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Amendments to the fair value option in IAS 28

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Background

IAS 28 *Investments in Associates and Joint Ventures* generally requires an investor to account for investments in associates and joint ventures using the equity method. However, IAS 28 contains an exception (commonly referred to as 'the fair value option') for certain entities that permits eligible investments to be measured at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments*.

The IASB amended IAS 28 in June 2026 to expand the scope of this fair value option. The amendments are particularly relevant to entities that have main business activities that include investing in assets and should be considered alongside the requirements of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Although the amendments are limited in scope, they may have a significant effect on entities that become eligible to apply the fair value option. The amendments may also require careful consideration when investments in associates or joint ventures are held within more complex group structures.

This publication provides an overview of the amendments and discusses practical matters that may arise in their application.

EXECUTIVE SUMMARY

The fair value option is an exception for certain entities in the scope of IAS 28, which permits investments in certain associates and joint ventures to be accounted for at fair value through profit or loss, instead of the equity method being applied.

The fair value option was significantly expanded in June 2026. Associates and joint ventures that are not accounted for using the equity method may in some cases have the respective income and expenses classified in the operating category instead of the default investing category once IFRS 18 is adopted.

Therefore, the expanded scope of the fair value option may affect:

- The measurement of associates and joint ventures; and
- How income and expenses are classified.

The amendments are effective when an entity first applies IFRS 18, therefore, entities need to assess the effect of the amendments in the short term.

FAQ 1: What is the general requirement for investments in associates and joint ventures?

IAS 28 generally requires an investor to account for an investment in an associate or joint venture using the equity method.

Under the equity method, the investment is initially recognised at cost and its carrying amount is subsequently adjusted to recognise the investor's share of the profit or loss and other comprehensive income of the investee, together with other adjustments required by IAS 28.

However, IAS 28 contains an exception that permits certain investments to be measured at fair value through profit or loss in accordance with IFRS 9 Financial Instruments.

The recent amendments expand the circumstances in which this exception is available. They do not replace the equity method as the general requirement in IAS 28.

FAQ 2: What is the equity method and what was the scope of the fair value option before the June 2026 amendments?

IAS 28 generally requires an investment in an associate or joint venture to be accounted for using the equity method.

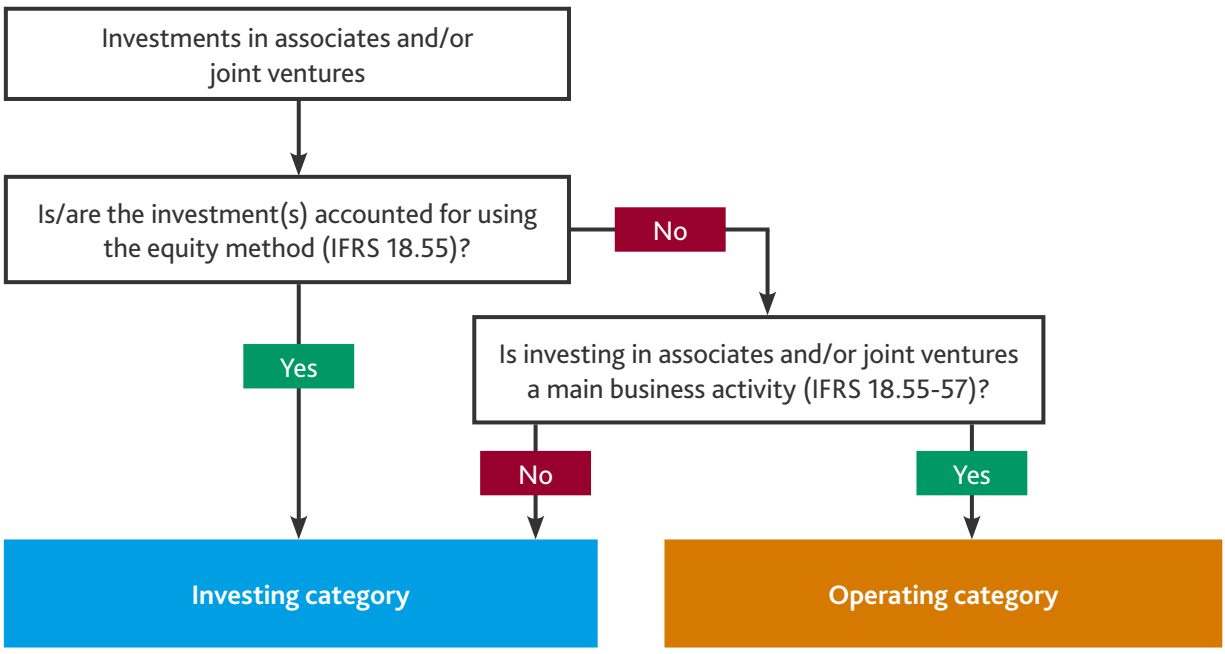
Under the equity method, an investment is initially recognised at cost and its carrying amount is subsequently adjusted to recognise the investor's post-acquisition change in its share of the investee's net assets. The investor's profit or loss and other comprehensive income include its share of the investee's profit or loss and other comprehensive income.

IAS 28.18 provides an exception from the application of the equity method for certain investments. Before the amendments, the exception applied when an investment in an associate or joint venture was held by, or held indirectly through, a venture capital organisation, mutual fund, unit trust or similar entity, including investment-linked insurance funds.

For qualifying investments, the entity may elect to measure the investment at fair value through profit or loss in accordance with IFRS 9.

FAQ 3: What has changed as a result of the June 2026 amendments?

Questions have arisen in practice about how an entity should interpret 'similar entity' in IAS 28.18. This matter has become more relevant in the context of IFRS 18, because investors in associates and joint ventures that are accounted for using the equity method must always classify the associated income and expenses in the investing category. The relationship between measurement (equity method vs. other bases, such as fair value measurement) and classification of income and expenses may be summarised as follows:



Stakeholders informed the IASB that ambiguity around the scope of the fair value option could affect results reported applying IFRS 18, because if the fair value option is not available, investors in associates and joint ventures will classify the associated equity accounted income and expenses in the investing category.

The amendments were issued in June 2026, shortly before IFRS 18 becomes effective for annual reporting periods beginning on or after 1 January 2027.

The amendments expand the population of entities for which the fair value option in IAS 28 is available. Specifically, IAS 28.18 has been amended as follows:

> When an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust or ~~and~~ similar entity ~~entities including investment-linked insurance funds~~, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9. Similar entities include entities that have a main business activity of investing in particular types of assets (see paragraph 49(a) of IFRS 18).

Investing in 'particular types of assets' includes (IFRS 18.53):

Investments in associates, joint ventures and unconsolidated subsidiaries

(IFRS 18.53(a))



Cash and cash equivalents

(IFRS 18.53(b))



Other assets if they generate a return individually and largely independently of the entity's other resources

(IFRS 18.53(c))



Common examples of IFRS 18.53(c) type assets are investment property, and many financial assets held as investments, such as debt and equity instruments.

This represents an expansion of an existing exception rather than a change to the general measurement principle in IAS 28. The equity method continues to be the general requirement for investments in associates and joint ventures.

Consequently, the amendments do not introduce a general accounting policy choice between:

- the equity method under IAS 28; and
- fair value through profit or loss under IFRS 9.

An entity must first determine whether the criteria necessary to apply the fair value option are satisfied. Only if an investment is within the scope of the exception does the question of electing fair value measurement arise, with corresponding questions about how the income and expenses should be classified (see FAQ 6).

FAQ 4: Does an entity qualify for the fair value option if it manages an investment on a fair value basis?

No, unless it is an investment entity as defined in IFRS 10 (see below). The fact that management uses fair value information to monitor an investment does not, by itself, permit the entity to account for an associate or joint venture at fair value through profit or loss.

The starting point continues to be the requirement in IAS 28 to apply the equity method.

If an entity wishes to measure its associates and joint ventures at fair value, it must first establish that the investment is within the scope of the exception in IAS 28.

Management's view that fair value information would be more useful, or that fair value is used internally to assess performance, cannot by itself create an accounting policy choice that is not provided by IAS 28.

Note that there are other circumstances in which an entity may account for an associate or joint venture at fair value through profit or loss instead of the equity method, for example, if the entity is an investment entity in the scope of the consolidation exception in IFRS 10 *Consolidated Financial Statements*.

FAQ 5: Is the fair value option applied consistently for all investments in associates and joint ventures?

No, if it is available, the fair value option is applied separately for each associate or joint venture, at the initial recognition of the associate or joint venture. Therefore, an entity that is eligible to apply the fair value option can freely choose to apply it to none, some but not all, or all its associates and joint ventures that are eligible to be measured at fair value.

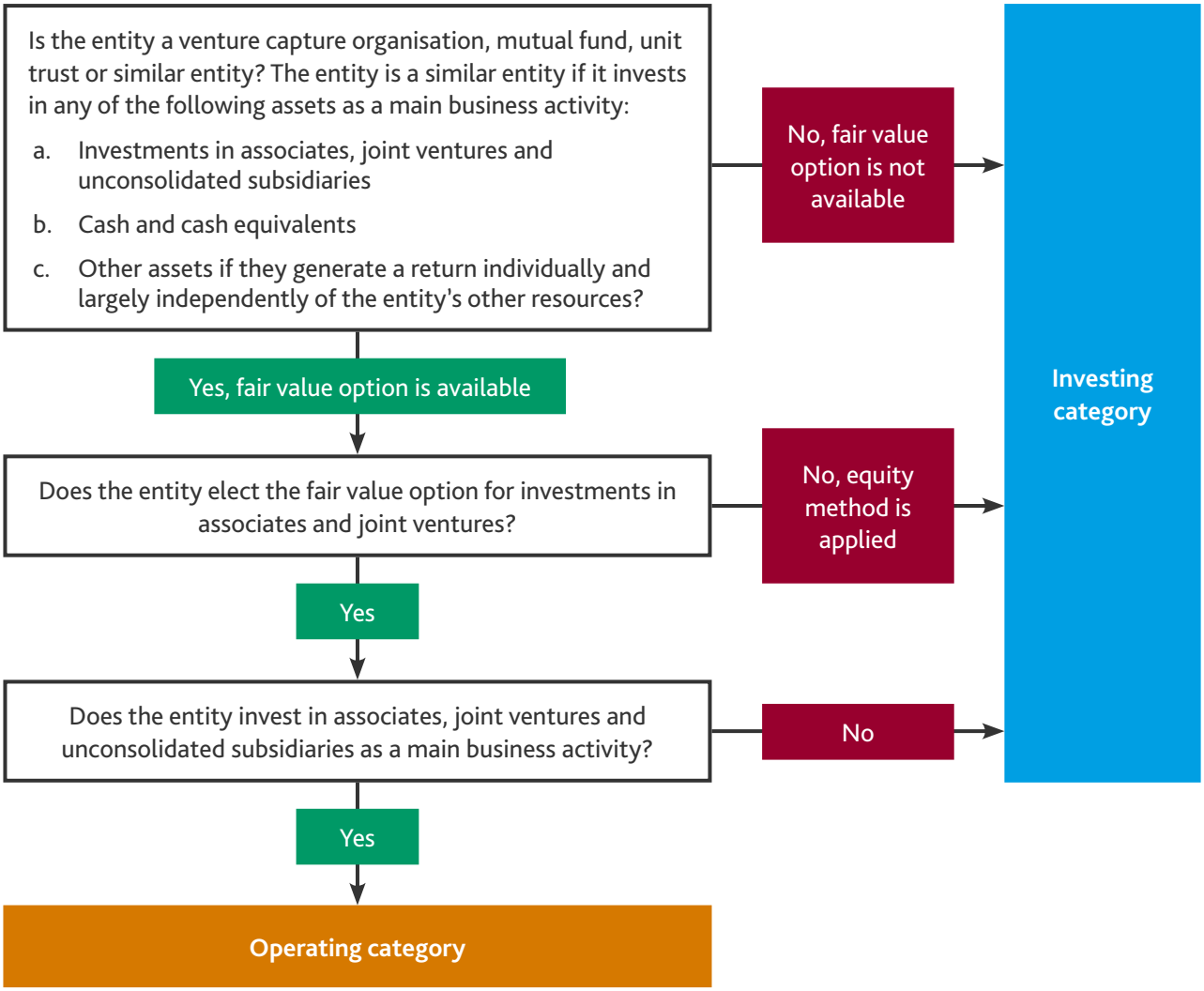
On transition to IFRS 18, the fair value option election is available to entities that may not have applied it in the past (see FAQ 10).

FAQ 6: How are the amendments connected with IFRS 18?

The amendments should be considered alongside IFRS 18 because the measurement basis applied to an associate or joint venture may affect the classification of the related income and expenses in accordance with the requirements of IFRS 18. For example, if an entity is eligible for the fair value option, its decision to apply that option may determine whether the related income and expenses are classified in the operating or investing category.

IFRS 18 introduced the concept of a specified main business activity. IFRS 18 considers whether investing in assets constitutes a main business activity of an entity, and that conclusion affects how income and expenses from certain assets are classified.

The relationship between the fair value option and the classification requirements of IFRS 18 may be summarised as follows:



Therefore, if an entity uses the fair value option to account for an associate and/or joint venture, it is then necessary to conclude whether the entity invests in associates and/or joint ventures as a main business activity, which determines whether the income and expenses from those investments are classified in the operating or investing category. See FAQ 8 for more information on how an entity makes this assessment.

FAQ 7: How does an entity's choice to use or not use the fair value option affect how income and expenses are classified in IFRS 18?

Consider the following example, where an entity is eligible to apply the fair value option. Depending on the choice made by the entity, and the conclusion about whether the entity invests in the investee as a main business activity, different conclusions may be reached.

EXAMPLE

Common fact pattern: Entity Z invests in investment property as a main business activity, therefore, it classifies the fair value movement and rental income on its rental properties in the operating category in the statement of profit or loss.

As a result of Entity Z's main business activity of investing in investment property, which is an asset in the scope of IFRS 18.53(c), Entity Z may elect to measure its investment in Associate X at fair value through profit or loss.

Entity Z is planning to transition to IFRS 18 shortly, and is considering the effect on its statement of profit or loss depending on whether it elects to use the fair value option.

The following three scenarios share the fact pattern described above, with the only differences being: (1) whether the entity chooses to apply the fair value option; and (2) whether Entity Z invests in associates as a main business activity.

	1 – Entity Z elects to use the fair value option; Entity Z invests in Associate X as a main business activity	*2 – Entity Z elects to use the fair value option; Entity Z does not invest in Associate X as a main business activity*	*3 – Entity Z does not elect to use the fair value option*
Measurement of Associate X	Fair value through profit or loss	Fair value through profit or loss	Equity method
Classification of income and expenses related to Associate X	Operating	Investing	Investing category; whether Entity Z invests in associate X as a main business activity is irrelevant

Entity Z has a free choice as to whether it accounts for each associate or joint venture using the fair value option or not (see FAQ 5), however, Entity Z does not have a choice relating to its specified main business activities. This assessment in IFRS 18 is a question of fact and not an accounting policy choice; if the fair value option is elected and Entity Z invests in associates as a main business activity, Entity Z is required to classify the related income and expenses in the operating category.

Assessing whether Entity Z invests in Associate X as a main business activity is considered in FAQ 8 below.

FAQ 8: How does an entity assess whether it invests in an associate or joint venture as a main business activity?

Since the scope of the fair value option has been expanded significantly by the June 2026 amendments, it is now relevant for more entities to consider whether they invest in associates or joint ventures as a main business activity. Prior to the June 2026 amendments, this assessment was irrelevant for nearly all entities, because most associates and joint ventures were required to be accounted for using the equity method, meaning that in all cases, the related income and expenses would be classified in the investing category.

For general guidance on assessing whether an entity has specified main business activities, which include investing in assets, refer to section 3.7 of BDO's IFRS Accounting Standards In Practice: IFRS 18.

IFRS 18 contains limited guidance on how entities should assess whether they invest in assets as a main business activity, and some of the guidance is of limited applicability for associates and joint ventures. For example, the use of subtotals similar to gross profit (IFRS 18.B34) is not relevant for income and expenses related to an associate or joint venture, as those types of income and expense will not be included in the gross profit of the reporting entity.

In our view, the following facts and circumstances may be relevant in making this assessment (this list is not exhaustive and no single factor should be considered a 'bright line' or rule):

Indicator	Example
Operating segment disclosures made in accordance with IFRS 8 *Operating Segments*	An associate or joint venture may be a reportable segment in accordance with IFRS 8, in which case, it may be more likely that the entity invests in the associate or joint venture as a main business activity.
The size and importance of associates or joint ventures	Entity J does not apply IFRS 8, therefore, it does not identify reportable segments, however, its associate (Entity K) comprises 40% of its total assets and 30% of its operating profit. For an entity to conclude that it invests in an associate or joint venture as a main business activity, we would generally expect that investment (or investments) to be significant in the context of its overall operations. IFRS 18 does not define 'main business activities', however, we believe the size/quantum of that investment may be a useful indicator.
The operations of the associate or joint venture and their similarity with the entity	Entity H is an investment property company, which invests in investment property as a main business activity. Entity H also holds Associate G, another investment property company with similar operations to Entity H. The similarity in operations may indicate that Entity H invests in Associate G as a main business activity because investing in Associate G is related to its main business activity of investing in investment property.

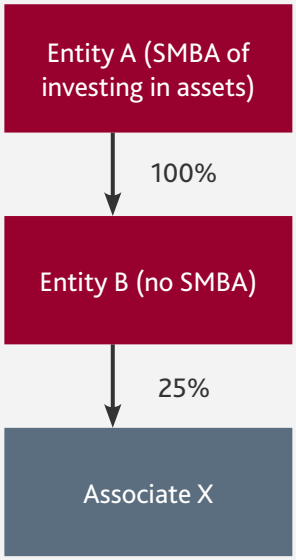
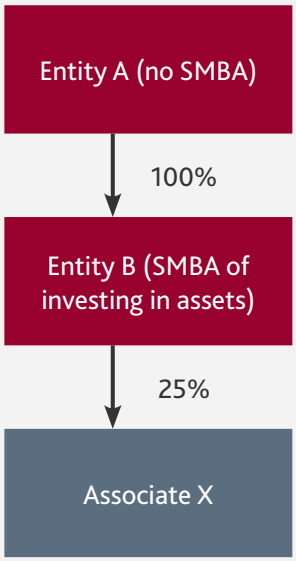


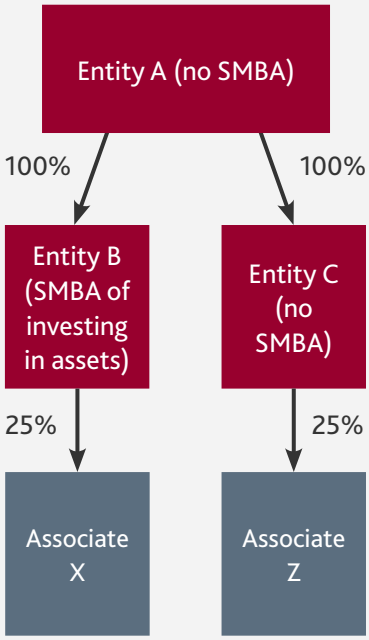
FAQ 9: At what level is the fair value option assessed in a group structure?

IAS 28.18 sets out the criteria that must be met for an entity to apply the fair value option, and the requirement sets out that associates or joint ventures are to be 'held by, or indirectly through, an entity that is [an entity that meets the criteria to use the fair value option]'.

Therefore, the fair value option may be available to account for an associate or joint venture when the reporting entity itself meets the criteria, or when a subsidiary that holds the applicable associate or joint venture meets the criteria.

This is demonstrated in the following three scenarios where the ability to elect the fair value option is considered for the consolidated accounts of the ultimate parent – Entity A (*SMBA used in the organisational charts set out below represents an entity having a specified main business activity of investing in IFRS 18.53(c) assets, which results in the fair value option being available):

Scenario	Explanation
Scenario 1 	Entity A invests in investment property as a main business activity and this is reflected in its consolidated financial statements (i.e. Entity A classifies fair value remeasurements of its investment properties in the operating category in its consolidated financial statements). Entity A controls Entity B, which does not have a main business activity of investing in assets; Entity B sells widgets. Entity B holds Associate X. **Analysis**: In its consolidated financial statements, Entity A may elect to use the fair value option to account for its indirectly held associate (Associate X). Entity A holds Associate X indirectly through Entity B, and Entity A is a 'similar entity' in IAS 28.18 because it invests in investment property as a main business activity at the reporting entity level. It is not relevant that the direct investor in the associate (Entity B) does not have a qualifying main business activity. The 'entity' in IAS 28.18 refers to the reporting entity, which is the Entity A group which includes its consolidated subsidiaries. Entity A has a qualifying specified main business activity, and therefore, it may use the fair value option for any associates or joint ventures in its consolidated financial statements.
Scenario 2 	In contrast to Scenario 1, in Scenario 2, it is the direct investor (Entity B) that has the qualifying main business activity of investing in IFRS 18.53(c) assets (e.g., investing in investment property). Entity A does not have a qualifying main business activity at the consolidated level. When it consolidates Entity B, the main business activity of the consolidated group does not include investing in IFRS 18.53(c) assets. This may occur if, for example, the operations of Entity B are not significant at the consolidated level. **Analysis**: In its consolidated financial statements, Entity A may elect to use the fair value option to account for its indirectly held associate (Associate X). Entity A does not have a qualifying main business activity, but the intermediate parent (Entity B) does. In the basis for conclusions to the June 2026 amendments, BC19Q states (**emphasis added**): '*…the entity holding the investment in an associate or joint venture is the entity that needs to have a main business activity of investing in assets in order to elect the fair value option.* ***The fair value option remains available if the entity holding the investment is included in consolidated financial statements****, regardless of whether the parent entity also has a main business activity of investing in assets.*'

Scenario	Explanation
	Therefore, the fact that Entity B qualifies for the fair value option because it invests in IFRS 18.53(c) assets as a main business activity 'rolls up' into the consolidated financial statements of Entity A, even though Entity B's main business activity is not a main business activity for the purposes of Entity A's consolidated financial statements.
	This scenario is similar to scenario 2, except there is now another section of the organisational chart, where Entity A also owns another intermediate parent, being Entity C, which holds Associate Z. Entity C does not have a main business activity of investing in IFRS 18.53(c) assets. **Analysis**: in Entity A's consolidated financial statements, the fair value option is available for Associate X for the reasons discussed above in scenario 2. The fair value option is not available for Associate Z because neither Entity A nor Entity C have a qualifying main business activity of investing in IFRS 18.53(c) assets. Unlike Scenario 2, the intermediate parent (Entity C) does not have a qualifying main business activity which 'rolls up' to the consolidated financial statements. Therefore, it is possible for a reporting group to have the fair value option available for only some of its associates or joint ventures depending on facts and circumstances. If Entity A had a main business activity of investing in IFRS 18.53(c) assets at the consolidated level, then all associates or joint ventures held in the consolidated financial statements would be eligible for the fair value option.

FAQ 10: How do the amendments interact with the transition requirements of IFRS 18?

The amendments to the fair value option must be applied when an entity applies IFRS 18 for the first time, assuming the entity has not previously applied IFRS 18 in which case additional requirements are applicable (see FAQ 11). Therefore, for an entity with a calendar year-end, IFRS 18 is effective on 1 January 2027, and the amendments to the fair value option must be applied at the same time.

On transition to IFRS 18, an entity is permitted to change its election for how it measures associates or joint ventures if the entity had previously accounted for them using the equity method. Therefore, if the newly expanded fair value option results in an entity being able to apply the fair value option to more associates or joint ventures than had qualified for the fair value option in the past, the entity may reopen the fair value option and change its designation, despite the fact that the fair value option is normally only applicable upon initial recognition.

An entity may redesignate in this manner for each qualifying associate or joint venture individually (see FAQ 5); it does not need to do so consistently.

The effect of any redesignation is accounted for on a retrospective basis, consistent with the transition requirements of IFRS 18. Therefore, comparative periods presented must reflect the effect of any redesignation, including any consequential effect from applying the classification requirements of IFRS 18.

The effect on transition to IFRS 18 is illustrated in the following example:

EXAMPLE

Entity J has a calendar year-end and invests in investment property as a main business activity. Entity J holds Associate K. Prior to the June 2026 amendments and the adoption of IFRS 18, Entity J was not eligible to apply the fair value option, and therefore, accounted for Associate K using the equity method. Entity J classified the income and expenses from Associate K outside of operating profit prior to the adoption of IFRS 18.

On transition to IFRS 18, Entity J has the fair value option available to it because it invests in investment property as a main business activity. Entity J decides to redesignate its investment in Associate K at fair value through profit or loss. Entity J considers the relevant facts and circumstances and concludes that it invests in its associate as a main business activity.

Therefore, in its first financial statements applying IFRS 18 for the year ended 31 December 2027, Entity J measures its associate at fair value through profit or loss and classifies the income and expenses from the associate in the operating category. Entity J reflects this change in measurement basis (equity method -> fair value through profit or loss) and classification (outside of operating profit -> part of operating profit) in any comparative periods it presents, including the 31 December 2026 comparative period.

FAQ 11: How does an entity apply the June 2026 amendments if it has applied IFRS 18 in an earlier period (i.e. the entity was an early adopter of IFRS 18)?

Assume Entity L has a calendar year-end and chose to apply IFRS 18 early in its financial statements for the year ended 31 December 2025. Therefore, the reporting period in which the entity applied IFRS 18 began before the issuance of the June 2026 amendments.

In accordance with IAS 28.45M, Entity L is then required to apply the June 2026 amendments for the reporting period ending on or after the issuance of the amendments, being Entity L's 31 December 2026 financial statements (assuming that Entity L does not prepare interim financial statements).

FAQ 12: If an entity has applied the fair value option before the June 2026 amendments, can the entity redesignate associates or joint ventures from fair value through profit or loss to the equity method?

No, this is a 'one-way' redesignation; entities are not permitted to change the designation of associates or joint ventures from fair value through profit or loss to the equity method.



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