



29 January 2014

Our ref: ICAEW Rep 13/14

Mme Françoise Flores
Chair
European Financial Reporting Advisory Group
13-14 Avenue des Arts
B-1210 Brussels

Chère Mme Flores

ED/2013/10 *Equity Method in Separate Financial Statements*

ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the International Accounting Standards Board Exposure Draft ED/2013/10 *Equity Method in Separate Financial Statements*. Our responses to the main issues highlighted by EFRAG are set out below. A copy our response to the IASB is attached to this letter. Please refer to this response for our detailed views on the IASB's proposals.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Eddy James FCA
Technical Manager
Financial Reporting Faculty

T +44 (0)20 7920 8701
E eddy.james@icaew.com



ICAEW REPRESENTATION

EFRAG'S DRAFT COMMENT LETTER ON ED/2013/10 EQUITY METHOD IN SEPARATE FINANCIAL STATEMENTS

Memorandum of comment submitted in January 2014 by ICAEW, in response to EFRAG's draft comment letter on the IASB's exposure draft ED/2013/10 *Equity Method in Separate Financial Statements* published in January 2014.

Contents	Paragraphs
Introduction	1
Who we are	2-4
Major points	5-6
Responses to specific questions raised by EFRAG	7-13

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on the IASB's Exposure Draft ED/2013/10 *Equity Method in Separate Financial Statements*.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 140,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.
3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.
4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

We do not agree with proposed amendments to IAS 27

5. Unlike EFRAG, we do not support the proposals. As discussed further below, we believe that the proposals not only lack any conceptual basis but also set a dangerous precedent of incorporating local GAAP or accounting regulations into IFRS.
6. We recommend that the board sets aside these proposals until such time as its research project into the equity method is complete.

RESPONSES TO SPECIFIC QUESTIONS RAISED BY EFRAG

Do you consider that adding the equity method option in separate financial statements will result in cost savings for preparers? Please explain.

7. While adding the equity method option in separate financial statements may result in costs savings for preparers, we do not support its reintroduction for the reasons set out in the attached representation letter and below.

Does the application of the equity method to subsidiaries in the separate financial statements give rise to any issues that are not identified above? Please explain.

8. The basis for conclusions explains that some respondents to the board's 2011 agenda consultation strongly supported the inclusion of the equity method as one of the options for measuring investments in subsidiaries, joint ventures and associates in an entity's separate financial statements and that this exposure draft has been issued as a direct response to their requests. The proposed amendments would enable entities in certain jurisdictions to simultaneously comply with local regulations that require the use of the equity method for such investments and IFRS.
9. However, in 2003 the board removed the option of using the equity method to account for investments in subsidiaries, joint ventures and associates in separate financial statements because it felt that the focus of such financial statements should be 'upon the performance of

the assets as investments' and that they should therefore be measured using either the fair value method or the cost method.

10. We agree with the position taken by the board at that time as the distinguishing feature of separate financial statements is that interests in other entities are treated as investments. We believe that valuing such investments using the equity method is inappropriate as doing so will not only result in confusion as to the nature of separate financial statements but also create additional diversity and reduce comparability.
11. There is, we believe, no technical merit in restoring the option of using the equity method to measure such investments. Moreover, we do not believe that it is appropriate to amend IFRS solely to incorporate local GAAP or accounting regulations. We do not, therefore, support the proposals as they not only lack any conceptual basis but also set a dangerous precedent.
12. The board is also undertaking a research project into the equity method which 'will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties to preparers'. It seems inappropriate to restore the equity method to separate financial statements in advance of the conclusion of this project. Indeed, it could be argued that these proposals inappropriately prejudice the outcome of the research project as, having just restored the equity method as an option in an entity's separate financial statements, it would seem unlikely that the board would conclude shortly thereafter that it should be removed once again.
13. We recommend that the board sets aside these proposals until such time as its research project into the equity method is complete.

E eddy.james@icaew.com

Copyright © ICAEW 2013
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

icaew.com