

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

23 October 2015

Dear Sir/Madam,

Re: The IASB's Exposure Draft ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the IASB's Exposure Draft ED/2015/7 *Effective Date of Amendments to IFRS 10 and IAS 28*, issued by the IASB on 10 August 2015 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG agrees with the IASB's proposal to defer the effective date of the 2014 amendments to IFRS 10 and IAS 28: *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (the "2014 Amendments") indefinitely.

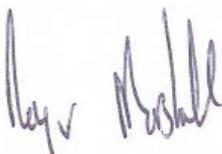
EFRAG considers that the IASB's proposal will give the IASB the opportunity to address the application problems arising from the equity method requirements set out in IAS 28 *Investments in Associates and Joint Ventures* in a comprehensive way and in a single project. It would also give the IASB the opportunity to reconsider the issues and challenges identified by EFRAG which are described in Appendix 1. EFRAG also considers that deferring the effective date of the 2014 Amendments indefinitely would also reduce the risk of requiring successive rounds of changes to IAS 28 in a short period of time.

EFRAG therefore supports the IASB's decision to defer ad hoc changes to IAS 28 *Investments in Associates and Joint Ventures* until the *Equity Method of Accounting* project is completed. Further, EFRAG urges the IASB to progress that project as a priority focusing on bringing a solution to the outstanding issues in a timely manner.

However, EFRAG is opposed to early application remaining possible after the standard postponing the effective date of the amendments has been issued. We justify this opposition in the Appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Hocine Kebli, Filipe Camilo Alves or me.

Yours faithfully,



Roger Marshall
Acting President of the EFRAG Board

APPENDIX 1

Question for respondents

The IASB proposes to defer indefinitely the effective date of *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* until such time as it has finalised amendments, if any, that result from its research project on the equity method. Earlier application would continue to be permitted.

Do you agree with this proposal? Why or Why not?

EFRAG's response

EFRAG agrees with the IASB's proposal to defer the effective date of the 2014 amendments indefinitely. However EFRAG is opposed to early application remaining possible after the standard postponing the effective date of the amendments has been issued.

- 1 EFRAG agrees with the IASB's proposal to defer the effective date of the 2014 Amendments indefinitely.
- 2 EFRAG considers that the IASB's proposal to defer the effective date of the 2014 Amendments indefinitely will give the IASB the opportunity to address, in a more comprehensive and conceptual way, the many application issues arising from the equity method under IAS 28 *Investments in Associates and Joint Ventures*, including those addressed in the 2014 Amendments and those that are currently being considered by the IFRS Interpretations Committee (e.g. *Elimination of Gains or Losses arising from Transactions between an Entity and its Associate or Joint Venture*).
- 3 It would also give the IASB the opportunity to reconsider the issues and challenges identified by some IASB members in their Dissenting Opinions and by EFRAG during its consultative phase and included in the EFRAG comment letter published on 15 April 2013 such as how to account for a transaction where a parent loses control of a subsidiary that does not contain a business but retains an interest in that former subsidiary that is accounted for using the equity method.
- 4 In this respect, EFRAG regards the IASB's decision to limit the recognition of the remeasurement gain or loss to the extent of unrelated investors' interests in the associate or joint venture as a significant unresolved issue of the 2014 Amendments. We believe that the retained interest in the former subsidiary is not part of the transaction with the associate or joint venture. As the gain does not arise from any transaction with the investee, the principle in IAS 28 that is intended to limit the recognition of a gain or loss to the extent of third parties' interest and eliminate part of the investor's share of in the investee's gain or loss is irrelevant and therefore not applicable.
- 5 EFRAG further notes that immediately after the adjustment to the carrying amount of the remaining investment in the former subsidiary, paragraph 32(b) of IAS 28 would apply and would bring the investment back to its fair value and therefore would negate the principle established by the Amendments. While the outcome would be the same as what we suggest, we believe that this would create supplementary confusion in practice and would make the current requirements even less understandable than they already are due to the current lack of consistency between IAS 28 and recent evolutions in IFRS.
- 6 Finally, deferring the effective date of the 2014 Amendments indefinitely would also avoid the risk of requiring successive rounds of piecemeal changes to IAS 28 in a short period of time if, for example, the proposals set out in the 2014 Amendments turn out to be inconsistent with the findings from the *Equity Method of Accounting*

research project or the IASB finds out, in the process, that the 2014 Amendments are not the most efficient and conceptual way to solve the issue.

- 7 EFRAG therefore supports the IASB's decision to defer ad hoc changes to IAS 28 *Investments in Associates and Joint Ventures* until the *Equity Method of Accounting* project is completed. Further, EFRAG urges the IASB to progress that project as a priority focusing on bringing a solution to the outstanding issues in a timely manner.
- 8 However, EFRAG is opposed to early application remaining possible after the standard postponing the effective date of the amendments has been issued. The original intent of the amendments was to reduce diversity in practice. With the postponement this objective cannot be met, whereas early application would be a source of further divergences in giving a free option on how to account for the sale or contribution of assets between an investor and its investees. It would also increase the risk of successive rounds of changes in the way IAS 28 is applied. Consistency over time is beneficial to users and breaches therein should be limited, unless lasting improvements in financial reporting can be introduced.