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Att.: Ms. Francoise Flores

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Dear Ms. Flores,

EFRAG Short Discussion Series – The Equity Method: A Measurement Basis or One-Line Consolidation?

Referring to EFRAG's Short Discussion Series – The Equity Method: A Measurement Basis or One-Line Consolidation?, the Danish Accounting Standards Committee set up by "FSR – danske revisorer" would like to provide the following input:

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

In Denmark, the equity method is primarily viewed as a one-line consolidation approach for instance because in most cases it results in a numerical reconciliation of the result of a parent to that of the consolidated group. For many years, and also for listed entities before the introduction of IFRS, it has been a widely used method in DK GAAP (and before an amendment to our law to allow for cost method in the parent only financial statements in 2008 it was required to apply the equity method in the parent only financial statement) and probably one reason for this is the possibility of reconciling parents result to that of the consolidated. In fact, when it was allowed to also use cost in the parent only financial statement, not many made that switch, most likely because everyone was used to the equity method. So when companies did change to cost method, the question was often raised whether it really was true that parent only and consolidated now did not reconcile anymore.

79 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.

Yes, we think consolidation procedures should be based on the entity concept in IFRS 10 because, as stated in our response to 78, we have always viewed the equity method as a form of one-line consolidation.

80 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 provide some examples of transactions where application of either of the concepts would be more appropriate?
We think the one-line consolidation approach is preferable in situations when for instance there has been a significant amount of transactions or other events taking place between investor in an associate and the associate itself, especially where the investor has a significant stake; a stake that might be close to control but without having control.

81 Have you had practical problems in applying IAS 28, because the underlying nature of the equity method is unclear? If so, could you please describe those problems and how you addressed them?
Given that IFRS literature is more detailed than DK GAAP, many of the practical problems has been addressed with inspiration from IFRSs. This also means that we sometimes encounter same issues which are currently unclear under IFRSs for instance accounting for an investment in an associate purchased in stages.

Kind regards

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Chairman of the Danish Accounting Standards Committee

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