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Dear Aleksandra,

EFRAG'S Draft Comment Letter on IASB's Exposure Draft Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x)

The Danish Accounting Standards Committee ('DASC') set up by FSR – Danish Auditors is pleased to respond to EFRAG's Draft Comment Letter ('DCL') on the IASB's Exposure Draft ('ED') *Equity Method of Accounting IAS 28 Investments in Associates and Joint Ventures (revised 202x).*

In general, DASC agrees with and supports the DCL prepared by EFRAG. In our response we have included some recommendations for consideration based on input from constituents.

In DASC's view, some responses to both IASB and EFRAG questions goes hand in hand with the bigger question being whether the equity method (EQM) is intended to represent 1) a one-line consolidation or 2) a valuation.

DASC note that the Board decided not to undertake a fundamental review of the equity method, among others whether EQM is intended to represent a one-line consolidation or a measurement method. Therefore, in our view application questions will continue to exist.

DASC responses reflect what DASC see as prevalent practice in the Danish environment. However, as long as the bigger question remain unresolved, it is difficult to state a preference for one proposed change over the other. It inherently depends on the perspective preparers and users take to the bigger question of whether EQM represent 1) a one-line consolidation or 2) a valuation. Therefore, DASC responses reflect what we understand to be our constituents' main concerns. In general it means that DASC can accept either, as long as the IASB clarify what in IASB's view is the most appropriate accounting treatment in the circumstances.

In the appendix to this letter, we have provided our comments to the questions in the ED with replies to EFRAG's questions to constituents.

If you have any questions or comments, please do not hesitate to contact us.

Kind regards,

Henrik Grønnegaard & Kim Köhler
DASC Co-chairs

Jan Peter Larsen
DASC International Liaison

APPENDIX

Questions to Constituents

ED Question 1 - Measurement of cost of associate or joint venture

Paragraph 32 of IAS 28 requires an investor that obtains significant influence to account for the difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets and liabilities either as goodwill (included in the carrying amount of the investment) or as a gain from a bargain purchase (recognised in profit or loss). However, IAS 28 does not include requirements for how an investor measures the cost of the investment on obtaining significant influence—for example:

(a) whether to measure any previously held ownership interest in the associate at fair value; or
(b) whether and if so how to recognise and measure contingent consideration.

The IASB is proposing an investor:

(a) measure the cost of an associate, on obtaining significant influence, at the fair value of the consideration transferred, including the fair value of any previously held interest in the associate.
(b) recognise contingent consideration as part of the consideration transferred and measure it at fair value. Thereafter:
   (i) not remeasure contingent consideration classified as an equity instrument; and
   (ii) measure other contingent consideration at fair value at each reporting date and recognise changes in fair value in profit or loss.

Paragraphs BC17–BC18 and BC89–BC93 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.

DASC agree with the proposals to measure the cost at fair value and to recognise contingent consideration. We suggest it be considered to be more precise from the outset in the wording "… including the fair value of any previously held interest in the associate". DASC think it might potentially lead to confusion whether it refers to the fair value already recognised by the investor of its previously held interest. Or if it refers to a remeasurement of the investors previously held interest in the associate when purchasing a further interest in the associate.

EFRAG's questions to constituents - Measurement of cost of an associate or joint venture

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.

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.

1.1 As per our introductory note, it is difficult for DASC to state a preference for one over the other, because it depends on the perspective taken. Therefore, DASC is inclined to accept either (i.e., capitalise or expense as incurred) because we note the bigger questions remains unresolved at this time.

DASC note that Paragraph 13 does not address how the investee should account for other changes in net assets that are not part of OCI. It could be share-based payment within the investee. It could also be changes to NCI in which the investor is diluted. DASC notes the rationale in para BC45-BC46 but in our view not addressing such type of transactions will result in continued diversity in practice. We suggest the Board reconsider if it should provide guidance at a conceptual level.

1.2 In DASC experience the concerns are not widely outspoken in the Danish environment. Because the EQM in Denmark traditionally has been viewed as a one line consolidation, emphasis of prepares has been on arriving at the same result and the same equity in the parent only financial statements as in the consolidated financial statements.

DASC on the other hand understand the difficulty explaining the rationale for recognising further goodwill on top of the goodwill already recognised in the parent only financial statements when the investor initially obtained significant influence over the investee, and still maintain significant influence and not control.

In DASCs view recognition of goodwill has merits in the consolidated financial statements.

EFRAG's questions to constituents - Measurement of cost of an associate or joint venture (cont.) 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.
1.3 DASC has not heard of mixed views of this in the Danish environment. Common practice in Denmark is to include deferred tax effects in the carrying amount of investments.

ED Question 2- Change in ownership

IAS 28 does not include requirements on how an investor accounts for changes in its ownership interest in an associate while retaining significant influence, that arise from:
(a) the purchase of an additional ownership interest in the associate;
(b) the disposal of an ownership interest (partial disposal) in the associate; or
(c) other changes in the investor's ownership interest in the associate.

The IASB is proposing to require that an investor:
(a) at the date of purchasing an additional ownership interest in an associate:
  (i) recognise that additional ownership interest and measure it at the fair value of the consideration transferred;
  (ii) include in the carrying amount the investor's additional share of the fair value of the associate's identifiable assets and liabilities; and
  (iii) account for any difference between (i) and (ii) either as goodwill included as part of the carrying amount of the investment or as a gain from a bargain purchase in profit or loss.
(b) at the date of disposing of an ownership interest:
  (i) derecognise the disposed portion of its investment in the associate measured as a percentage of the carrying amount of the investment; and
  (ii) recognise any difference between the consideration received and the amount of the disposed portion as a gain or loss in profit or loss.
(c) for other changes in its ownership interest in an associate:
  (i) recognise an increase in its ownership interest, as if purchasing an additional ownership interest. In (a)(i), 'the fair value of the consideration transferred' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's redemption of equity instruments'.
  (ii) recognise a decrease in its ownership interest, as if disposing of an ownership interest. In (b)(ii) 'the consideration received' shall be read as 'the investor's share of the change in its associate's net assets arising from the associate's issue of equity instruments'.

Paragraphs BC20–BC44 o 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.

DASC agree with EFRAG response. We are amongst the constituents having expressed the concern in para 47 of the DCL. DASC is not convinced if the benefits will always outweigh the costs.

EFRAG question to constituents – change in ownership while retaining significant influence

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?

Yes. DASC agree with the suggested alternative measurement methods for purchase of additional ownership interest while retaining significant influence. In our view the suggested alternative measurement methods better strikes the balance between complexity, cost for preparers and benefit for users.

Question 3- Recognition of investor's share of losses

Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinues recognising its share of further losses. However, IAS 28 does not include requirements on whether an investor that has reduced the carrying amount of its investment in an associate to nil:

a) on purchasing an additional ownership interest, recognises any losses not recognised as a 'catch up' adjustment by deducting those losses from the cost of the additional ownership interest; or

(b) recognises separately its share of each component of the associate's comprehensive income.

The IASB is proposing an investor:

(a) on purchasing an additional ownership interest, not recognise its share of an associate's losses that it has not recognised by reducing the carrying amount of the additional ownership interest.

(b) recognise and present separately its share of the associate's profit or loss and its share of the associate's other comprehensive income.

Paragraphs BC47–BC62 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.

DASC agree with EFRAGs response.

Question 4- Transactions with associates and joint ventures

Paragraph 28 of IAS 28 requires an investor to recognise gains and losses resulting from transactions between itself and an associate only to the extent of unrelated investors' interests in the associate. This requirement applies to both 'downstream' transactions (such as a sale or contribution of assets from an investor to an associate) and 'upstream' transactions (such as a sale of assets from an associate to an investor).

If an investor loses control of a subsidiary in a transaction with an associate, the requirement in IAS 28 to recognise only a portion of the gains or losses is inconsistent with the requirement in IFRS 10 to recognise in full the gain or loss on losing control of a subsidiary.

The IASB is proposing to require that an investor recognise in full gains and losses resulting from all 'upstream' and 'downstream' transactions with its associates, including transactions involving the loss of control of a subsidiary.

Paragraphs BC63–BC84 of the Basis for Conclusions explain the IASB's rationale for this proposal.

Do you agree with these proposals?

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

DASC agree with EFRAG response. While this proposal does represent a significant change to current practice, DASC believe it will address a number of application issues with IAS 28, simplifying application of the EQM in many cases. On a note we will mention that in Denmark (and probably also other EU countries) there is a prohibition in Company law against distributing profits generated from internal profits. DK companies (and maybe others) will therefore still need to trace gains resulting from all 'upstream' and 'downstream' transactions with its associates and JV's.

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Question 5- Impairment indicators (decline in fair value) Paragraphs 41A–41C of IAS 28 describe various events that indicate the net investment in an associate could be impaired. Paragraph 41C of IAS 28 states that a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost is objective evidence of impairment. One of the application questions asked whether an investor should assess a decline in the fair value of an investment by comparing that fair value to the carrying amount of the net investment in the associate at the reporting date or to the cost of the investment on initial recognition. The IASB is proposing: (a) to replace 'decline...below cost' of an investment in paragraph 41C of IAS 28 with 'decline...to less than its carrying amount'; (b) to remove 'significant or prolonged' decline in fair value; and (c) to add requirements to IAS 28 explaining that information about the fair value of the investment might be observed from the price paid to purchase an additional interest in the associate or received to sell part of the interest, or from a quoted market price for the investment. The IASB is also proposing to reorganise the requirements in IAS 28 relating to impairment to make them easier to apply, and to align their wording with the requirements in IAS 36 Impairment of Assets. Paragraphs BC94–BC106 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.
DASC agree with EFRAG response. We specifically agree with para 105 that the requirements to consider the impairment of the net investment in the associate or joint venture sits better with the general requirements for impairment in IAS 36, rather than having separate requirements on impairments in IAS 28. Other standards such as IAS 16 and IAS 38 contain no specific requirements on impairments so it is unclear to DASC why IAS 28 needs specific requirements for impairment. Having all the impairment requirements in IAS 36 avoids any potential inconsistencies between IAS 28 and IAS 36.

Question 6 - Separate financial statements	EFRAG questions to constituents- separate financial statements
Paragraph 10 of IAS 27 permits a parent entity to use the equity method in IAS 28 to account for investments in subsidiaries, joint ventures and associates in separate financial statements. The IASB is proposing to retain paragraph 10 of IAS 27 unchanged, meaning that the proposals in this Exposure Draft would apply to investments in subsidiaries to which the equity method is applied in the investor's separate financial statements. Paragraphs BC112–BC127 of the Basis for Conclusions explain the IASB's rationale for this proposal. Do you agree with these proposals? If you disagree, please explain why you disagree and your suggested alternative.	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? 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? 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.
Please see our comments to questions 6.1-6.3	**6.1 DASC agree to EFRAGs response. Especially, we agree that there should be only one EQM applied across consolidated and separate financial statements prepared under IFRS Accounting Standards. Having two will on our view increase complexity. In DK, some listed companies have chosen the EQM for measurement in the parent only financial statements. When having transactions with subsidiaries, in the parent company financial statements, companies analogizing to IFRS 3 and IFRS 10 requirements. However, without DASC having performed a survey there seems to be a tendency for companies switching to the cost method because they view that the consolidated financial statements provide sufficient information for users.** **This tendency of switching to cost in the parent only financial statements stems from the experience of listed companies that users focus only - or primarily - on the consolidated financial statements. Without DASC having performed a survey we are not aware of significant differences between any of the line items in the separate financial statements versus consolidated financial statements resulting from this. Acknowledging there could be other experience in other countries, and because it is difficult to foresee the effects of the proposal, IASB may consider reaching further out to constituents on this matter.** **6.2 DASC agree to EFRAGs response. See also our response to 6.1.** **6.3. DASC does not support an option. The reason being that it will only increase complexity; something that is certainly not needed.**

Question 7- Disclosures
The IASB is proposing amendments to IFRS 12 in this Exposure Draft. For investments accounted for using the equity method, the IASB is proposing to require an investor or a joint venturer to disclose: (a) gains or losses from other changes in its ownership interest; (b) gains or losses resulting from 'downstream' transactions with its associates or joint ventures; (c) information about contingent consideration arrangements; and (d) a reconciliation between the opening and closing carrying amount of its investments. The IASB is also proposing an amendment to IAS 27 to require a parent—if it uses the equity method to account for its investments in subsidiaries in separate financial statements—to disclose the gains or losses resulting from its 'downstream' transactions with its subsidiaries. Paragraphs BC137–BC171 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.
DASC agree to EFRAGs comments. Firstly, because getting access to this information could be difficult. Secondly, DASC notes it seems that the suggested requirements in para 21(d)–(e) are more or less similar to the requirements in IAS 24:18-21. It would therefore be helpful to understand why the disclosures in IAS 24 is not considered sufficient.

Question 8 – Disclosure requirements for eligible subsidiaries
IFRS 19 permits eligible subsidiaries to apply IFRS Accounting Standards with reduced disclosure requirements. It specifies the disclosure requirements an eligible subsidiary applies instead of the disclosure requirements in other IFRS Accounting Standards. As part of developing proposed amendments to the disclosure requirements in other IFRS Accounting Standards, the IASB regularly considers which of those proposed amendments should be included in IFRS 19, based on the IASB's principles for reducing disclosure requirements for eligible subsidiaries. The IASB is proposing amendments to IFRS 19 to require an eligible subsidiary: (a) to disclose information about contingent consideration arrangements; and (b) to disclose gains or losses resulting from 'downstream' transactions with its associates or joint ventures. The IASB is also proposing an amendment to IFRS 19 to require a subsidiary that chooses to apply the equity method to account for its investments in subsidiaries in separate financial statements to disclose gains or losses resulting from 'downstream' transactions with those subsidiaries. Paragraphs BC172–BC177 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, taking into consideration the principles for reducing disclosure requirements for eligible subsidiaries applying IFRS 19 (see paragraph BC175 of the Basis for Conclusions).
DASC agree to EFRAG response with the note in our response to question 7.

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.
Please see our comments to question 9.1.

EFRAG Question to constituents
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
DASC agree to EFRAGs recommendation. Requiring retrospective application could both be burdensome and in same instances impracticable.

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Question 10 – Expected effects of the proposals
Paragraphs BC217-229 of the Basis for Conclusions explain the IASB's analysis of the expected effects of implementing its proposals. Do you agree with this analysis? If not, which aspects of the analysis do you disagree with and why? If you disagree, please explain why you disagree and your suggested alternative.
DASC agree to EFRAGs response. We particularly agree that the proposals may have significant effects for some entities. Therefore, it is important the requirements strike a fair balance between cost for preparers and benefits for users. Depending on responses the IASB may consider if further outreach with preparers is required to ensure that the proposals can be applied in practice.

Question 11- Other comments
Do you have any comments on the other proposals in this Exposure Draft, including Appendix D to the Exposure Draft or the Illustrative Examples accompanying the Exposure Draft? Do you have any comments or suggestions on the way the IASB is proposing to re-order the requirements in IAS 28, as set out in [draft] IAS 28 (revised 202x)?
DASC repeat its comment that we regret the Boards decision not to undertake a fundamental review of the EQM (especially clarify whether equity accounting is intended to represent a one-line consolidation or a measurement method). Therefore, DASC believe we will still see application questions even after the changes come out.