

Draft Comment Letter

Comments should be submitted by 8 October 2015 to
commentletters@efrag.org

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

[Date]

Dear Sir/Madam,

Re: The IASB's Exposure Draft ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IASB's Exposure Draft ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*, issued by the IASB on 10 August 2015 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG agrees with the IASB's proposal to defer the effective date of the 2014 amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the "2014 Amendments") indefinitely.

EFRAG considers that the IASB's proposal will give the IASB the opportunity to address the application problems arising from the equity method requirements set out in IAS 28 *Investments in Associates and Joint Ventures* in a comprehensive way and in a single project. It would also give the IASB the opportunity to reconsider the issues and challenges identified by EFRAG which are described in Appendix 1. EFRAG also considers that deferring the effective date of the 2014 Amendments indefinitely would also reduce the risk of requiring successive rounds of changes to IAS 28 in a short period of time.

EFRAG therefore supports the IASB's decision to defer ad hoc changes to IAS 28 *Investments in Associates and Joint Ventures* until its research project *Equity Method of Accounting* is completed. Further, EFRAG urges the IASB to continue to progress that project as a priority so that the outstanding issues can be resolved in a timely manner.

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli, Filipe Camilo Alves or me.

Yours faithfully,

Roger Marshall
Acting President of the EFRAG Board

APPENDIX

Notes to constituents

- 1 *The IASB proposes to defer indefinitely the effective date of the amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture which were published in 2014 (the “2014 Amendments”) and had an effective date of 1 January 2016.*
- 2 *In the Basis for Conclusions the IASB explains that its research project on equity accounting is currently investigating potential improvements and simplifications to the equity method of accounting. The deferral of the effective date of the 2014 Amendments means that entities will not need to change the way in which they apply IAS 28 twice in a short period of time and the IASB will be able to address the issues covered by the 2014 Amendments comprehensively (together with any proposals that arise from the research project). The IASB intends to insert an effective date as soon as it finalises its revisions.*
- 3 *The IASB also proposes that early application should be allowed as it considered, in accordance with paragraph BC8 of the Basis for Conclusions, that early application was unlikely to increase diversity in practice.*

Question for respondents

The IASB proposes to defer indefinitely the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* until such time as it has finalised amendments, if any, that result from its research project on the equity method. Earlier application would continue to be permitted.

Do you agree with this proposal? Why or Why not?

EFRAG’s response

- 4 EFRAG agrees with the IASB’s proposal to defer the effective date of the 2014 Amendments indefinitely.
- 5 EFRAG considers that the IASB’s proposal to defer the effective date of the 2014 Amendments indefinitely will give the IASB the opportunity to address, in a more comprehensive and conceptual way, the many application issues arising from the equity method under IAS 28 *Investments in Associates and Joint Ventures*, including those addressed in the 2014 Amendments and those that are currently being considered by the IFRS Interpretations Committee (e.g. *Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture*).
- 6 It would also give the IASB the opportunity to reconsider the issues and challenges identified by some IASB members in their Dissenting Opinions and by EFRAG during its consultative phase and included in the EFRAG comment letter published on 15 April 2013 such as how to account for a transaction where a parent loses control of a subsidiary that does not contain a business but retains an interest in that former subsidiary that is accounted for using the equity method.
- 7 In this respect, EFRAG regards the IASB’s decision to limit the recognition of the remeasurement gain or loss to the extent of unrelated investors’ interests in the associate or joint venture as a significant unresolved issue of the 2014 Amendments. We believe that the retained interest in the former subsidiary is not part of the transaction with the associate or joint venture. As the gain does not arise from any transaction with the investee, the principle in IAS 28 that is intended to limit the recognition of a gain or loss to the extent of third parties’ interest and eliminate

part of the investor's share of in the investee's gain or loss is irrelevant and therefore not applicable.

- 8 EFRAG further notes that immediately after the adjustment to the carrying amount of the remaining investment in the former subsidiary, paragraph 32(b) of IAS 28 would apply and would bring the investment back to its fair value and therefore would negate the principle established by the Amendments. While the outcome would be the same as what we suggest, we believe that this would create supplementary confusion in practice and would make the current requirements even less understandable than they already are due to the current lack of consistency between IAS 28 and recent evolutions in IFRS.
- 9 Finally, deferring the effective date of the 2014 Amendments indefinitely would also avoid the risk of requiring successive rounds of piecemeal changes to IAS 28 in a short period of time if, for example, the proposals set out in the 2014 Amendments turn out to be inconsistent with the findings from the *Equity Method of Accounting* research project or the IASB finds out, in the process, that the 2014 Amendments are not the most efficient and conceptual way to solve the issue.
- 10 EFRAG therefore supports the IASB's decision to defer ad hoc changes to IAS 28 *Investments in Associates and Joint Ventures* until its research project *Equity Method of Accounting* is completed. Further, EFRAG urges the IASB to continue to progress that project as a priority so that the outstanding issues can be resolved in a timely manner.