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Dear Wolf Klinz,

We appreciate the opportunity to comment on EFRAG´s Draft Comment letter on the Exposure Draft Equity Method of Accounting IAS 28 Investment in Associates and Joint Ventures (revised 202X), issued by the IASB on 19 September ("EFRAG´s Comment Letter" and the "ED", respectively).

We appreciate the thorough work reflected in the EFRAG´s comment letter, which has allowed us to understand specific aspects of the ED much more precisely.

We provide comments on the three following issues, which are expanded in the appendix.

1) Need to limit the changes to solve applications questions or address conceptual principles

We believe that the ED has taken a fundamental shift rather than merely addressing application questions regarding transactions with associates or joint ventures. We consider that EFRAG's Comment Letter could be improved by emphasizing that addressing fundamental changes in the equity method first requires defining the principles to determine when to apply a consolidation approach and when it is appropriate to adopt a measurement approach.

We consider that the same arguments that support the full recognizing of gain and losses in transaction between the group and associated and joint ventures would be valid to defend the valuation of the equity method-accounted investments without pursuing a purchase price allocation.

2) Acquisition-related costs

We understand that the current wording in the ED appears to exclude acquisition-related costs of the measurement of the investment, which could be unintended because it would represent a departure from the current criteria established following the IFRIC clarification of July 2009 and this change is neither explained nor justified in the ED.

We believe that the revised IAS 28 should explicitly clarify whether acquisition-related costs should be included in the cost of the associated or joint venture. If these costs are not to be included, this should be explicitly noted and justified.

In our view, treating acquisition-related costs as an expense provides more useful information in the case of associates or joint ventures embedding a business.

3) Other changes in ownership interest while retaining significant influence

We consider that further work is needed to establish an accounting policy for other changes in ownership interest that produces financial information satisfying users' needs and is efficient in terms of cost-benefit. In the appendix, we have attempted to demonstrate that, in certain instances, the ED methodology can be overly complex and fails to deliver high-quality financial information.

We would be delighted to delve deeper into any of the comments presented if you deem it appropriate.

Yours sincerely,

Enrique Villanueva

APPENDIX

1. Need to limit the changes to solve applications questions or address conceptual principles

1.1. The ED proposes not to eliminate the gains and losses between the group and the investee accounted for using the equity method. This, in addition to contradicting the wording of the standard and its underlying principles, represents a fundamental change in the equity method,

1.2. A change of this magnitude would require defining the underlying principles of the equity method, particularly, determining in which aspects should follow a one-line consolidation approach and when it is better to d adhere to a measurement approach.

1.3. In our opinion, EFRAG´s Comment Letter would improve if would defend an appropriate process for such a change.

1.4. EFRAG´s comment letter defends the view that equity method can be a hybrid approach encompassing the features of both the consolidation approach and the measurement method.

1.5. While we may agree with a hybrid approach, we believe it is necessary to establish principles to determine when each approach should be applied. For example, in can be considered that generally, equity method should follow the consolidation approach, but in some instances in which are relevant to consider that the investment is not under control or in which is necessary to consider that the investment is a single asset, the valuation approach should be adopted.

1.6. Considering that the ED aims to address existing application challenges, the current approach in this regard should be maintained unless there are specific and well-founded arguments justifying a change.

1.7. Further, the arguments applicable to the full recognition of gains and losses in transactions with associates (ED BC70. -BC 81) seems applicable, mutatis mutandis, to the valuation of the investment as a single asset without pursuing a purchase price allocation (ED IAS 28, para. 24 y para. 28).

1.8. The following table expands our view that, generally, the same rationale used to change the treatment of not eliminating gains and losses between the group and the associates applies also to the consideration of the investment as a single asset without performing a purchase price allocation process.

Users' Information Needs	Generally, users evaluate the investment in associates by comparing the unadjusted historical financial statements with its cost.
Cost to Preparers	The purchase price allocation introduces significant complexity to the method, both in its initial application and when acquiring an additional interest.
Objective	Since there is no control over the equity-accounted investment, there is not control over the individual assets and liabilities.
Other Requirements	An acquisition of an investment in an associate is not a business combination. Recognizing gains on a bargain purchase conflicts with IFRS 9 and IFRS 13 and IFRS 3. Recognizing the share of profit or loss of the investment in associates based on values derived from a purchase price allocation, as if it were a business combination (i.e., using adjusted financial statements) conflicts with IFRS 3 and IAS 36.

2. Acquisition- related costs

Acquisition- related costs in the ED

2. 1. EFRAG´s comment letter (paragraph 11) states that "the definition of cost in appendix A of the ED is similar to that under IFRS 3". However, we note that current IFRS 3 does not define cost. Instead, it defines the fair value of the consideration transferred (IFRS 3, para. 37).

2. 2. We understand that the current wording in the ED appears to exclude acquisition- related costs of the measurement of the investment, which could be unintended because it would represent a departure from the current criteria established following the IFRIC clarification of July 2009 and this change is neither explained nor justified in the ED.

2. 3. The rationale for concluding that the current wording in the ED excludes the acquisition-related costs is as follows:

- Definition in the ED: Appendix A in the ED defines "cost of the associate or joint venture" as the "fair value of the consideration transferred …"

- Definition of "consideration transferred": Based on the definition of "consideration transferred" in IFRS 3 and the general meaning of the term consideration transferred does not include acquisition-related costs.

- Glossary definition of cost. The Glossary to IFRS defines "cost" as:

  "The amount of cash or cash equivalents paid, or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognized in accordance with the specific requirements of other IFRSs, e. g. , IFRS 2. "

  Since the ED does not include specific requirements to include acquisition-related costs, this further supports their exclusion from the carrying amount of the investment.

2. 4. In conclusion, we believe that the revised IAS 28 should explicitly clarify whether acquisition-related costs should be included in the cost of the associated or joint venture. If these costs are not to be included, this should be explicitly noted and justified. Alternatively, if these costs are to be included, the ED should develop guidance on the treatment of the costs that were previously expensed (for example, when the investment was previously accounted for at fair value through profit or loss).

Appropriate Treatment of Acquisition-Related Costs

2.5. In our view, treating acquisition-related costs as an expense provides more useful information in the case of associates or joint venture embedding a business. This conclusion is based on the following arguments:

- Equity method is not cost-based: The equity method is not a cost-based measurement model. Under accounting standards, the capitalization of expenses is generally linked to cost-based models.
- Step acquisitions: In many cases, the acquisition of significant influence or a joint venture occurs in stages, where related expenses are already recognized in profit or loss.
- Consistency with analogous transactions: To expense acquisition-related costs is consistent with the treatment of analogous operations, such as the acquisition of a business or acquisition of equity financial instruments.

3. Other changes in ownership interest while retaining significant influence

3. 1. ED develops criteria for accounting for other changes in ownership that occur if its associate or joint venture redeems or issues equity instruments. Under these criteria the increases are treated a purchase of additional interest, and the decreases are accounted for as disposing of an interest.

3. 2. We consider that the methodology on ED for other changes in ownership interest while retaining significant influence can be very difficult to apply in some normal situations and in some cases may no produce financial information useful to users.

3. 3. The following two examples try to show the weakness and limitations of the methodology proposed by the ED.

3. 4. Example I. Increase of ownership interest through a reduction of capital

In January of Year 1, Group M acquired a 20% stake in the capital of Entity A for 40. At that time, Entity A's equity consisted of capital of 100, and there was a total goodwill in A of 100.

By Year 4, Entity A's equity includes capital of 100 and retained earnings of 400. The total goodwill in A remained at 100.

At this date, A reduce capital by 20 and the assets by 20, redeeming the shares of shareholder C. The goodwill is linked to the assets paid in the share's redemption. The balance sheet of A before and after the capital reduction is as follows.

Balance sheet Company A Year 4	Before	Impact	After
Assets business 1	20	-20	0
Assets business 2	480		480
Total	500	-20	480
Capital	100	-20	80
Retained earnings	400		400
Total	500	-20	480

After the transaction, Group M has a 25% of the capital of entity A (20 of 80). Before the capital reduction, the value of the equity-accounted investment was 120, with an implicit goodwill of 20.

The fair value of Entity A before and after the operation was 600 and 480, respectively. The fair value of the assets delivered as part of the capital reduction included goodwill of 100, which was associated with Business 1.

After the reduction, there should no longer be any goodwill associated with the investment, however it is extremely difficult to reach these conclusions following the methodology in ED paragraph 34.

3. 5. Example II. Decrease of ownership interest through an increase of capital

In January of Year 1, Group M acquired a 40% stake in the capital of Entity A for a price of 50. At that time, Entity A's equity consisted of capital amounting to 100, and there was total goodwill of 25 in Entity A.

By Year 5, Entity A's equity consist of capital of 100 and retained earnings of 400. The total goodwill in Entity A remained at 25.

At this point, Entity A increased its capital by 100 to allow the entry of a strategic partner. The balance sheet of Entity A before and after the capital increase is as follows:

Balance sheet Company A Year 5	Before	Impact	After
Non-current assets	80	100	180
Current assets	420		420
Total	500	100	600
Capital	100	100	200
Retained earnings	400		400
Total	500	100	600

The fair value of Entity A before and after the operation was 525 and 1,050, respectively. The strategic partner's contribution in the capital increase included 100 in identifiable assets, but also 425 in other values that do not meet the criteria for identifiable assets.

Before the capital increase, the value of M's equity-accounted investment in A was 210, with an implicit goodwill of 10.

From an economic standpoint, it does not seem logical to consider this operation as analogous to a sale of a stake. Instead, it should be regarded as the acquisition of a strategic value. However, under the methodology of the ED, the operation results in a loss of 85, which does not reflect the actual impact of the transaction on the investor.