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International Accounting Standards Board
30 Cannon Street
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commentletters@ifrs.org

Rome, 13 February 2014

Re: IASB's ED/2013/10 Equity Method in Separate Financial Statements

Dear Sir/Madame,

We are pleased to have the opportunity to provide our comments on **Exposure Draft Equity Method in Separate Financial Statements.**

In our opinion, before taking action on separate financial statements, the IASB should clarify the objectives, users, characteristic of separate financial statements and any differences with the consolidated financial statements that are such as to justify different accounting treatments. Therefore, until such clarification is forthcoming, we believe to be acceptable the inclusion of further options in separate financial statements (i.e. use of the equity method for the measurement of investments in subsidiaries, associates and joint operations).

Our detailed responses to the ED questions are in the Appendix.

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

Yours faithfully
Angelo Casò
(Chairman)

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?**

In our opinion, before taking action on separate financial statements, the IASB should clarify the objectives, users, characteristic of separate financial statements and any differences with the consolidated financial statements that are such as to justify different accounting treatments. Therefore, until such clarification is forthcoming, we believe to be acceptable the inclusion of further options in separate financial statements (i.e. use of the equity method for the measurement of investments in subsidiaries, associates and joint operations).

In general, the OIC is not in favour of including accounting options in IFRS as this impairs the comparability of the financial statements. However, we agree with the IASB's proposal to include the option to use the equity method to account for investments in subsidiaries, associates and joint ventures in separate financial statements, as in this case we believe there is not a comparability issue.

In confirmation of this, we would draw attention to the fact that IAS 27, para. 3, provides that the principle should be applied in the accounting for subsidiaries, associates and joint venture "*when an entity elects, or is required by local regulations, to present separate financial statements".* The preparation of separate financial statements is thus subordinate to either a choice by the entity or a requirement by the legislator.

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?**

The OIC believes that the IASB should introduce some simplifications in relation to a complete retrospective application for entities that opt to use the equity method in accounting for subsidiaries in their separate financial statements.
In the IASB's view, full retrospective application is justified by the fact that an entity should use, in applying the equity method to value a subsidiary in the separate financial statements, the information used for the consolidation of the stake in the consolidated financial statements. However, the OIC would point out that in various cases there could be differences between the separate and consolidated financial statements when applying the equity method to subsidiaries (e.g. impairment of goodwill, treatment of purchase costs, loss of value, step acquisitions). Thus, it is not always possible to derive the value of the subsidiary from the consolidated financial statements using the equity method. Hence, a form of simplification concerning the initial application of the principle could be to determine a "deemed cost" of the subsidiary at the transition date on the basis of the value of the consolidated net assets traceable to the subsidiary at the transition date. The IASB has already permitted a similar simplification in the transition from the criterion of proportionality to the equity method regarding IFRS 11.

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?**

The OIC believes it would be appropriate for the IASB to introduce exemptions for first-time adopters in specific cases (e.g. previous business consolidations and previous acquisitions of investments in associates, joint ventures) as otherwise the retrospective application could be extremely costly and in some cases not feasible. Therefore, the OIC believes IFRS 1 should be amended to allow for such exemptions.

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?**

The OIC believes that the amendment to para. 25 of IAS 28 would not achieve the objective hoped for in BC 11. Indeed, the IASB would appear to want the IFRS 10 model to prevail over that of IAS 28 in cases where there are changes in the configuration of control. While IFRS 10 links the accounting treatment (fair value measurement) of the ownership interest to a specific economic event (loss of control of the entity), IAS 28 seems to link the accounting to the fact that the accounting measurement model does not change (in moving from a joint venture to an associate, it still remains within the equity method model).

The OIC would welcome clarification on this point. However, it should be noted that the proposal does not clarify which treatment is to be applied when there is the loss of control of a subsidiary valued at cost. In fact, the issue that the IASB is analysing in relation to the equity method (concerning which approach should prevail, IFRS 10 or IAS 28), is mirrored in the case of measurement at cost.

OTHER COMMENTS

- **Do you have any other comments on the proposals?**

1. The OIC believes it is worth highlighting again the doubts already raised concerning the introduction into IFRS 11 of an exception to IAS 27. This exception provides that entities

with joint control of a joint operation (JO) would apply the same principles of consolidated financial statements also in the separate financial statements, without distinction between a JO structured or otherwise through a separate vehicle.

In the past, the OIC proposed the inclusion of an option for the application of the general principles of IAS 27.

At a meeting of the IASB, which discussed some issues relating to the project for the ED under consideration, the board was in agreement with the staff proposal to re-introduce the equity method as an option, maintaining that the comparability of separate financial statements had already been compromised by the optional application of the IFRS to them and that, therefore, the inclusion of a new option would not have led to a significant reduction in comparability.

For these reasons, the OIC holds that a similar reasoning could also be applied for IFRS 11 and in particular for JOs structured through a vehicle, it thus being difficult to understand why JOs may not be measured at either cost or fair value in the separate financial statements.

2. The OIC would also point out that another issue concerns the accounting treatment of the loss of value in separate financial statements and in consolidated financial statements, in particular in regard to the question of the restoration of the value of goodwill (not permitted in consolidated financial statements but possible with regard to an ownership interest in separate financial statements).