MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

IASB Exposure Draft ED/2013/10
Draft Comment Letters
European Financial Reporting Advisory Group
35 Square de Meeûs
Brussels B-1000
Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on EFRAG´s Draft Comment Letter on IASB´s Exposure Draft 2013/10 Equity Method in Separate Financial Statements. In general terms, we agree with the EFRAG´s response.

Question 1—Use of the equity method (IASB)
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?

Yes, we agree with the inclusion of the option.

Question to constituents (EFRAG)
Do you consider that adding the equity method option in separate financial statements will result in cost savings for preparers? Please explain.
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.

Yes, we consider that adding the equity method option in separate financial statements will result in cost saving in the case of companies that prepare separate financial statements (under local GAAPs) and at the same time, formulate consolidated financial statements using IFRS, in cases where the local GAAPs force to follow the Equity Method in order to account for investments in subsidiaries, joint ventures and associates.

Regarding the application of the equity method to subsidiaries in the separate financial statements, we are of the view that paragraph 3 of EFRAG´s comment letter contains the main issues that should be analysed and could be summed up in responding whether it is appropriate or not, from the perspective of the separate financial statements, to:

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a) Apply the criteria of the "Acquisition Method" on initial recognition of investment in a subsidiary (costs of acquisition, contingent compensation, provisional accounting, acquisition date, etc.).

b) Apply the criteria of IAS 36 in the subsequent measurement, considering the distribution of goodwill that is performed from the perspective of the consolidated financial statements. For example, it could be analysed how the recoverable amount of the investment can be determined in the event that part of the goodwill implicit in the investment of the subsidiary is distributed, in the consolidated financial statements, to a parent´s cash-generating unit or to another subsidiary which in turn were not owned by the subsidiary.

c) Apply the criteria of derecognition of goodwill to the partial derecognition of the investment in the subsidiary without loss of control. For example, it might be analysed if the criteria followed in annual consolidated accounts consisting on non-derecognition of the goodwill should also be applied in the separate financial statements in cases when disinvestment occurs reducing the percentage of interest without loss of control (from 70% to 60%).

Question 2—Transition provisions (IASB)
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?

We agree with the retrospective application, if we limit to the start of the comparative period when the full retrospective application is not relevant for the purpose of fair and true view and in cases where it is impracticable.

Question 3—First-time adopters (IASB)
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?

We agree with the proposal, provided that the exemptions listed in the answer to question 2 are introduced.

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Question 4—Consequential amendment to IAS 28 Investments in Associates and Joint Ventures (IASB)
The IASB proposes to amend paragraph 25 of IAS 28 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 amendment? If not, why?

We agree with the need to amend IAS 28, but we consider that the IASB proposal contained in paragraph 25 does not correspond to the explanation contained in the bases for conclusions.

That is, if what we want is to preserve the criterion of consolidated annual accounts (retained interest at fair value through profit and loss), the question that should be examined is whether the separate financial statements must recognize income from the difference between the fair value of the retained interest and the value obtained by applying the Equity Method so far.

Please don't hesitate to contact us if you would like to clarify any point of this letter,

Ana Martínez-Pina
Chairman of ICAC

Madrid, 30th January 2014

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