



European Financial Reporting Advisory Group ■

Equity Method in Separate Financial Statements (Proposed Amendments to IAS 27)

Feedback to constituents – EFRAG Comment Letter

February 2014

Introduction

Objective of this feedback statement

EFRAG published its comment letter on the Exposure Draft *Equity Method in Separate Financial Statements* (Proposed Amendments to IAS 27) ('the ED') on 11 February 2014. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered by the EFRAG Technical Expert Group (EFRAG TEG) during its technical discussions leading to the publication of EFRAG's final comment letter.

Background to the Exposure Draft

On 2 December 2013 the IASB published for public comment Exposure Draft: *Equity Method in Separate Financial Statements* (Proposed amendments to IAS 27). The proposed amendments to IAS 27 would allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Further details are available on the EFRAG Website.

EFRAG's draft comment letter

EFRAG published a draft comment letter on the proposed amendments on 9 January 2014. In the draft comment letter, EFRAG acknowledged that the equity method could provide information that was relevant to users. EFRAG noted that it was generally not in favour of introducing accounting policy options in IFRS. However, EFRAG believed that this was outweighed by the benefits of better aligning the accounting principles applicable to different sets of financial statements. EFRAG also believed that the IASB should take this opportunity to better clarify the objective of separate financial statements, even though this should be considered more comprehensively in the future as part of IASB's research activities.

Comments received from constituents

Eight comment letters were received from constituents and considered by EFRAG TEG in its discussions. These comment letters are available on the EFRAG Website.

The comment letters received came from national standard-setters, professional organisations and EU authorities.

EFRAG's final comment letter

In its final comment letter, EFRAG acknowledged that the equity method could provide information that was relevant to users of separate financial statements. Therefore, EFRAG was not against the IASB's proposal. However, EFRAG believed that the IASB had not sufficiently clearly articulated the reasons for re-introducing the equity method in the separate financial statements; whether that was to increase the relevance of separate financial statements, to reduce costs of preparation or to ease the adoption of IFRS in certain jurisdictions. EFRAG affirmed its recommendation that the IASB should take this opportunity to better clarify the objective of separate financial statements.

Comments received and changes made to EFRAG final comment letter

EFRAG's tentative views and constituents' comments

EFRAG's response to constituents' comments

Use of the Equity Method

EFRAG's tentative position

EFRAG acknowledged that the equity method could provide information that was relevant to users. EFRAG noted that it was generally not in favour of introducing accounting policy options in IFRS. However, EFRAG believed that this was outweighed by the benefits of better aligning the accounting principles applicable to different sets of financial statements. EFRAG also believed that the IASB should take this opportunity to better clarify the objective of separate financial statements, even though this should be considered more comprehensively in the future as part of IASB's research activities.

Constituents' comments

Five respondents agreed with EFRAG to allow the use of the equity method in separate financial statements. Still, two respondents did not expect considerable cost savings and recommended an adjusted equity method for separate financial statements.

In contrast, three respondents did not agree with the proposed amendments. These respondents considered that the use of the equity method in separate financial statements was inappropriate and argued that the IASB's proposed amendments lacked a conceptual basis, the equity method provided information that was already reflected in the consolidated financial statements and the introduction of additional accounting policy options would reduce the comparability of financial information. In addition, these respondents considered that it was inappropriate to restore the equity method to separate financial statements in advance of the IASB's research project on the Equity Method of Accounting.

EFRAG maintained its tentative view that the equity method could provide information that was relevant to users of separate financial statements.

However, EFRAG considered the arguments provided by those who opposed the proposed amendments and decided to modify its comment letter to further emphasise that the IASB had not sufficiently clearly articulated the reasons for re-introducing the equity method in the separate financial statements:

- If the main objective of the proposals was to improve relevance of information provided to users then the IASB should first clarify what the equity method aimed to achieve;
- If the main purpose of the ED was to provide effective relief to preparers then EFRAG suggested that the IASB should also investigate the current practice and recommendations of countries which have a long experience in applying the equity method in separate financial statements;
- If the objective of the proposals was to encourage the broader adoption of IFRS by entities that prepare separate financial statements then IASB should clearly state this.

EFRAG also believed that the IASB should take this opportunity to better clarify the objective of separate financial statements, even though this should be considered more comprehensively in the future as part of IASB's research activities.

List of respondents

National Standard Setters

Accounting Standards Committee of Germany (ASCG)

Dutch Accounting Standards Board (DASB)

Instituto de Contabilidad y Auditoría de Cuentas (ICAC)

Estonian Accounting Standards Board (EASB)

Norwegian Accounting Standards Board (NASB)

Danish Accounting Standards Committee (DASC – FSR)

Professional organisations

Institute of Chartered Accountants in England and Wales (ICAEW)

Authorities

European Securities and Markets Authority (ESMA)