MINISTERIO
DE ECONOMÍA Y
COMPETITIVIDAD

INSTITUTO DE CONTABILIDAD
Y AUDITORÍA DE CUENTAS

Comment Letter on EFRAG Short Discussion Series - The equity method: A measurement basis or one-line consolidation.

European Financial Reporting Advisory Group

35 Square de Meeüs

Brussels B-1000

Belgium

Dear Madam/Sir,

In the present letter ICAC gives its view on EFRAG Short Discussion Series - The equity method: A measurement basis or one-line consolidation.

First of all, ICAC welcomes the EFRAG's initiative aimed to stimulate debate within Europe on the equity method of accounting and to assist the IASB to develop a clear set of principles for the basis of the equity method thus contributing to the IASB´s research project on the equity method.

In general terms, we agree with the different issues as submitted in the Introduction of the EFRAG Paper relating to the application of the equity method according with IAS 28 Investments in Associates and Joint Ventures.

In our view, the EFRAG Paper identifies features in the IAS 28 that could fix with the consideration of the equity method of accounting as a measurement basis and also as an on-line consolidation. Nevertheless, in order to give an answer to the question raised in paragraph 78, we would like to highlight that the consideration of the equity method as a one-line consolidation nowadays is complicated, taking in to account that the consolidation procedure is based currently on the entity report approach, instead of the previous one based on the financial report, and with the notion of control that is not inside the concepts of joint control or significant influence.

In consequence, the equity method would seem to be closer to mean a measurement basis of an asset rather than being a one-line consolidation, it means, a way to measure an investment in associate and a joint venture, because the interest of an investor is the investment in the investee, which would meet the conceptual definition of an asset.

However, we share the opinion that the equity method as a measurement basis should also incorporate some procedures from the consolidation tecnique, for example, eliminations for unrealized profits on transactions with equity-accounted investees that are reflected in the accounting, as relating to "upstream" and "downstream" transactions between an investor and an investee.

On the other hand, in the analysis of some situation, as in the acquisition of an interest in an investee, including additional interests with no change in investment status, if we could conclude that there is a common reason with the consolidation, the treatment of such issues, for example the transaction costs in the initial time of acquisition, should be treated in the same manner as in the consolidation.

Because we are not preparers of financial statements, we cannot respond to the last question about practical problems in applying IAS 28, although we are aware of the conceptual difficulties that are arising with the equity method.

Finally, we would like to emphasize the relevance of this topic, support EFRAG´s research activities on this matter encouraging further efforts in order to give solutions to the current questions.

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

Yours sincerely,

Ana Mª Martínez-Pina
Chairman of ICAC

Madrid, 16 May 2014