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Dear UKEB Secretariat

Call for comments on the Exposure Draft Amendments to the Fair Value Option for Investments in Associates and Joint Ventures

We welcome the opportunity to comment on the Draft Comment Letter (DCL) on the IASB's Exposure Draft *Amendments to the Fair Value Option (IAS 28)*. We set out our observations in relation to the DCL below.

In the UK, Forvis Mazars LLP has approximately 170 partners and over 3,250 employees, and is ranked one of the top 10 firms nationally. Forvis Mazars Group SC is an independent member of Forvis Mazars Global, a leading professional services network. Operating as an internationally integrated partnership in over 100 countries and territories, Forvis Mazars Group specialises in audit, tax and advisory services. The partnership draws on the expertise and cultural understanding of over 35,000 professionals across the globe to assist clients of all sizes at every stage in their development.

We broadly agree with the UKEB's draft comment letter to the IASB. This is a narrow scope amendment and we do not believe that many entities, especially outside of the insurance sector will take advantage of these changes.

We are supportive of the UKEB's proposal that the IASB should explore the merits of widening the scope of the fair value measurement option for associates and joint ventures and possibly consider replacing the equity method of accounting altogether, although such considerations are outside the scope of this project.

Our detailed comments to the questions are set out in the Appendix to this letter. If you would find it helpful to discuss any of our observations further, please contact Catriona Lawrie under the contact details stated in this letter.

Yours faithfully,

Forvis Mazars LLP

Appendix

1. The UKEB's draft comment letter (DCL) proposes rationalising the scope paragraph of the fair value option in IAS 28 to make it concise and principles-based. Do you agree with this position? Please explain why or why not.

We concur with the UKEB's proposed drafting changes on the basis that it achieves the IASB's intention of making the exemption from applying the equity method provided in paragraph 18 of IAS 28 available to all entities that have a specified main business activity of investing in particular types of assets (as defined in IFRS 18). Such change avoids making reference to venture capital organisation, mutual funds, unit trusts, as examples of entities that fall within the definition of an entity with a specified main business activity, something which should be confined to IFRS 18 and not be included in IAS 28.

We note that the UKEB has provided alternative drafting for paragraph 18 of IAS 28. It should also include a proposed redraft of paragraph 19 of IAS 28 for consistency.

2. The UKEB's DCL raises a concern about ED paragraphs BC17 and BC18, which refer to the ability to revoke the fair value option in IAS 28, as they do not relate to the scope of the fair value option in IAS 28. Do you agree with this position? Please explain why or why not.

The final sentence in paragraph 18 of IAS 28 states that an entity shall make the fair value measurement election separately for each associate or joint venture, at initial recognition of the associate or joint venture. In paragraphs BC17 and BC18 of the ED the IASB confirms that this is intended to mean the election is irrevocable. Although this is the generally accepted position, we concur with the UKEB that interpretations of a standard's requirements should not be presented in the Basis of Conclusions, but, if necessary, should be included in the standard itself.

However, we are concerned that if the IASB was to simply remove paragraphs BC 17 and BC18 in the final amendments, as suggested by the UKEB, then this again could be interpreted to imply that revocation may be permitted under IAS 28. Therefore, although not in scope of the original amendments, we suggest it is better for the IASB to insert the clarification into IAS 28 and state in paragraph 18 that the election of fair value measurement is irrevocable.

3. The IASB's Exposure Draft includes an alternative view supporting opening the fair value option in IAS 28 to all entities. This is addressed in Appendix A, paragraph A3 of the DCL. Do you have any comments on the alternative view or our view in relation to it, as set out in Appendix A, paragraph A3 of the DCL?

These amendments are limited to deal with application issues arising from the adoption of IFRS 18. The comment period has been reduced to reflect the limited scope and urgency of this project. We concur with the UKEB that there is merit for the IASB to explore with stakeholders whether the option to use a fair value measurement basis for the accounting of associates and joint ventures should be available more widely or indeed whether this should be the prescribed or preferred method of accounting, instead of the equity method, but this should be part of a separate project.

4. The UKEB's DCL supports the proposed amendments in relation to the effective date and transition. Do you agree with this position? Please explain why or why not.

We have reservations with the proposed transition requirements for entities that have applied IFRS 18 for a period starting before 1 January 2027. The proposed requirements in paragraph 45M ask an entity to apply the amendments to IAS 28 in accordance with paragraph C7 of IFRS 18 *from the beginning of the reporting period starting on or after the issuance of the amendments*. Paragraph C7 of IFRS 18 permits an entity *at the date of initial application of IFRS 18* to make a change to the election for measuring an investment in an associate or joint venture. For entities that have already adopted IFRS 18, it should be clarified by the IASB that an entity is permitted to make a change to its election again at the beginning of the reporting period starting on or after the issuance of the amendments.

To demonstrate, an entity has adopted IFRS 18 in 2025 and the amendments are finalised in 2026 when its next reporting period has already commenced. That entity will adopt the amendments from the 2026 reporting period, but would be precluded from changing the measurement method in 2026, because paragraph C7 of IFRS 18 requires that the change to the election is made when IFRS 18 has been initially applied.

A drafting change could clarify this:

If an entity has elected to apply IFRS 18 for an earlier period in accordance with paragraph C1 of IFRS 18, and that earlier period begins before the issuance of these amendments, the entity shall apply the amendments, in accordance with paragraph C7 of IFRS 18, from the beginning of the reporting period starting on or after the issuance of the amendments, as if this is the date of initial application of IFRS 18.

5. Do you have any other comments on the IASB's Exposure Draft or the UKEB's DCL you would like to share?

We agree with the proposal to widen the scope of the exemption in paragraph 18 of IAS 28, although we note that the amendment lacks a clear foundation in IFRS concepts and principles. We expect this amendment will have limited impact, i.e. it being largely restricted to some entities in the insurance sector, although it will also permit other entities, eg investment property entities to use the exemption.

The need for the amendment possibly highlights that the IASB should think more widely about the measurement of associates and joint ventures. The exemption in paragraph 18 addresses the need by entities to avoid an accounting mismatch when their liabilities are not measured at amortised cost. Therefore, perhaps an exemption along those lines, ie the avoidance of an accounting mismatch, rather than one based on whether an entity has a specified main business activity under IFRS 18, is a better option to define the scope of an exemption. This could be something for the IASB to consider as part of its wider activities on the accounting for associates and joint ventures (see Question 3).