EFRAG's Letter to the European Commission regarding Endorsement of Amendments to the Fair Value Option for Investments in Associates and Joint Ventures

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1049 Brussels

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Dear Mr Berrigan

Endorsement of Amendments to the Fair Value Option for Investments in Associates and Joint Ventures

Based on the requirements of Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards, EFRAG is pleased to provide its opinion on the IAS 28 Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (the Amendments), which were issued by the IASB on 26 June 2026. An Exposure Draft (ED) on the Amendments was issued on 19 February 2026. EFRAG provided its comment letter on that ED on 16 April 2026.

The objective of the Amendments is to explain which entities are eligible to measure investments in associates and joint ventures using the fair value option in IAS 28 *Investments in Associates and Joint Ventures*. Applying the fair value option would enable entities to classify income and expenses from investments in associates or joint ventures within the operating category, provided that the related IFRS 18 *Presentation and Disclosure in Financial Statements* requirements[1] are met. The Amendments shall be applied at the same time and on the same basis as IFRS 18. The changes brought about by the Amendments are presented in further detail in Appendix 1 to this letter.

Without these Amendments, there would be diversity in the application of IAS 28 and the resulting effects of that diversity on the classification of income and expenses in the statement of profit or loss in accordance with IFRS 18. Therefore, EFRAG highlights the need for the endorsement process to be fast-tracked so that the Amendments are endorsed by the time IFRS 18 is effective.

In order to provide our endorsement advice as you have requested, we have first assessed whether the Amendments meet the technical criteria for endorsement – in other words, whether the Amendments would provide relevant, reliable, comparable and understandable information required to support economic decisions and the assessment of stewardship, whether they lead to prudent accounting, and whether they are not contrary to the true and fair view principle. We have then assessed whether the Amendments would be conducive to the European public good. We provide our conclusions below.

[1] Paragraphs 53 and 55 of IFRS 18, which determine the classification of income and expenses related to its investment in associates and joint ventures.

Do the Amendments meet the IAS Regulation technical endorsement criteria?

EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship and raise no issues regarding prudent accounting. EFRAG has also assessed that the Amendments do not create any distortion in their interaction with other IFRS Accounting Standards. Therefore, EFRAG has concluded that the Amendments are not contrary to the true and fair view principle. EFRAG's reasoning is explained in Appendix 2 to this letter.

Are the Amendments conducive to the European public good?

EFRAG has assessed that the Amendments would improve financial reporting and would reach an acceptable cost-benefit trade-off. EFRAG has not identified any adverse effects of the Amendments on the European economy, including financial stability and economic growth. Accordingly, EFRAG assesses that endorsing the Amendments is conducive to the European public good. EFRAG's reasoning is explained in Appendix 3 to this letter.

Our advice to the European Commission

As explained above, EFRAG has concluded that the Amendments meet the qualitative characteristics of relevance, reliability, comparability and understandability required to support economic decisions and the assessment of stewardship, raise no issues regarding prudent accounting, and are not contrary to the true and fair view principle. EFRAG has also concluded that the Amendments are conducive to the European public good. Therefore, EFRAG recommends the Amendments for endorsement without further delay.

On behalf of EFRAG, I would be happy to discuss our advice with you, other officials of the European Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Wolf Klinz
EFRAG FRB Chair

Appendix 1: Understanding the changes brought about by the Amendments

Background of the Amendments and the issues raised

1 Stakeholders, especially from the insurance industry, informed the IASB about diversity in how the requirements for the fair value option in IAS 28 *Investments in Associates and Joint Ventures* are applied and the effects of that diversity on the classification of income and expenses in the statement of profit or loss in accordance with IFRS 18. Therefore, the IASB decided to propose amendments to paragraphs 18 and 19 of IAS 28 to explain which entities are eligible to measure investments in associates and joint ventures using the fair value option in IAS 28.

How the issues have been addressed and what has changed

2 The Amendments to paragraphs 18 and 19 of IAS 28 aim to address the wording 'similar entities'. That is, a similar entity includes one that has a main business activity of investing in particular types of assets (as set out in paragraph 49(a) of IFRS 18) and therefore is eligible to elect the fair value option under IAS 28.

3 The other eligible entities[2] that currently apply, or are able to apply, the fair value option will not be affected by the Amendments.

When do the Amendments become effective?

4 The Amendments are to be applied at the same time and on the same basis as the application of IFRS 18. That is:

(a) the Amendments are effective for annual reporting periods beginning on or after 1 January 2027;

(b) if an entity has elected to apply IFRS 18 for an earlier period and that earlier period begins before the issuance of the Amendments, the entity should apply the Amendments from the beginning of the reporting period starting on or after the issuance of the Amendments.

[2] Venture capital organisation, mutual fund and unit trust.

Appendix 2: EFRAG's technical assessment on the Amendments to IAS 28 against the endorsement criteria

Does the accounting that results from the application of the Amendments meet the technical criteria for endorsement in the European Union?

5 EFRAG has considered whether the Amendments meet the technical requirements of the European Parliament and of the Council on the application of international accounting standards, as set out in Regulation (EC) No 1606/2002 (the IAS Regulation); in other words, whether the Amendments:

(a) are not contrary to the principle set out in Article 4(3) of Council Directive 2013/34/EU (the Accounting Directive); and

(b) meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

6 Article 4(3) of the Accounting Directive provides that 'The annual financial statements shall give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss. Where the application of this Directive would not be sufficient to give a true and fair view of the undertaking's assets, liabilities, financial position and profit or loss, such additional information as is necessary to comply with that requirement shall be given in the notes to the financial statements.'

7 Recital 9 of the IAS Regulation further clarifies that, 'to adopt an international accounting standard for application in the Community, it is necessary firstly that it meets the basic requirement of the aforementioned Council Directives, that is to say that its application results in a true and fair view of the financial position and performance of an enterprise – this principle being considered in the light of the said Council Directives without implying a strict conformity with each and every provision of those Directives'.

8 EFRAG's assessment as to whether the Amendments would not be contrary to the true and fair view principle has been performed against the European legal background summarised above.

9 In its assessment, EFRAG has considered the Amendments from the perspectives of both usefulness for decision-making and the assessment of the stewardship of management. EFRAG has concluded that the information resulting from the application of the Amendments is appropriate both for making decisions and assessing the stewardship of management.

10 EFRAG's assessment on whether the Amendments are not contrary to the true and fair view principle set out in Article 4(3) of Council Directive 2013/34/EU is based on its assessment of whether they meet all other technical criteria and whether they lead to prudent accounting. EFRAG's assessment also includes the assessment of whether the Amendments do not interact negatively with other IFRS Accounting Standards. Detailed assessments are included in this appendix in the following paragraphs:

(a) relevance: paragraphs 12 to 15;

(b) reliability: paragraphs 16 to 19;

(c) comparability: paragraphs 20 to 24;

(d) understandability: paragraphs 25 to 29;

(e) whether they lead to prudent accounting: paragraphs 30 to 33; and

(f) whether they would not be contrary to the true and fair view principle: paragraphs 34 to 38.

11 In providing its assessment on whether the Amendments result in relevant, reliable, understandable and comparable information, EFRAG has considered all the requirements of the Amendments.

Relevance

12 Information is relevant when it influences the economic decisions of users by helping them evaluate past, present or future events, or by confirming or correcting their past evaluations. Information is also relevant when it assists users in evaluating the stewardship of management.

13 EFRAG considered whether the Amendments would result in the provision of relevant information – in other words, information that has predictive value, confirmatory value or both – or whether it would result in the omission of relevant information.

14 EFRAG is of the view that the Amendments will result in the measurement of the investments in associates and joint ventures within the statement of financial position in a manner that best depicts the economics of these investments. Consequently, under IFRS 18, eligible entities that elect the fair value measurement will be able to classify income and expenses from investments in associates and joint ventures in the statement of profit or loss in a way that provides useful information to users of financial statements. The following are examples of how eligible entities may provide relevant information as a result of the Amendments.

(a) Insurance entities may apply fair value measurement to their investments in associates or joint ventures, which are linked to insurance contracts or held for prudential purposes. Given the interaction with paragraph 55(b) of IFRS 18, this would enable these entities to classify the related income and expenses within the operating category under IFRS 18.

(b) Banking entities may be able to apply the Amendments if they have a main business activity of investing in particular types of assets. Likewise, investment property entities may also apply the Amendments.

15 Based on the above, EFRAG's overall assessment is that the Amendments will result in the provision of relevant information and therefore satisfy the relevance criterion.

Reliability

16 EFRAG considered the reliability of the information that will be provided by applying the Amendments. Information has the quality of reliability when it is free from material error and bias, when it can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent, and when it is complete within the bounds of materiality and cost. There are several aspects to the notion of reliability: freedom from material error and bias, faithful representation, and completeness.

17 If an entity applies a level three valuation under IFRS 13 *Fair Value Measurement* to measure its associates and joint ventures, where there may be a measurement uncertainty due to no

market observable data, additional disclosures are required under IFRS 13, for example, the valuation techniques and inputs used to develop the measurement.

18 Furthermore, as noted in paragraph 14, the Amendments will allow a better depiction of the financial position and operating performance of eligible entities. In turn, the reported information will faithfully represent the economics of these entities' businesses.

19 Therefore, EFRAG assesses that the Amendments will result in the provision of reliable information and therefore satisfy the reliability criterion.

Comparability

20 The notion of comparability requires that like items and events be accounted for in a consistent manner through time and by different entities. It also requires that unlike items and events be accounted for differently.

21 EFRAG has considered whether the Amendments would result in transactions that are:

(a) economically similar being accounted for differently; or

(b) economically different being accounted for as if they were similar.

22 The Amendments impact comparability by addressing the notion of 'similar entities' as follows:

(a) The Amendments will reduce diversity in the application of the fair value option in IAS 28, particularly by insurance entities, and will thereby **increase comparability** in the classification of income and expenses in the statement of profit or loss under IFRS 18.

(b) Comparability may be affected due to entities electing to apply fair value on an investment-by-investment basis.

(c) EFRAG also observes that the Amendments will **not ensure full comparability** as applying fair value remains an option. However, this is not different from current IAS 28 requirements.

23 As noted in EFRAG's comment letter on the IASB's ED, some stakeholders were concerned that comparability may be lessened for some entities. Notably, for conglomerates, entities that have both investing and non-investing main business activities would be within the scope of the Amendments, while entities that only have non-investing main business activities would not. However, the Basis for Conclusions (paragraph BC19Q of IAS 28) addresses the concerns by clarifying how the requirements apply to group entities that hold investments in associates or joint ventures indirectly through an entity that has a main business activity of investing in assets.

24 Taking the above into consideration, EFRAG's overall assessment is that the Amendments satisfy the comparability criterion.

Understandability

25 The notion of understandability requires that the financial information provided be readily understandable by users with a reasonable knowledge of business and economic activity, accounting, and the willingness to study the information with reasonable diligence.

26 There are several aspects related to the notion of 'understandability'. EFRAG considers that most aspects related to this notion are encompassed in its assessment of the relevance,

reliability and comparability of the reported information under the Amendments in the preceding paragraphs. The additional issue is whether the reported information will be unduly complex.

27 EFRAG observes that the Amendments are limited to explaining which entities are eligible to apply the fair value option in IAS 28 without changing the existing measurement requirements of IAS 28. Hence, there is no incremental complexity that will increase the complexity and impair the understandability of the reported information relative to current reporting.

28 In addition, classifying income and expenses from investments in associates or joint ventures within the operating category if the IFRS 18 requirements are met would increase the understandability of the operating performance from users.

29 Therefore, EFRAG's overall assessment is that the Amendments satisfy the understandability criterion.

Prudence

30 For the purpose of this endorsement advice, prudence is defined as caution in conditions of uncertainty. In some circumstances, prudence requires asymmetry in recognition such that assets or income are not overstated and liabilities or expenses are not understated.

31 EFRAG observes that there may be an incremental risk of opportunistic applications of the fair value option. For instance, a first-time adopter may cherry pick and apply fair value measurements to investments where fair value significantly exceeds the carrying amount to improve its reported financial position. However, the risk of opportunistic application of the Amendments is mitigated by the following factors: (i) an entity has to demonstrate that it has a main business activity of investing in particular types of assets; (ii) the entity should apply IFRS 13 with its related disclosure requirements; and (iii) the option is irrevocable, exposing the entity not only to an increase but also a decrease in fair value.

32 EFRAG also notes that, as IAS 28 applies to indirectly held investments in associates and joint ventures, eligible entities could still structure transactions to qualify for a widened use of the fair value option.

33 Based on the above, EFRAG's overall assessment is that the application of the Amendments will lead to prudent accounting.

True and Fair View Principle

34 A Standard will not impede information from meeting the true and fair view principle when, on a stand-alone basis and in conjunction with other IFRS Accounting Standards, it:

(a) does not lead to unavoidable distortions or significant omissions in the representation of that entity's assets, liabilities, financial position and profit or loss; and

(b) includes all disclosures that are necessary to provide a complete and reliable depiction of an entity's assets, liabilities, financial position and profit or loss.

35 EFRAG has assessed that the Amendments do not create any negative interactions with other IFRS Accounting Standards. They align the requirements of IAS 28 and IFRS 18 with respect to the judgment made of whether the main business activity of a reporting entity is investing in assets.

36 EFRAG has also assessed that the Amendments do not lead to unavoidable distortions or significant omissions in the representation of an entity's assets, liabilities, financial position and profit or loss. As noted under the assessment of the relevance and reliability criteria in paragraphs 14, 15 and 18, the Amendments will result in reported information that better represents the financial position and operating performance of the eligible entities and that, therefore, better depicts the economics of these entities.

37 With respect to paragraph 34(b), there are no additional disclosures required from the Amendments (e.g. disclosures of whether the entity has elected the fair value option for the measurement of its investments in associates and joint ventures and how eligibility to apply the fair value option was met). Though EFRAG acknowledges that such disclosures would have been helpful, they are also not currently required. Nevertheless, a change in the measurement basis is a change in an accounting policy as per IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and there are related disclosures to be provided. For example, about the nature of the change in accounting policy. Also, under IFRS 18, if the assessment, of whether an entity invests in assets or provides financing to customers as a main business activity, changes, e.g., an entity classifies and presents income and expenses from the change in assessment prospectively and does not reclassify amounts presented before the change, an entity is required to disclose that fact and information about the effects of the change unless it is impracticable to do so[3].

38 Based on the above, EFRAG's overall assessment is that the application of the Amendments will not lead to information that would be contrary to the true and fair view principle.

Conclusion

39 For the reasons set out above, EFRAG's overall assessment is that the Amendments meet the technical requirements for endorsement in the EU as set out in the IAS Regulation.

[3] Paragraphs BC101 – BC102 of IFRS 18.

Appendix 3: Assessing whether the Amendments are conducive to the European public good

Introduction

40 EFRAG considered whether it would be conducive to the European public good to endorse the Amendments. In addition to its assessment included in Appendix 2, EFRAG has considered a number of issues in order to identify any potential negative effects of the application of the Amendments on the European economy. In doing this, EFRAG considered:

(a) whether the Amendments would improve financial reporting. This requires a comparison of the Amendments with the existing requirements and how they fit into IFRS Accounting Standards as a whole;

(b) the costs and benefits associated with the Amendments; and

(c) whether the Amendments could have an adverse effect on the European economy, including financial stability and economic growth.

41 These assessments allow EFRAG to draw a conclusion as to whether the Amendments are likely to be conducive to the European public good. If the assessment concludes there is a net benefit, the Amendments will be conducive to the objectives of the IAS Regulation.

EFRAG's evaluation of whether the Amendments are likely to improve the quality of financial reporting

42 Without the Amendments, the wording 'similar entities' would remain unclear, and there would be diversity in the measurement basis and as a result the classification of income and expenses in the statement of profit or loss under IFRS 18. The Amendments align the consideration of main business activity under IAS 28 with the requirements of IFRS 18. As a result, as noted in Appendix 2 the Amendments will enhance the relevance of reported information and reduce diversity in practice for some entities.

43 Hence, EFRAG's overall assessment is that the Amendments are likely to improve the quality of financial reporting.

EFRAG's analysis of the costs and benefits of the Amendments

44 EFRAG has assessed that a less extensive cost-benefit analysis of the effects of the Amendments is proportionate and needed compared to Standards or Interpretations with a wider scope.

Cost for preparers

45 EFRAG is of the view that an entity switching from applying the equity method to fair value may only incur minimal additional costs, given the costs of applying some of the equity method requirements. For example, these include the costs of: (a) obtaining information to perform a purchase price allocation when acquiring additional ownership interests while retaining significant influence; and (b) recognising partial gains or losses for transactions with investees.

46 EFRAG acknowledges that preparers who elect the fair value option may incur incremental costs if the investments have to be measured using a level three valuation under IFRS 13 (e.g. paying an expert for estimating the fair value). However, EFRAG's view is that such incremental costs are likely to be minimal, given the high costs associated with the equity method. Entities that elect the option would have assessed that the benefits outweighed the costs.

47 Hence, EFRAG assesses that there is no evidence of significant incremental one-off and ongoing costs for preparers who elect the fair value option.

Costs for users

48 Users may need to perform more analysis regarding which reporting entity actually applied the option and for which investments. Nevertheless, EFRAG assesses that users are not expected to incur any significant incremental analytical costs in their assessment of entities that may switch to fair value measurement as a result of the Amendments.

49 Overall, EFRAG's assessment is that implementation of the Amendments will not result in significant costs to users.

Benefits for preparers and users

50 EFRAG assesses that preparers are likely to benefit from the Amendments as they address the concept of 'similar entities' in IAS 28 and will allow a better depiction of performance under IFRS 18, resulting in relevant and understandable reported information, as discussed in Appendix 2.

51 As a result of the Amendments, users are likely to benefit from a better representation of the performance of investments in associates and joint ventures in the reporting entity's income statement, which enhances the relevance and understandability of financial statements for users. The Amendments will also increase the comparability of the financial statements, particularly for insurance entities.

52 Overall, EFRAG's assessment is that users and preparers are likely to benefit from the Amendments.

Conclusion on the costs and benefits of the Amendments

53 EFRAG's overall assessment is that the overall benefits described above are likely to outweigh the costs mentioned above.

Conclusion

54 EFRAG considers that, relative to current requirements, the Amendments will generally bring improved financial reporting. As such, their endorsement is conducive to the European public good in that improved financial reporting improves transparency and assists in the assessment of management stewardship.

55 EFRAG has not identified any adverse effects of the Amendments on the European economy, including financial stability and economic growth.

56 Furthermore, EFRAG has not identified any other factors that would mean endorsement is not conducive to the European public good.

57 Having considered all relevant aspects, including the trade-off between the costs and benefits of implementing the Amendments, EFRAG assesses that endorsing the Amendments is conducive to the European public good.