



Madrid, 02 December 2024  
EFRAG (IVZW/AISBL)  
35 Square de Meeûs  
1000 Brussels, 5th floor  
BELGIUM

Dear Sir/Madam,

Re: EFRAG DCL on IASB Exposure Draft *Equity Method of Accounting – Amendments to IAS 28 Investments in Associates and Joint Ventures*

Repsol is very pleased to provide comments on the DCL of EFRAG in relation to the ED Equity Method of Accounting.

In general we agree with the responses included in the EFRAG DCL, however in this letter we want to focus our comments on Question 9 – Transition, because it is the issue that concerns us most about the ED issued by the IASB.

Further information about the Repsol Group and its activities is available on our Website: [www.repsol.com](http://www.repsol.com).

Thank you for your attention.

Yours sincerely,

Ramiro Tomás Rodríguez

*Economic & Administrative Global and Corporation Director*

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## Question 9- Transition

The IASB is proposing to require an entity:

- (a) to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures;
- (b) to apply the requirements on contingent consideration by recognising and measuring contingent consideration at fair value at the transition date—generally the beginning of the annual reporting period immediately preceding the date of initial application—and adjusting the carrying amount of its investments in associates or joint ventures accordingly; and
- (c) to apply prospectively all the other requirements from the transition date.

The IASB is also proposing relief from restating any additional prior periods presented.

Paragraphs BC178–BC216 of the Basis for Conclusions explain the IASB’s rationale for these proposals.

Do you agree with these proposals?

If you disagree, please explain why you disagree and your suggested alternative.

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### EFRAG’s response to Question 9 – Transition

173 EFRAG agrees with the proposed transition requirements except for the proposal to apply retrospectively the requirement to recognise the full gain or loss on all transactions with associates or joint ventures. EFRAG has received mixed views from stakeholders on this proposal as we elaborate below.

174 BC 183 notes the retrospective application proposed in the ED requires an investor to recognise any remaining portion of the previously restricted gain or loss:

- a) in the opening balance of retained earnings for transactions that occurred before the transition date; and
- b) in profit or loss in the comparative period for transactions that occurred in the comparative period.

175 Further, BC 185 notes that IAS 8 includes requirements to limit retrospective application if it is impracticable for an entity to determine the effects of a change in accounting policy.

176 Some stakeholders support the proposal as they deem this to be less burdensome than continually monitoring the amortisation or future realisation of the previously unrecognised restricted gains or losses.

177 However, other stakeholders have concerns about applying this proposal retrospectively. They are concerned it will result in them not reflecting the gains or losses at the time of realisation in profit or loss (e.g., on the disposal of assets). For example, entities that have a net investment hedge on the associate or joint venture expressed this concern.

178 Based on the concerns, EFRAG tentatively recommends that the IASB consider requiring prospective application for recognition of gains or losses from transactions with investees that occurred prior to application date. This would mean that previously unrecognised gains or losses from transactions with investees that occurred before the application date should be recognised under the existing IAS 28 requirements (i.e., they would be amortised or realised and reflected in profit or loss over time). In other words, the proposal for full gains or losses would only apply to transactions with investees from the date the proposal becomes applicable. EFRAG seeks constituents’ views on its tentative recommendation for a prospective approach for the restricted gains or losses from transactions with investees.

#### *Clarification point in Appendix C of the ED*

179 Paragraph C8 of Appendix C of the ED states: ‘If an investor or joint venturer applying paragraphs C4–C7 increases the carrying amount of its investment in an associate or joint venture and estimated the recoverable amount of that investment at the transition date, in accordance with IAS 36, the investor or joint venturer shall reduce that carrying amount to that recoverable amount, if applicable. The investor or joint venturer shall recognise any impairment loss in the opening balance of retained earnings at the transition date.’

180 EFRAG is uncertain if the intention of paragraph C8 is to require an entity to determine the recoverable amount of its investment in an associate or joint venture when it increases the carrying amount of the investment when applying the transition requirements in C4-C7 or whether it is an option. EFRAG considers that if an entity increases the carrying amount of the investment at the transition date, it should be required to carry out an impairment test at the date of transition. This would avoid an entity having to recognise future impairments that result from past adjustments in profit and loss.

#### REPSOL's response to EFRAG DCL - Question 9 – Transition

Repsol fully agrees with the response to Question 9 proposed by EFRAG.

In our opinion, a retrospective application of the amendments could be extremely complicated, if not unfeasible for certain transactions, and could even lead to the application of hindsight.

For certain transactions of a recurring nature and involving consolidation adjustments that revert in the short term, retrospective application would not be difficult. However, for complex transactions, and especially if they were made many years ago, retrospective application, if possible without hindsight, would be extremely complex and costly.

An example of these complex transactions is the application of the 'partial gain' criterion in the loss of control of a subsidiary after the sale or contribution of shares to a joint venture or associate. The complexity increases exponentially if the transaction was carried out many years ago, and even more, if the joint venture or associate is a net investment in a foreign operation.

In these cases, where the entity has applied the 'partial gain' criterion, it is possible that if the entity has never intended to dispose of its interest in the joint venture or associate, it may have to calculate the necessary adjustments to carry out the retrospective application of the 'full gain' criterion.

In the case of having to calculate the retrospective adjustment, a company may have to carry out a recalculation for many years ago, for example, for the following issues:

- Translation exchange differences: a higher value of assets ('full gain' values) would mean greater translation exchange differences recognised in other comprehensive income.
- Net Investment Hedge: if the company has a risk policy of hedging exchange rate exposure, it raises the question that if the full gain had been recorded, there would have been assets for a higher carrying value and, therefore, net investment hedge would have been carried out for a higher amount. Here the question arises about whether this would not mean applying hindsight.
- Depreciation: this is also a complicated issue, especially in those cases where depreciation is not straight line. For example, in the case where the depreciation method is per unit of production, as for example in the case of the hydrocarbons' exploration and production business, where the depreciation ratio is determined by the production of the period and the proven reserves, proven developed reserves, etc. depending on the asset. Obviously, an adequate recalculation of depreciation would be highly complex. This complexity would be increased in the case of impairment and reversal of impairment, and even more in such a long period of time.
- Impairment: if impairments have been recorded in this business and as the carrying values would have been different, impairments would also have been different.
- Goodwill: if the group have allocated goodwill from another transaction to the segment in which the foreign operation is included, if that goodwill has also been deteriorated along this long period, the fact that the carrying values of the joint venture or associate must be restated retrospectively would also imply that the amount of goodwill allocated for impairment purposes should also be restated not only for the joint venture, but for all other assets in the segment.
- Capitalisation of interest: higher assets would have meant a higher capitalisation of interest at a consolidated level.

For all the aforementioned reasons, we believe that the IASB should consider a prospective application of these modifications.

Finally, we would like to point out that in fact, the IASB established a prospective initial application in its document *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* issued in September 2014, based on the complexity of the potential adjustments.