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Re: EFRAG DCL on IASB Exposure Draft Equity Method of Accounting IAS 28 *Investments in Associates and Joint Ventures* (revised 202x)

Dear Wolf,

We are pleased to have the opportunity to provide our comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft *Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)* issued by the IASB on 19 September 2024 (the 'ED').

We discussed the IASB proposals with our stakeholders and this letter summarises the feedback received.

Even though the proposed amendments do not clarify whether the equity method is a consolidation method or a measurement method, we broadly support the IASB proposals. This is because they clarify the main application questions on how to apply the equity method and thus, they will reduce diversity in practice.

We report below our comments on the IASB proposals.

Investments measured at cost

Our main concern is that the ED does not address investments measured at cost in separate financial statements. In Italy we apply IFRS Standards also to separate financial statements and most entities measure investments in subsidiaries, associates and JVs at cost in their separate financial statements. Consequently, for us is crucial to clarify how to account for investments measured at cost. Some of the issues addressed in the ED for investments measured using the equity method exist also for investments measured at cost.
In particular, we appreciate that the IASB decided to clarify the requirements for recognising and measuring contingent consideration when an investment in an associate, joint venture

or subsidiary is acquired. However, we note that, in our understanding, the IASB proposals are applicable only when the investment is measured using the equity method.
We strongly recommend the IASB to clarify that the clarifications made in the ED on contingent consideration apply also when the investment is measured at cost, for the following reasons:

- we believe that the same arguments used by the IASB for investments measured using the equity method are valid for investments measured at cost. In particular, as explained in paragraphs BC91-92 of the ED, the IASB decision that the fair value of a contingent consideration is part of the cost of an investment in an associate or JV is consistent with IFRS 3 and with the predominant practice. These arguments, in our view, are valid also when the investment is measured at cost. In addition, we note that an investment measured using the equity method at initial recognition is measured at cost, and so the accounting for a contingent consideration should be the same irrespective of whether the investment is measured at cost or using the equity method;
- without that clarification, the divergence in practice, existing also for investments measured at cost, will remain.

Furthermore, we recommend the IASB to clarify how to account for a step acquisition and a loss of control of a subsidiary when the investment is measured at cost, because there is divergence in practice also when investments are measured at cost.

Step acquisition and loss of control of subsidiaries in separate financial statements

We appreciate that the IASB decided to clarify how to account for a step acquisition of a subsidiary and a loss of control of a subsidiary in separate financial statements, because currently there is a lack of guidance.
However, we note that the rationale of the IASB on the proposal on how to account for a step acquisition and a loss of control of a subsidiary in separate financial statements is different from the rationale used by the IASB on how to account such transactions in consolidated financial statements.
As explained in paragraph BC132 of the ED, the IASB decided that the parent shall not remeasure the previously held interest (or the retained interest) in a step acquisition (or loss of control) of a subsidiary because the accounting method does not change, ie the parent continues to apply the equity method before and after the transaction. On the other hand, as explained in the BC of IFRS 3 and IFRS 10, obtaining control and the loss of control are significant economic events in consolidated financial statements which, therefore, require the remeasurement at fair value of the previously held interest or the retained interest.
We believe that if an event is a significant economic event in consolidated financial statements, it should also be significant in separate financial statements. Consequently, we suggest the IASB to reconsider this proposal and thus to require a parent to remeasure the previously held interest or the retained interest. Should the IASB confirm its proposals on

step acquisition and loss of control of a subsidiary, we recommend the IASB to clarify how to account for these transactions also when the investments are measured at cost.

Transactions with associates and JVs
We support the proposal of the ED, which requires that an entity should recognise in full gains and losses resulting from all transactions with associates and joint ventures, for the following reasons:

- the proposal eliminates the current diversity existing in practice;
- associates and joint ventures are not within the boundaries of a group;
- the proposal is easier to apply for preparers, as (i) they would no longer be required to obtain information from their associates and joint ventures to eliminate gains and losses; and (ii) they would no longer need to track the unrecognised gains and losses to determine when to recognise them in financial statements.

Transactions with subsidiaries
The proposal to recognise in full gain and losses resulting from transactions with subsidiaries in separate financial statements would change the current practice. On balance, we believe that the IASB proposal is acceptable because it is easier to apply and it would avoid having two versions of equity method (one for consolidated financial statements and one for separate financial statements). We also support the proposed disclosures on downstream transaction.

Other changes in the investor's ownership interest in the associate
We suggest to clarify that the proposal of the ED about the other changes in the investor's ownership interest in the associate, while retaining significant influence, is applicable only for a share capital increase (ie ordinary shares), and not for issues of hybrid instruments which, for example, have an impact on dividends but not on voting rights.

Transition
We suggest the IASB to simplify the proposal of the ED to apply retrospectively the requirements on full gains or losses on transactions with associates or joint ventures and the requirements on contingent consideration, because we believe that these proposals may be difficult to apply. Therefore, we suggest to require to apply prospectively also these requirements of the ED.

Other comments
Finally, the following concerns have been expressed by our stakeholders:

- regarding the proposal of the ED to include the deferred tax effects in the carrying amount of the investment in the associate or joint venture, some stakeholders express doubts about the recognition of deferred tax effects when an entity acquires an associate or a joint venture which does not represent a business in accordance with IFRS 3;

- in relation to the recognition of the changes in the fair value of the contingent consideration in profit or loss, some stakeholders would prefer the recognition against the carrying amount of the investment;
- regarding the proposal of the ED to perform a purchase price allocation (PPA) in accordance with IFRS 3 when an investor purchases an additional ownership interest in an associate or joint venture, while retaining significant influence or joint control, some stakeholders are concerned that the proposal could be difficult to apply and could provide an information with limited usefulness;
- in relation to the disclosure, the reconciliation between the opening and closing carrying amount of the investments measured at equity method could be onerous.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Michele Pizzo
(OIC Chair of the Board of Directors)