European Securities and Markets Authority

The Chair

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Ms Françoise Flores
European Financial Reporting
Advisory Group (EFRAG)
35 Square de Meeûs
1000 Brussels
Belgium

Ref: The IASB's Exposure Draft *Effective Date of Amendments to IFRS 10 and IAS 28*

Dear Ms Flores,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the EFRAG's due process regarding the IASB's Exposure Draft (ED) *Effective Date of Amendments to IFRS 10 Consolidated Financial Statements* and *IAS 28 Investments in Associates and Joint Ventures*. We are pleased to provide you with the following comments with the aim of improving the enforceability of IFRSs and the transparency and decision usefulness of financial statements.

ESMA has strong concerns on that fact that the IASB proposes to defer indefinitely the mandatory effective date of the Amendments to IFRS 10 and IAS 28[1] ('2014 Amendments'). Unlike EFRAG, ESMA is of the view that despite certain shortcomings that require additional clarifications,[2] these amendments would, at least in some circumstances, have provided a principle-based solution to recognition of gains or losses in transactions involving sales or contributions of assets between an investor and its associate and joint venture. By deferring indefinitely the effective date of the 2014 Amendments, ESMA is concerned that the IASB fails to address on a timely basis certain application issues identified in equity method accounting.

Furthermore, ESMA is aware of a number of other issues regarding the application of the equity method. We noted the recent IASB's decision to divide the research project on Equity Method of Accounting into two phases, one comprehensively addressing the existing application issues and the other reconsidering more fundamentally the financial reporting of investments in entities that do not give the investor control of the entity.

Like EFRAG, ESMA supports the decision of the IASB to undertake a broad research project on the Equity method stated in the following the 2011 Agenda Consultation and agrees with the Feedback

[1] Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate of Joint Venture, IASB, September 2014
[2] E.g. explanation how other requirements of IAS 28 interact with changes made to IFRS 10 by 2014 Amendments

Statement to the 2011 Agenda Consultation that the research project should involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers.[3]

However, as ESMA accepts that such a fundamental re-assessment of the equity method is unlikely to result in a standard-setting activity in the near future, we are of the view that a short-term project is required to address selected application issues on a timely basis.

This might be the case in particular with some of the application issues, such as the issue submitted by ESMA to the IFRS Interpretations Committee (IFRS IC) on 11 January 2013.[4] That submission pointed to divergent application of certain requirements in IAS 28 (paragraphs 28 and 38 of IAS 28) for certain downstream transactions (i.e. transaction when transaction does not involve transfer of business) between an investor and its associate and joint venture if the amount to be eliminated exceeds the carrying amount of the investment (i.e. equity of the associate or joint venture).

Consequently, ESMA disagrees with the splitting of the Equity Method Accounting project into two research projects. Instead ESMA suggests that the IASB addresses a more limited number of practical issues[5] related to the application of the equity method, as a single ED, in a standard-setting activity that could result in a final standard on a timelier basis. Nonetheless, ESMA agrees that such proposed standard-setting activity should fully explore impact of any proposed amendments with the existing guidance, albeit in scope of existing concepts underpinning the equity method of accounting (e.g. retaining the requirements for fair value adjustments to assets and liabilities on acquisition or elimination entries for upstream and downstream transactions). We note that based on the IFRS IC discussions there is sufficient evidence to address these practical issues urgently, directly though a project at the standards level. The urgency of such project is high as application of IFRS 11 *Joint Arrangements* has further increased the relevance and use of the equity method. Such approach would leave all fundamental considerations as well as remaining application issues for which timely solution cannot be found for a long-term comprehensive research project.

In this respect, ESMA suggests that the effective date of the 2014 Amendments is not deferred indefinitely but only for a precisely defined time period necessary to finalise such standard-setting activity. In ESMA's view, this solution would strike the right balance between the need to provide timely guidance to application issues identified in practice thus creating the conditions for consistent application of IFRS, and the need to fundamentally re-think existing accounting concepts on a holistic basis.

Finally, even though we accept that in absence of the 2014 Amendments the existing diversity in practice will continue,[6] from a formal perspective, ESMA suggests that early application of these amendments is not permitted as the 2014 Amendments cannot solve the problems they were designed to address, or will create additional sources of diversity.

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[3] Feedback Statement: Agenda Consultation 2011, IASB, December 2012

[4] Letter, Agenda Item Request: Elimination of intercompany profits between an issuer and its joint venture, 11 January 2013, ESMA, ESMA/2013/9

[5] such as the implications of elimination entries, clarification of the treatment of the difference between the costs of the investment and the entity's share of the net fair value of the investee's identifiable assets and liabilities on acquisition and its impairment as well as the accounting where the investment accounted using the equity method has a different reporting period with the reporting entity

[6] ESMA notes that the existing standards provide in effect free option for accounting in this area

Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,

Steven Maijoor