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EFRAG
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Our ref : EFRAG-569 B
Direct dial : Tel.: (+31) 20 301 0391
Date : Amsterdam, 4 February 2014
Re : Comment on 'ED/2013/10 Equity Method in Separate Financial Statements'

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your draft comment letter dated 9 January 2014 on 'Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements'.

In general, we much support the re-introduction of the equity method as a basis for the accounting for investments in subsidiaries and associates in the separate financial statements of an entity. We have, however two main concerns on the ED, for which we refer to our comment letter to the IASB, which is attached as an appendix

In the appendix we respond to the questions raised in your draft comment letter.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Enclosed: Response to questions in EFRAG's draft comment letter
Comment letter IASB

Response to questions in EFRAG's draft comment letter 'Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements'.

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

Answer DASB

No, we do not agree that applying the equity method would result in cost savings for preparers.

However, an "adjusted" equity method for the separate financial statements, which is aligned to recognition and measurement as applied in consolidated financial statements, could result in cost savings for preparers and would result in additional benefits for the users of the separate financial statements. Under the "adjusted" equity method companies will use the same measurement and recognition principles as applied for the underlying assets and liabilities, including goodwill, in the consolidated financial statements in applying the equity method for investments in subsidiaries in the separate financial statements. This is a method that is allowed in the Netherlands as well and avoids any differences in accounting of the equity method compared to the consolidated financial statements (except for subsidiaries with negative equity when the parent is not liable for losses).

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.

Answer DASB

No, EFRAG has identified all issues, mainly in paragraph 8 of your comment letter that could give rise to issues.

We like to emphasise, as mentioned in our letter to the IASB and our comment above, that we 'believe that the cost/benefit is much more optimal when the impairment of equity accounted investments in the separate financial statement is based on the impairments recognized in the consolidated financial statements. We would prefer to see absolute synchronisation in this respect. Therefore we strongly suggest that the amendment will mandate, when the equity method is applied, a clear alignment between the carrying amount for investments in subsidiaries and associates in the separate financial statements with the measurement of the underlying assets and liabilities, including goodwill, as accounted for in the consolidated financial statements. Without such an alignment additional complexities upon transition or first-time adoption may arise as well.

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Our ref :IASB – IASB 448 B
Direct dial : (+31) 20 301 0391
Date :Amsterdam, 4February 2014
Re :**Comment on ‘Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements’**

Dear members of International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to respond on your ‘Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements.’

In general, we much support the re-introduction of the equity method as a basis for the accounting for investments in subsidiaries and associates in the separate financial statements of an entity. We have, however two main concerns.

Firstly, the application of the equity method in the separate financial statement, as proposed in the ED, will result in a benefit for the users of the financial statements, but at a relatively high cost of preparing the financial statements.
The relative high cost of applying the equity method as proposed is due to the differences in applying the equity method in the separate financial statements compared to the measurement of the underlying assets and liabilities of the respective investment in the consolidated financial statements, primarily caused by:

- Different methods for goodwill impairment, which require different impairment calculations for the consolidated and the separate financial statements; and
- Difference in accounting, e.g. for costs of acquisitions, step acquisitions/ disposals, require different accounting treatment for the same transactions.

We believe that the benefits of re-introduction of the equity method can be further increased at much lower costs, by aligning the measurement of the investments of subsidiaries, joint ventures and associates in the separate financial statements with the measurement of the respective underlying assets and liabilities in the consolidated financial statements.
In the Netherlands (a variant of) the (net) equity method is applied in the separate financial statements, whereby we have solved the issues as mentioned above, by using the same measurement and recognition principles as applied in the consolidated financial statements, in applying the equity method for investments in the separate financial statements.

This has ensured that equity and net result of the consolidated financial statements and the separate financial statements are equal (except for investments with negative equity when the parent is not liable for any losses).
Therefore we strongly suggest that the amendment will mandate, when the equity method is applied, a clear alignment between the carrying amount for investments in subsidiaries and associates in the separate financial statements with the recognition and measurement of the underlying assets and liabilities, including goodwill, as accounted for in the consolidated financial statements. We would prefer such “adjusted” equity method for the separate financial statements. Without the alignment additional complexities upon transition or first-time adoption may arise as well.

Secondly, if the method as proposed in the ED will remain, we are not sure whether these proposals are entirely clear on the linkage between the equity method amount carried in the separate financial statements for investments in subsidiaries and associates and the underlying values reflected in the consolidated financial statements upon a change in ownership that result in a loss of control. An entity’s ownership interest in an associate due to loss of control is accounted for at fair value based on IFRS 10.25. IAS 27.10 refers to IAS 28 for the equity method, but it is not clear whether a revaluation of retained entity’s ownership interest in the separate financial statements is allowed under the equity method in the separate financial statements. Similarly, when an entity obtains control over an investment, that previously classified as an associate, in the consolidated financial statements such investment is re-measured to fair value. It is unclear whether such re-measurement can be recorded in the separate financial statements as well.

In the appendix we respond to the questions raised in the Exposure Draft.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Hans de Munnik
Chairman Dutch Accounting Standards Board

Appendix: Response to questions in ‘Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements’

Response to questions in ‘Exposure Draft ED/2013/10 Equity Method in Separate Financial Statements’

Question 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?.

Answer DASB:

Yes, we agree with the inclusion of the equity method as one of the options. However, as mentioned in the cover letter, we would prefer an “adjusted” equity method for the separate financial statements, which is aligned to the recognition and measurement of the underlying assets and liabilities, including goodwill, as applied in consolidated financial statements. We strongly suggest that the amendment will mandate, when the equity method is applied, a clear alignment between the carrying amount for investments in subsidiaries and associates in the separate financial statements with the recognition and measurement of the underlying assets and liabilities, including goodwill, as accounted for in the consolidated financial statements. Without such an alignment additional complexities upon transition or first-time adoption may arise and the preparation of separate financial statements will be costly.

We further refer to our cover letter in this respect.

Question 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?

Answer DASB:

No, we don’t agree entirely and refer to our comments on questions 1, 4, 5 and our cover letter. If these comments are not addressed we believe that in certain situation full retrospective application may not be practical and suggest that a transitional provision is included allowing the opening equity value to be based on the respective carrying amounts in the consolidated financial statements at the date of transition.

Question 3—First-time adopters

The IASB does not propose to provide any special relief for first-time adopters. A firsttime 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?

Answer DASB:

No, we don't agree entirely and refer to our comments on questions 1, 4, 5 and our cover letter. If these comments are not addressed we believe that in certain situation full retrospective application may not be practical and suggest that an exemption is included allowing the opening equity value to be based on the respective carrying amounts in the consolidated financial statements at the date of transition.

Question 4—Consequential amendment to IAS 28 Investments in Associates and Joint Ventures

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?

Answer DASB:

No. We are not sure whether these proposals are entirely clear on the linkage between the equity method amount carried in the separate financial statements for investments in subsidiaries and associates and the underlying values reflected in the consolidated financial statements upon a change in ownership that result in a loss of control. An entity's ownership interest in an associate due to loss of control is accounted for at fair value based on IFRS 10.25. IAS 27.10 refers to IAS 28 for the equity method, but it is not clear whether a revaluation of retained entity's ownership interest in the separate financial statements is allowed under the equity method in the separate financial statements.

Similarly, when an entity obtains control over an investment, that previously classified as an associate, in the consolidated financial statements such investment is re-measured to fair value. It is unclear whether such re-measurement can be recorded in the separate financial statements as well.

Question 5—Other comments Do you have any other comments on the proposals?

Answer DASB:

We believe the benefits of re-introduction of the equity method can be further increased at much lower costs, by aligning the measurement of the investments of subsidiaries, joint ventures and associates in the separate financial statements with the measurement of the respective underlying assets and liabilities in the consolidated financial statements.
In the Netherlands (a variant of) the (net) equity method is applied in the separate financial statements , whereby we have solved the issues as mentioned above, by using the same measurement and recognition principles as applied in the consolidated financial statements, in applying the equity method for investments in the separate financial statements.
This has ensured that equity and net result of the consolidated financial statements and the separate financial statements are equal (except for investments with negative equity when the parent is not liable for any losses).
Therefore we strongly suggest that the amendment will mandate, when the equity method is applied, a clear alignment between the carrying amount for investments in subsidiaries and associates in the separate financial statements with the recognition and measurement of the underlying assets and liabilities, including goodwill, as accounted for in the consolidated financial statements. We would prefer such “adjusted” equity method for the separate financial statements. Without the alignment additional complexities upon transition or first-time adoption may arise as well.