



PwC Snapshots

by Capital Markets &
Accounting Advisory Services

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Amendments to MFRS 128: Fair value option for investments in associates and joint ventures

Key points:

- The Malaysian Accounting Standards Board has issued targeted amendments to MFRS 128^(*) on the use of the fair value option as an exemption from applying the equity method to investments in associates and joint ventures for eligible entities.
- The amendments clarify the scope of this exemption to include entities that have a main business activity of investing in particular types of asset based on MFRS 18.
- The amendments are effective when an entity first applies MFRS 18, which will be for annual reporting periods beginning on or after 1 January 2027, or earlier if MFRS 18 is early adopted.

() Malaysian Financial Reporting Standards ("MFRS") is equivalent to IFRS Accounting Standards as issued and amended by the IASB.*



What is the issue?

On 7 August 2026, the Malaysian Accounting Standards Board (MASB) issued “Amendments to the Fair Value Option for Investments in Associates and Joint Ventures”, clarifying which entities are eligible to measure investments in associates and joint ventures at fair value under MFRS 128, “Investment in Associates and Joint Ventures”.

The exemption from applying the equity method in MFRS 128 allows eligible entities to make an election to measure investments in associates and joint ventures at fair value through profit or loss (“fair value option”). This election has to be made separately for each associate or joint venture at initial recognition.

These amendments address stakeholders’ concerns about the diversity in practice when determining the scope of entities eligible to apply the fair value option. This diversity has become increasingly important because the measurement at either fair value or using the equity method affects the classification of income and expenses in the statement of profit or loss under MFRS 18, “Presentation and Disclosure in Financial Statements”, in either the operating or the investing category.

Key aspects of the amendments

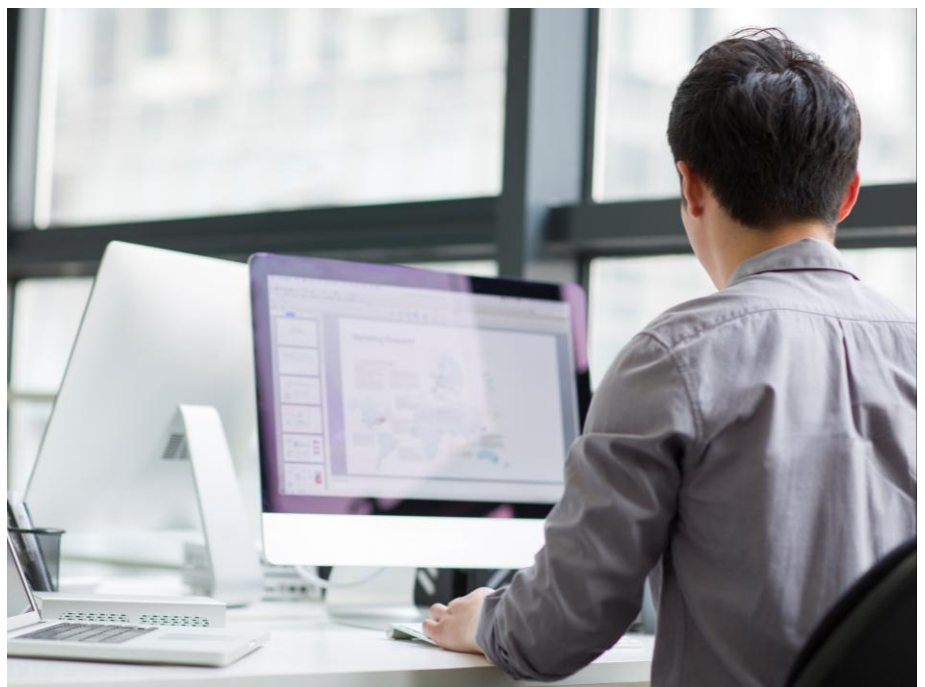
Clarification of the scope of entities eligible to apply the fair value option

MFRS 128 already indicates that investments in associates or joint ventures held by, or held indirectly through, a venture capital organisation, mutual fund, unit trust or similar entity are eligible to be measured at fair value through profit or loss. With the amendment, MFRS 128 now explicitly states that “a similar entity includes one that has a main business activity of investing in particular types of assets (see paragraph 49(a) of MFRS 18)”.

Clarifying the meaning of “similar entity” using the requirements in MFRS 18 connects the notion of specified main business activities in MFRS 18 to MFRS 128 and, with that, aims to resolve stakeholders’ concerns. This amendment is narrow in scope and does not open the fair value option for all entities, and it avoids disruption for existing entities that apply the fair value option. The clarification also removes the previous MFRS 128 reference to an example of “investment-linked insurance funds”, because the IASB considered that this was no longer needed due to the clarifications made.

Classification of fair value gains and losses from investments in associates and joint ventures

After determining whether investments in associates and joint ventures qualify for the fair value option in MFRS 128, an entity must separately assess whether the fair value gains and losses need to be classified in the operating or investing category in the statement of profit or loss under MFRS 18. This assessment is required regardless of the nature of the entity applying the exemption.



Key aspects of the amendments (cont'd)

Classification of fair value gains and losses from investments in associates and joint ventures (cont'd)

PwC Observation

The option to measure associates and joint ventures at fair value is available for entities that have a main business activity of investing in particular types of assets as a specified main business activity in line with MFRS 18. This is not limited to entities that invest in associates or joint ventures as a specified main business activity, but it is available more broadly for entities that invest in any asset as a specified main business activity (as defined under paragraph 49(a) of MFRS 18). Therefore, if an entity invests in assets other than associates or joint ventures as a specified main business activity and also has associates or joint ventures, it can apply the fair value option and measure those associates or joint ventures at fair value through profit or loss.

For example, if an entity invests in financial assets as a specified main business activity and also holds associates that are unrelated to that main business activity and does not separately invest in associates as a specified main business activity, those associates can still be measured at fair value through profit or loss.

However, whether the (fair value) gains and losses of associates measured at fair value can be presented in the operating category, when applying MFRS 18, is a separate assessment. In the example, if the entity invests in other assets but not associates as a specified main business activity, and it measures its associates at fair value, the (fair value) gains and losses arising from those associates are presented in the investing category. That is because this entity does not invest in associates as a specified main business activity.

The determination of whether or not a specified main business activity exists is done at the reporting entity level, and so this might impact the classification of fair value gains and losses when using the exemption. A reporting entity might comprise a group that includes subsidiaries, and the outcome of the specified main business activities assessment might vary depending on the reporting level at which it is performed. Although this assessment does not affect whether an entity is eligible to apply the fair value option, it is relevant in determining whether fair value gains and losses are classified in the operating or investing category in the statement of profit or loss.

Key aspects of the amendments (cont'd)

Classification of fair value gains and losses from investments in associates and joint ventures (cont'd)

PwC Observation

The assessment of a main business activity under MFRS 18 is done at the reporting entity level. Therefore, subsidiaries within a group might have a specified main business activity of investing in assets, whereas the parent might not, or vice versa.

The IASB noted that the eligibility for the fair value option is based on the nature of the entity holding the investment in an associate or joint venture, and not on the entity indirectly holding the investment. The entity directly holding the investment therefore needs to have investing as a specified main business activity for the associate or joint venture to be measured at fair value under the amendment.

For example, if a parent (that does not have a specified main business activity of investing in assets) has a subsidiary (that does have a specified main business activity of investing in assets), and that subsidiary holds an associate, that associate can be measured at fair value also in the parent's consolidated financial statements. However, since the parent does not have a specified main business activity of investing in assets, in the parent's consolidated financial statements the (fair value) gains and losses arising from these associates are classified in the investing category. In the subsidiary, they would be classified in the operating category.

Who is affected?

The amendments are particularly helpful for entities that have a specified main business activity of investing in assets in accordance with MFRS 18 and that have investments in associates or joint ventures.

When does it apply?

The amendments are effective for annual reporting periods beginning on or after 1 January 2027. If an entity elects to apply these amendments, it should apply the change retrospectively in accordance with MFRS 108.

If an entity has elected to apply MFRS 18 early and to use the fair value option granted by these amendments (for example, for a 30 June 2026 period-end), the entity should apply the amendments retrospectively for the reporting period ending on or after the issuance of these amendments (that is, also for the 30 June 2026 period-end).

Do you need further information on this topic?

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