Federation of European Accountants
Fédération des Experts comptables Européens

Ms Françoise Flores
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E-mail: Commentletters@efrag.org

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Ref.: ACC/AKI/HBL/PPA/SRO

Dear Ms Flores,

**Re: FEE comments on the EFRAG Short Discussion Series: The Equity Method as a measurement basis or a one-line consolidation**

FEE (the Federation of European Accountants, www.fee.be) is pleased to provide you below with the comments on the EFRAG Short Discussion Series: The Equity Method as a measurement basis or a one-line consolidation ("paper").

FEE welcomes the initiative that EFRAG undertook to try to shed light on the principles underlying the equity method.

FEE agrees that the principles underlying the Equity Method and its use in IFRSs should be established. As demonstrated by EFRAG, the Equity Method has evolved into a combination of two concepts: a measurement basis and a one-line consolidation.

The EFRAG paper provides a good overview of how the Equity Method has evolved over time and of what it is today. In order to progress towards establishing the way forward, it is necessary that further research should be performed on the effects and implications that the different concepts of Equity Method might have on financial reporting and, in particular, what would be the practical impacts of either going down the one-line consolidation or the measurement basis paths.

If the IASB was to favour a one-line consolidation approach, we would recommend that the IASB considers whether the concerns FEE expressed in its response to the Post Implementation Review on IFRS 3 (with respect to the practical difficulties that preparers and auditors are facing in applying the business combination and consolidation standards) can be avoided or minimised when it comes to the Equity Method.

For further information on this letter, please contact Pantelis Pavlou, Project Manager from the FEE Team on +32(0)2 285 40 74 or via e-mail at pantelis.pavlou@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive

Do you view the Equity Method under IAS 28 as a measurement basis, a one-line consolidation approach or something different? Please explain.

(1) EFRAG's paper demonstrates clearly that while the Equity Method started as a consolidation method, over time it has evolved and incorporated requirements more akin to a measurement basis. FEE concurs with this analysis. FEE believes that the Equity Method, as currently included in the IFRS literature, is a hybrid method, i.e. a combination of a one-line consolidation and a measurement basis.

(2) Having established where the Equity Method stands today, the next step is to consider whether the Equity Method produces relevant information (even if some minor amendments may be needed) or whether a fundamental review is warranted. If a fundamental review is warranted, further research would need to be performed on the effects and implications that the different concepts of the Equity Method might have on financial reporting and, in particular, what the practical impacts of either going down the one-line consolidation or the measurement basis paths or another path would be. Until this research is performed, it seems premature to conclude on what the Equity Method should be.

(3) One of the aspects that this research may consider is whether a single accounting method can provide relevant information with respect to entities in which the investor has significant influence and those in which the investor has joint control.

If you view the Equity Method under IAS 28 as being akin to a one-line consolidation approach, do you believe that the consolidation procedures should be based on the entity concept in IFRS 10 or not (e.g. based on a proprietary approach)? Please explain.

(4) As we noted above, FEE believes that it may be premature to conclude on this issue until further research is performed.

(5) We note that if the Equity method was to be a pure one-line consolidation method, one may expect that it would apply consistently the concepts in IFRS 10, in order to reflect the "one entity" approach. However, it is questionable whether this approach can produce relevant information if the objective of the Equity Method is for the investor to account for its share in the Associates' or Joint Ventures' net assets. A proprietary approach may be more suited to achieve this objective.

(6) The difficulty in reconciling the objective sought by the Equity Method with an entity approach appears to contribute to the difficulties encountered by the IASB in finding a satisfactory answer to the issue of accounting for the changes in the investor's share of the investee's net assets other than the share of comprehensive income or distributions received under IAS 28.

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(7) Finally, FEE urges that if the consolidation approach is to be the way forward, in the development of the Equity Method the IASB should try to identify ways to avoid or minimise the practical difficulties that preparers and auditors are facing when applying the business combination and consolidation standards, as explained in FEE's response to IASB re the Post Implementation Review of IFRS 3[i].

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| Do you think that for some transactions a measurement basis appropriately reflects the underlying economics of the transaction and provides useful information, whilst for other transactions a one-line consolidation approach is preferable? Could you please provide some examples of transactions where the application of either of the concepts would be more appropriate? |

(8) As we noted above, FEE believes that it may be premature to conclude on this issue until further research is performed.

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| Have you had practical problems in applying IAS 28, because the underlying nature of Equity Method is unclear? If so, could you please describe those problems and how you addressed them? |

(9) The following are some of the key issues encountered in the application of the equity method:

- Accounting for the changes in the investor's share of the associate/joint venture's net assets other than the share of comprehensive income or distributions received under IAS 28;
- Accounting for step acquisitions (going from an investment in the scope of IAS 39/IFRS 9 to IAS 28), and the acquisition of additional interests (remaining in the scope of IAS 28): for these transactions, the main challenge is the extent to which IFRS 3 and IFRS 10 provide relevant guidance that can be applied on a proportionate basis;
- Accounting for contingent consideration arrangements: the issue relates to accounting for variable payments on separate acquisitions of Property, Plant and Equipment or intangible assets;
- Other practical issues relate to performing impairment tests and accounting for deferred tax assets and liabilities.

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[i] For FEE's Comment Letter to the IASB on the Post Implementation Review, please refer to FEE website.