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International Accounting Standards Board
Columbus Building, 7 Westferry Circus
Canary Wharf, London, E14 4HD
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Comments on the IASB Exposure Draft *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Proposed amendments to IAS 28)*

To the IASB Board Members:

The Japanese Institute of Certified Public Accountants (JICPA) would like to honor the continuous efforts of the International Accounting Standards Board (IASB) in the development of high-quality accounting standards and express its appreciation for being given the opportunity to comment on the IASB Exposure Draft (ED/2026/1) *Amendments to the Fair Value Option for Investments in Associates and Joint Ventures (Proposed amendments to IAS 28)* (“the ED”).

We support the intent of the IASB’s initiatives to make narrow-scope amendments in a timely manner to address stakeholder needs regarding the application of the fair value option as an exemption to the equity method under the current IAS 28.

However, our views remain unchanged from those expressed in our comments to Exposure Draft (ED/2024/7) *Equity Method of Accounting (IAS 28 Investments in Associates and Joint Ventures (revised 202x))*. That is, we are concerned that an attempt to address practical application questions—those that by nature require substantive consideration in light of the purpose of the equity method—without fundamentally

reviewing the method would result in unclarities in the underlying rationale and principles, and could lead to greater inconsistencies in practice. We are afraid that your proposed amendments in the ED give rise to the same concern.

Specific concerns regarding the ED will be addressed in the response to Question 1.

Question 1—Proposed amendments to paragraphs 18–19 of IAS 28

Paragraphs 18–19 of IAS 28 permit an entity to elect to measure an investment in an associate or a joint venture at fair value through profit or loss in accordance with IFRS 9 Financial Instruments if the investment is held by a venture capital organisation, or a mutual fund, unit trust and similar entities including investment-linked insurance funds.

The IASB is proposing to amend paragraphs 18–19 of IAS 28 to clarify that similar entities include those that have a main business activity of investing in particular types of assets (as set out in paragraph 49(a) of IFRS 18).

Paragraphs BC1–BC19 of the Basis for Conclusions explain the IASB’s rationale for this proposal. In particular, paragraphs BC9–BC13 explain why the IASB decided not to propose extending the fair value option to all entities.

Do you agree with this proposal? Why or why not? If you disagree, please explain what you would suggest instead and why.

Comment:

Paragraph 18 of IAS 28 cites a venture capital organization, or a mutual fund, unit trust and similar entities as examples of entities that are permitted to elect to apply the fair value option to investments in associates or joint ventures. The proposed amendments to IAS 28 explicitly state that the “similar entities” include “those that have a main business activity of investing in particular types of assets (see paragraph 49 (a) of IFRS 18). However, IAS 28 is devoid of underlying principles governing the scope of application of the fair value option, such as for what purpose or under what situation the fair value measurement of an investment in an associate or a joint venture is considered as providing relevant financial information, in light of the purpose of the equity method, whose application is intended to provide useful financial information. We believe that the lack of such underlying principles is a fundamental problem.

Consequently, to express these underlying principles, we believe that the purpose and requirements of the fair value option under IAS 28 must be clarified. This clarification includes the clarification of the scope of “similar entities” in paragraph 18 of IAS 28. For instance, in terms of the scope of similar entities, it may be appropriate to establish additional requirements for an entity’s application of the fair value option to be considered reasonable—such as the entity having been set up to invest funds solely for returns from

capital appreciation and investment income, having an exit strategy, and measuring and evaluating the performance of its investments on a fair value basis—similar to those provided as the definition and eligibility requirements of an investment entity in paragraph 27 of IFRS 10.

However, the proposed amendments in the ED attempt to address the needs of “some entities, particularly those in the insurance industry” (paragraph BC3 of the ED) by partially amending IAS 28 as described above, without sufficiently discussing the underlying principles such as the purpose of the fair value option. We believe that such short-term measures could give rise to the following concerns.

- First of all, short-term measures could give rise to new uncertainties and may not lead to a fundamental solution. For example, it is unclear whether an entity that has applied the fair value option to investments in associates and joint ventures, in accordance with paragraph 49 (a) of IFRS 18, may continue to apply the fair value option even if it subsequently ceases to engage in specified main business activities, such as through a business disposal and, even if the application of the fair value option is permitted, it is unclear based on what standards such permission would be granted. This could give rise to new confusion regarding the application of the new standards.
- Secondly, while the ED proposes to provide narrow-scope clarification intended to address particular concerns in the short term, “an entity with a main business activity of investing in particular types of assets,” as defined in IFRS 18, is assumed to include conglomerates and this definition could be interpreted as broadening the scope of entities eligible to apply the fair value option. As such, the proposed amendments could have far-reaching implications, not only for cases of “concerns identified” but also for cases of entities that would not be eligible to apply the fair value option—i.e., those not regarded as “similar entities”—in the conventional practice. (The proposed amendments in the ED are unlikely to be confined to simple “clarification” at least in that they would expand the scope of application of the fair value option, and may not function as intended by the IASB.)
- Thirdly, as a factor behind the proposed amendments, the ED cites that some entities, as referred to above, consider some investments in associates and joint ventures to be part of their main business activity of investing in assets, and therefore are considering the use of the fair value option in IAS 28 to measure these investments

so as to present the income and expenses from them in the operating category of the statement of profit or loss (paragraph BC3 of the ED).

In this regard, the scope of application of the amendments proposed in the ED would be broader than intended by the IASB, as stated in the second bulleted paragraph above. In addition, the purpose and nature of the equity method remain unclarified. Given all this, the proposed amendments could amount to leaving it to each entity to decide between the equity method and the fair value option without providing rationale for decision making.

However, if it becomes possible for an entity to apply the fair value option in IAS 28 to account for its investments in associates and joint ventures for the sake of classifying them in the operating category even in the case where the equity method provides more useful information to the users of its financial statements, it would cause bias in the selection and presentation of financial information provided by the entity, undermining neutrality in financial statements. We are concerned that this could prevent a faithful representation of economic phenomena associated with such investments.

Meanwhile, paragraph B38 of IFRS 18 requires an entity to assess whether it invests as a main business activity in associates and other particular types of assets not accounted for using the equity method, in order to determine their presentation in the statement of profit or loss. In contrast, paragraph 18 of IAS 28 requires a “similar entity” to assess whether it is permitted to apply the fair value option, instead of the equity method, to account for its investment in an associate or a joint venture (i.e., an assessment at the stage of measurement, prior to the determination of presentation). As such, IFRS 18 and IAS 28 differ in the stage and situation in which an assessment is supposed to take place, and therefore it is deemed unreasonable for paragraph 18 of IAS 28 to make reference to IFRS 18. If the requirements under IFRS 18 are to be applied, we believe it is necessary to amend paragraph B38 of IFRS 18 to provide that the requirements are applicable to investments in associates and other particular types of assets that are measured at fair value by applying paragraph 18 of IAS 28 based on the assessment prescribed in paragraph 49 (a) of IFRS 18.

Question 2—Effective date and transition

The IASB proposes that an entity apply the amendments to paragraphs 18–19 of IAS 28 at the same time and on the same basis as it applies IFRS 18.

Paragraphs BC20–BC21 of the Basis for Conclusions explain the IASB’s rationale for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, please explain what you would suggest instead and why.

Comment:

None in particular.

Yours faithfully,

Takeshi Yoshida

Executive Board Member—Business Accounting Standards and Practice

The Japanese Institute of Certified Public Accountants