(200)
Year 3	₹50	₹50	₹(500)
Year 4	₹40	₹50	₹(150)
Year 5	₹60	₹60	–
Year 6	₹80	₹70	₹500
Year 7	₹110	₹90	₹500

Analysis

Year 1

The investor recognises the following in Year 1:

Investments in the associate:

DR. O Shares	₹200	
DR. P Shares	₹100	
DR. LT Loan	₹100	
CR. Cash		₹400

To recognise the initial investment in the associate

DR. P Shares	₹10	
CR. Profit or loss		₹10

To recognise the change in fair value (₹110 − ₹100)

DR. Profit or loss	₹10	
CR. Loss allowance (LT Loan)		₹10

To recognise an increase in the loss allowance (₹90 − ₹100)

DR. O Shares	₹20	
CR. Profit or loss		₹20

To recognise the investor's share of the associate's profit (₹50 × 40%)

At the end of Year 1, the carrying amount of O Shares is ₹220, P Shares is ₹110 and the LT Loan (net of loss allowance) is ₹90.

Year 2

The investor recognises the following in Year 2:

DR. Profit or loss	₹20	

CR. P Shares ₹20

To recognise the change in fair value (₹90 − ₹110)

DR. Profit or loss ₹20

CR. Loss allowance (LT Loan) ₹20

To recognise an increase in the loss allowance (₹70 – ₹90)

DR. Profit or loss ₹80

CR. O Shares ₹80

To recognise the investor's share of the associate's loss (₹200 × 40%)

At the end of Year 2, the carrying amount of O Shares is ₹140, P Shares is ₹90 and the LT Loan (net of loss allowance) is ₹70.

Year 3

Applying paragraph 14A of Ind AS 28, the investor applies Ind AS 109 to P Shares and the LT Loan before it applies paragraph 38 of Ind AS 28. Accordingly, the investor recognises the following in Year 3:

DR. Profit or loss ₹40

CR. P Shares ₹40

To recognise the change in fair value (₹50 − ₹90)

DR. Profit or loss ₹20

CR. Loss allowance (LT Loan) ₹20

To recognise an increase in the loss allowance (₹50 – ₹70)

DR. Profit or loss ₹200

CR. O Shares ₹140

CR. P Shares ₹50

CR. LT Loan ₹10

To recognise the investor's share of the associate's loss in reverse order of seniority as specified in paragraph 38 of Ind AS 28 (₹500 × 40%)

At the end of Year 3, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is ₹40.

Year 4

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 4:

DR. Profit or loss ₹10

CR. P Shares ₹10

To recognise the change in fair value (₹40 − ₹50)

Recognition of the change in fair value of ₹10 in Year 4 results in the carrying amount of P Shares being negative ₹10. Consequently, the investor recognises the following to reverse a portion of the associate's losses previously allocated to P Shares:

DR. P Shares	₹10	
CR. Profit or loss		₹10

To reverse a portion of the associate's losses previously allocated to P Shares

Applying paragraph 38 of Ind AS 28, the investor limits the recognition of the associate's losses to ₹40 because the carrying amount of its net investment in the associate is then zero. Accordingly, the investor recognises the following:

DR. Profit or loss	₹40	
CR. LT Loan		₹40

To recognise the investor's share of the associate's loss

At the end of Year 4, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero. There is also an unrecognised share of the associate's losses of ₹30 (the investor's share of the associate's cumulative losses of ₹340 – ₹320 losses recognised cumulatively + ₹10 losses reversed).

Year 5

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 5:

DR. P Shares	₹20	
CR. Profit or loss		₹20

To recognise the change in fair value (₹60 − ₹40)

DR. Loss allowance (LT Loan)	₹10	
CR. Profit or loss		₹10

To recognise a decrease in the loss allowance (₹60 – ₹50)

After applying Ind AS 109 to P Shares and the LT Loan, these interests have a positive carrying amount. Consequently, the investor allocates the previously unrecognised share of the associate's losses of ₹30 to these interests.

DR. Profit or loss	₹30	
CR. P Shares		₹20
CR. LT Loan		₹10

To recognise the previously unrecognised share of the associate's losses

At the end of Year 5, the carrying amount of O Shares is zero, P Shares is zero and the LT Loan (net of loss allowance) is zero.

Year 6

Applying Ind AS 109 to its interests in the associate, the investor recognises the following in Year 6:

DR. P Shares	₹20	
CR. Profit or loss		₹20

To recognise the change in fair value (₹80 − ₹60)

DR. Loss allowance (LT Loan)	₹10	
CR. Profit or loss		₹10

To recognise a decrease in the loss allowance (₹70 – ₹60)

The investor allocates the associate's profit to each interest in the order of seniority. The investor limits the amount of the associate's profit it allocates to P Shares and the LT Loan to the amount of equity method losses previously allocated to those interests, which in this example is ₹60 for both interests.

DR. O Shares	₹80	
DR. P Shares	₹60	
DR. LT Loan	₹60	
CR. Profit or loss		₹200

To recognise the investor's share of the associate's profit (₹500 × 40%)

At the end of Year 6, the carrying amount of O Shares is ₹80, P Shares is ₹80 and the LT Loan (net of loss allowance) is ₹70.

Year 7

The investor recognises the following in Year 7:

DR. P Shares	₹30	
CR. Profit or loss		₹30

To recognise the change in fair value (₹110 − ₹80)

DR. Loss allowance (LT Loan)	₹20	
CR. Profit or loss		₹20

To recognise a decrease in the loss allowance (₹90 – ₹70)

DR. O Shares	₹200	
CR. Profit or loss		₹200

To recognise the investor's share of the associate's profit (₹500 × 40%)

At the end of Year 7, the carrying amount of O Shares is ₹280, P Shares is ₹110 and the LT Loan (net of loss allowance) is ₹90.

Years 1–7

When recognising interest revenue on the LT Loan in each year, the investor does not take account of any adjustments to the carrying amount of the LT Loan that arose from applying Ind AS 28 (paragraph 14A of Ind AS 28). Accordingly, the investor recognises the following in each year:

DR. Cash ₹5

CR. Profit or loss ₹5

To recognise interest revenue on LT Loan based on the effective interest rate of 5%

Summary of amounts recognised in profit or loss

This table summarises the amounts recognised in the investor's profit or loss.

Items recognised During	Impairment (losses), including reversals, applying Ind AS 109	Gains (losses) of P Shares applying Ind AS 109	Share of profit (loss) of the associate recognised applying the equity method	Interest revenue applying Ind AS 109
Year 1	₹(10)	₹10	₹20	₹5
Year 2	₹(20)	₹(20)	₹(80)	₹5
Year 3	₹(20)	₹(40)	₹(200)	₹5
Year 4	–	₹(10)	₹(30)	₹5
Year 5	₹10	₹20	₹(30)	₹5
Year 6	₹10	₹20	₹200	₹5
Year 7	₹20	₹30	₹200	₹5