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23.12.2024

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**Response to EFRAG's draft comment letter on the IASB's Exposure Draft IASB/ED/2024/7 Equity Method of Accounting, IAS 28 Investments in Associates and Joint Ventures (revised 202x)**

Dear Wolf,

We appreciate the opportunity to comment on EFRAG's draft comment letter on the IASB's Exposure Draft IASB/ED/2024/7 Equity Method of Accounting, IAS 28 Investments in Associates and Joint Ventures (revised 202x) (herein referred to as 'ED').

In general, we support the ED's aim to improve the information a company provides in its financial statements about its investments in associates and joint ventures (in the following both referred to as 'associates') within the scope of IAS 28 as well as to address existing application questions and to aim at reducing diversity in practice in the application of IAS 28 requirements. In this context, we also agree with the view that IAS 28 works well in general to account for most investments in associates and that a fundamental revision of the application of the equity method is unnecessary. As such, we support the IASB's approach to develop proposals focused on clarifying requirements, including the measurement of cost, the accounting for ownership changes and transactions with associates, thereby resolving known application issues.

In our view, EFRAG's draft comment letter addresses similar issues and concerns that we will raise in our own comment letter to the IASB. Please find in the following, the aspects which we consider the most critical and on which we will focus our comment letter to the IASB.

In our view it would be very helpful for financial statement preparers if the IASB were to consider clarifying whether the equity method is considered a consolidation approach or a measurement method. This would allow prepares to have a clearer view on how to interpret and apply the requirements of IAS 28. As a consequence, if this clarification were to be considered by the IASB, we believe

Chairman of the Supervisory Board: Michael Diekmann.
Board of Management: Oliver Bäte, Chairman;
Sirma Boshnakova, Claire-Marie Coste-Lepoutre, Dr. Barbara Karuth-Zelle, Dr. Klaus-Peter Röhler, Dr. Günther Thallinger,
Christopher Townsend, Renate Wagner, Dr. Andreas Wimmer.
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that it could be worth considering to update the proposals to IAS 28 to achieve a corresponding systematic consonance.

We are going to point out to the IASB that we do not agree with the proposal to remove the requirement that a decline in fair value needs to be “significant or prolonged” as a condition for an impairment. We have the concern that the proposed changes will lead to frequent impairments and thus introduce an overly prudent measurement for associates measured at equity because their fair value would have to be determined at every reporting date, i.e. quarterly and the carrying amount would have to be reduced to reflect the lower of cost or fair value. The remaining impairment indicators in IAS 36/ED IAS 28.57 would thus lose relevance. We have also concerns whether this increased volatility would improve the usefulness of the financial statements. Hence, we would kindly ask the IASB to re-consider their proposal and refrain from removing this requirement or at least consider rephrasing the respective paragraph so that a fair value decline alone is not sufficient to trigger an impairment test.

Moreover, we will express our reservations towards the additional disclosure requirements proposed in the ED (**Question 7** *Disclosure requirements*). We do not expect that these extended disclosures will add significant benefit to the users in terms of decision usefulness, despite the substantial operational burden for the preparers to provide them. In particular, we believe that the proposed disclosure requirements for transactions with associates would not lead to efficiency gains for prepares. Prepares would still be required to record and monitor these transactions and even adjust the established internal preparation processes to incorporate the disclosure requirements. In general, we see the risk that the ever increasing amount of specific disclosure requirements with every Standard amendment will eventually have the negative consequence of obscuring more relevant disclosures of an entity. Hence, we will kindly ask the IASB to re-consider their proposals and refrain from these additional disclosure and presentation requirements.

We kindly refer you to the appendix for details on the questions you raised in your draft comment letter.

We hope that our feedback is helpful for you. Please feel free to contact Florian Helm (florian.helm@allianz.com) or us to discuss any matters raised in this letter.

Yours sincerely,

**Dr. Roman Sauer**
Head of Group Accounting & Reporting

**Dr. Patrick Bosch**
Head of Group Accounting Policy Department

**Appendix: EFRAG draft comment letter on IASB ED/2024/7 – Selected Consultation Questions**

*EFRAG Question 1.1 - Should transaction costs incurred during the acquisition of an associate or joint venture be included in the cost of the investment and capitalised, or expensed as incurred? Please provide reasons for your preference and describe any practical implications.*

Answer: We would suggest to consider adding to the definition of 'cost' a clarification of how transaction costs should be accounted for. In our view, it may make sense to resort to IFRS 3 and indicate if the principles of a business combination or of an asset acquisition should be applied analogously. We acknowledge that IFRS 3 applies to business combinations, while IAS 28 contains no statement on whether the acquisition of an associate should be seen as an acquisition of an asset or a business. Nevertheless, since the ED makes reference, e.g. in paragraphs BC87 and BC91, we would consider the reference to IFRS 3 appropriate and would welcome further clarification in that matter, which would also contribute to a reduced diversity in practice.

*EFRAG Question 1.2 - As outlined in paragraphs 20 to 23, some stakeholders are concerned about a) the proposed recognition of goodwill upon obtaining significant influence and for each subsequent layer of ownership interest acquired (addressed in Question 2 of the ED); and b) the ED's proposal to not offset bargain purchase gains with previously recognised goodwill. Do you agree with these concerns? Please explain.*

Answer: We believe that it is generally acceptable that goodwill is recognized when IAS 28 is applied upon obtaining significant influence despite there being no differentiation in IAS 28 between the acquisition of an asset or a business. We believe, however, that it may make sense to first offset bargain purchases against previously recognized goodwill.

*EFRAG Question 1.3 - As described in paragraphs 24 to 27, EFRAG has received mixed views on the proposed inclusion of deferred tax effects in the carrying amount of investment. Do you agree or disagree with the proposed inclusion of deferred tax effects in the carrying amount of all equity-method accounted investments? Based on your experience, is the proposed treatment of including deferred tax effects in the carrying amount of the investment common in practice? Please explain.*

Answer: We agree with the proposed inclusion of deferred tax effects in the carrying amount of all equity-method accounted investments. Based on our experience, this approach is common in practice and allows for accounting that is analogous to IFRS 3.

*EFRAG Question 2.1 - Paragraph 48 lays out alternatives to the ED's proposal for accounting for purchases of additional ownership interest. Considering the complexity and cost, do you agree with the suggested alternative measurement methods when accounting for purchases of an additional ownership interest while retaining significant influence?*

Answer: We would not be supportive of either alternative 1 or alternative 2. Instead, we would propose to the IASB to consider the approach where goodwill is determined as the difference between the consideration transferred and the current book value of the net assets at the time of the additional purchase. This would avoid the need to additionally determine the fair value of the net assets and would reduce the complexity and costs for preparers as no separate ledgers for the additional layers would have to be maintained.

*EFRAG Question 6.1 – In your jurisdiction, is the equity method for transactions with subsidiaries applied by companies? If so, is it analogised to IFRS 3 and IFRS 10 requirements (e.g., for transaction costs, and the elimination of gains or losses for transactions with subsidiaries)? Are there*

*significant differences between any of the line items in the separate financial statements versus consolidated financial statements?*

Answer: In our experience, measuring subsidiaries at equity in separate financials statements is of minor practical relevance compared to measuring subsidiaries at cost in separate financials statements. Hence, we have no additional insights to add to this questions.

*EFRAG Question 6.2 - Do you agree with the suggested clarification of the applicability of the equity method principles towards investments that are measured at cost in separate financial statements?*

Answer: Yes, we would support a clarification of how cost is defined according to IAS 27.

*EFRAG Question 6.3 - Do you agree with the suggestion for an option to be allowed and a reconciliation required as stated in paragraphs 132 to 134? If not, please explain why.*

Answer: We would support the addition of the option as proposed in the paragraph AV13 of the Basis for Conclusions to allow a parent to apply the equity method for investments in subsidiaries consistently with the procedures used when preparing consolidated financial statements. However, we do not agree with the suggestion to provide a reconciliation that explains the differences between the amounts in the consolidated financial statements and the separate financial statements when an entity that applies the equity method for subsidiaries in its separate financial statements. In our view, this would create additional operational efforts and increase the cost to preparers without any benefits for users of the financial statements.

*EFRAG Question 9.1 - Do you agree with EFRAG's recommendation for prospective application for restricted (unrecognised) gains or losses from transactions with investees prior to application date? Please explain.*

Answer - We agree as we believe that the prospective application is operationally easier to handle.