DANSKE REVISORER FSR*

EFRAG
35 Square de Meeus
1000 Brussels
Belgium

By e-mail: Commentletters@efrag.org

30 January 2014

FSR – danske **revisorer**
Kronprinsessegade 8
DK - 1306 København K

Telefon +45 3393 9191
fsr@fsr.dk
www.fsr.dk

CVR. 55 09 72 16
Danske Bank
Reg. 9541
Konto nr. 2500102295

Dear Ms. Francoise Flores,

EFRAG Draft Comment Letter on Exposure Draft ED/2013/10, Equity Method in Separate Financial Statements. Proposed amendments to IAS 27

Referring to the EFRAG Draft Comment Letter on ED/2013/10, the Danish Accounting Standards Committee set up by "FSR – danske revisorer" would like to provide the following comments:

Q 1 – Use of the equity method

The IASB proposes to permit the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

Do you agree with the inclusion of the equity method as one of the options? If not, why?

FSR comments: We agree.

EFRAG Question to constituents

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

FSR comments to EFRAG: We would not expect considerable cost savings by adding the equity method. The adding of the equity method should therefore not be based on estimated cost savings but on the benefits from more relevant information for users of the separate financial statements.

EFRAG Question to constituents

12. 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.

FSR comments to EFRAG: Please see our comments below regarding IASB Q 5 – Other comments.

Q 2 – Transition provisions

The IASB proposes that an entity electing to change to the equity method would be required to apply that change retrospectively, and therefore would be required to apply IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors.*

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

FSR comments: Normally the entity would be required to apply a new accounting method retrospectively because this would ensure the comparability over time. However, we agree with EFRAG that it might be impossible to collect the necessary information on measures from earlier financial years. Or it might be necessary to estimate the measures. It might also be necessary to estimate or disregard eliminations of internal transactions which have influenced on the measures. It might especially be difficult for measures from associates and joint ventures since you may not have full access to their measures. Therefore, some reliefs should be considered.

Q 3 – First-time adopters

The IASB does not propose to provide any special relief for first-time adopters. A first-time adopter electing to use the equity method would be required to apply the method from the date of transition to IFRSs in accordance with the general requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards.

Do you agree that a special relief is not required for a first-time adopter? If not, why and what alternative do you propose?

FSR comments: We agree with EFRAG that it can be costly and difficult, or even impossible, for first-time adopters – as well as for companies applying the equity method for the first time - to apply this method retrospectively.

It should be considered to allow a "deemed cost" relief, e.g. taking the net asset value of the subsidiary in the consolidated financial statements as a starting point, and to extend the exemptions for past business combinations and past acquisitions already provided in IFRS 1 for investments in associates and joint ventures to first-time adopters of the equity method for investments in subsidiaries.

Q 4 – Concequential amendments to IAS 28 Investments in Associates and Joint Ventures

The IASB proposes to amend paragraph 25 of IAS 29 in order to avoid a conflict with the principles of IFRS 10 Consolidated Financial Statements in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.

Do you agree with the proposed consequential amendments? If not, why?

FSR comments: We have noticed that EFRAG believes that the amendment proposed to paragraph 25 of IAS 28 does not seem fully to reflect the intention of the Board as expressed in the Basis for Conclusions (BC11) and that other inconsistencies might be created. We agree with this observation. Furthermore we agree with EFRAG that it should be clarified what treatment should be applied when there is loss of control of a subsidiary that is accounted for at cost or fair value (e.g. reclassification of part of gain/loss from OCI to profit or loss when control is lost?).

Q 5 – Other comments

Do you have any other comments on the proposals?

FSR comments:

The option to recognise investments in subsidiaries and/or associates using the equity method has existed in the Danish Financial Statements Act for several decades. Under the Act, it is for the company to decide whether it wish to apply the cost method, the equity method or revaluation (i.e. cost + revaluation with revaluation taken through equity) for subsidiaries, for associates or for both kinds of investments.

During some years (2002-2007) it was required for medium-sized and large companies to use the equity method and an option for small companies. Since 2008 it has been an option for all companies, except – of course – for companies applying IFRS.

The equity method is still quite popular among Danish companies. We suppose that some companies applying IFRS would be interested in applying the equity method in their separate financial statements.

We have many years of experiences with applying the equity method in Denmark and the decision by IASB in 2005 to abolish the equity method in separate financial statements was regretted by many Danish entities. The method is described in the accounting literature, text book etc., and the method is described – however briefly – in the financial statements act and in comments to the act, which have ensured a fairly harmonised understanding of the method amongst companies in Denmark.

If the IASB decides to reinstate the equity method – which we support – several detailed issues might be raised and should be dealt with in IAS 27, IAS 28 or elsewhere, to ensure a consistent application.

Furthermore it is important that the discussion of whether the equity method is a measurement method or a consolidation method is clarified as the method as it exists today includes both consolidation and measurement characteristics. If the method should be applied it is important that the method is conceptually understood and applied consistently across jurisdictions.

We would be happy to elaborate further on our comments should you wish so.

Kind regards

Jan Peter Larsen Chairman of the Danish Accounting Standards Committee	Ole Steen Jørgensen Chief consultant FSR - danske revisorer