RE: Comments on ED/2013/10 Equity Method in Separate Financial Statements

Dear Sir / Madam,

Mazars welcomes the opportunity to comment on the Exposure Draft on Equity Method in Separate Financial Statements.

We agree with the Board’s proposals. Nevertheless, we believe that paragraph 25 of IAS 28, as modified by the Exposure Draft, remains unclear on how to account for decreases in ownership interest in an investee accounted for using the equity method. No distinction is clearly made between subsidiaries and joint ventures or associates, or between cases where the level of control changes and cases where it does not.

Our answers to the specific questions raised in this Exposure Draft are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

Michel Barbet-Massin
Head of Financial Reporting Technical Support
Appendix 1: detailed answers to the questions raised in the Exposure Draft.

**Question 1 - Use of the equity method?**

The IASB proposes to permit the equity method as one of the options to account for an entity’s investments in subsidiaries, joint ventures and associates in the entity’s separate financial statements.

Do you agree with the inclusion of the equity method as one of the options? If not, why?

We agree with the Board’s proposal.

**Question 2 - Transition provisions**

The IASB proposes that an entity electing to change to the equity method would be required to apply that change retrospectively, and therefore would be required to apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

We agree with the Board’s proposed transition provisions.

**Question 3 - First-time adopters**

The IASB does not propose to provide any special relief for first-time adopters. A first time adopter electing to use the equity method would be required to apply the method from the date of transition to IFRSs in accordance with the general requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards.

Do you agree that a special relief is not required for a first-time adopter? If not, why and what alternative do you propose?

We agree with the Board’s proposal with regards to first-time adopters.
**Question 4 – Consequential amendment to IAS 28 Investments in Associates and Joint Ventures**

The IASB proposes to amend paragraph 25 of IAS 28 in order to avoid a conflict with the principles of IFRS 10 *Consolidated Financial Statements* in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.

Do you agree with the proposed consequential amendment? If not, why?

Despite the proposed consequential amendment to paragraph 25 of IAS 28, that paragraph still deals with investment in associates or joint ventures, and does not make any reference to subsidiaries accounted for using the equity method in separate financial statements.

Therefore it remains unclear on:
- How to account for a decrease in ownership interest in a subsidiary without loss or control over the subsidiary, and
- Whether the provisions of paragraph 25 of IAS 28 apply to a decrease in ownership interest in a subsidiary, with a consequential loss of control over that subsidiary while retaining joint control or significant influence.

When reading paragraph BC11 of the Exposure Draft, it seems to us that the Board’s intention was to apply paragraph 25 to any decrease in ownership interest provided that control is not lost. However, we are not convinced that paragraph 25, as modified by the Exposure Draft, clearly reaches this objective.

Indeed, paragraph 25 does not make any distinction between a loss of control in a subsidiary where the investor retains significant influence or joint control (investment accounted for in the separate financial statements according to the equity method before and after the loss of control) and a decrease in the ownership interest in a subsidiary, an associate or a joint venture (with no change in the level of control).

Since paragraph 25 of IAS 28 initially deals with investment in associates and joint ventures in consolidated financial statements, we believe it necessary to introduce specific paragraphs dealing more precisely with changes in ownership interest in an investee accounted for according to the equity method in separate financial statements.

**Question 5 – Other comments**

Do you have any other comments on the proposals?

No.