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Mouvement les Entreprises de France

Dr Andreas Barckow, Chairman,
International Accounting Standards Board,
30 Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD-United Kingdom

20 January 2025

Dear Dr Barckow,

Exposure Draft: Equity Method of Accounting—IAS 28 Investments in Associates and Joint Ventures

We are of the view that some of the current accounting issues related to the equity method merit clarification or even amendment, without fundamentally changing the current principle of this accounting method. We are therefore pleased to comment on this exposure draft.

We also welcome the IASB's decision to propose pragmatic solutions, although we think that some of them may ultimately be complex to implement

If you require any further information about our comments on the ED, please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Lise CHORQUES	Lé Quang TRAN VAN	Karine MERLE

Question 1 - Measurement of cost of an associate
Appendix A and paragraphs 13, 22, 26 and 29 of [draft] IAS 28 (revised 202x)

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.

We agree with these proposals to respond to some of the frequent questions concerning the 'cost' to be used for the initial measurement of an investment on obtaining significant influence. However, the proposed wording, which maintains the principle of valuation at cost and defines it as the fair value of the consideration transferred in the same sentence, may create uncertainty since it is silent about the treatment of acquisition transaction costs.

Since the principle of measurement at cost has been maintained and the exposure draft does not refer to an amendment to the IFRIC decision of July 2009, we understand that the cost at initial recognition still comprises any directly attributable expenditures necessary to obtain it.

We agree with this conclusion and believe that it should be explicitly integrated in the core standard as part of the amendment.

Furthermore, while we agree with the principle of considering contingent payments as part of the consideration transferred, we believe that this provision requires a "measurement period" similar to that provided for in IFRS 3.

Question 2 - Changes in an investor's ownership interest while retaining significant influence
Paragraphs 30–34 of [draft] IAS 28 (revised 202x)

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:

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;

We agree that an investor should not remeasure the carrying amount of the previously held interest when it purchases an additional interest in an associate, mainly for reasons exposed in paragraph BC 23. However, we have two main concerns with the solution proposed:

- The cumulative-layer approach proposed for step acquisition is not consistent with the requirements for disposals and impairments, for which the associate is viewed and managed as a whole instrument.

- This approach adds a lot of complexity by imposing the requirement to monitor all the different values of the acquired assets in order to adjust the entity's share of the associate's profit or loss. Such restatements could not be made at source in IT reporting and this would therefore be a source of errors and complexity.

We therefore suggest that the IASB consider the alternative solution, which would be not to require the remeasurement of an investee's assets and liabilities at each step acquisition but instead, that a purchase price allocation exercise be performed only once, when the equity method is applied for the first time. Any increases in the value of certain assets would then be recognized as goodwill and not identified in the asset classes concerned; since both are presented on the same line in the financial statements, we do not consider this to be detrimental. Furthermore, when values fluctuate significantly between two successive acquisition steps, this is often due to non-depreciable assets such as land or brands.

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;

We agree with the proposals, which are consistent with the single unit that an investment in an associate (or JV) represents. We therefore support the arguments mentioned in paragraph BC35.

(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 of the Basis for Conclusions explain the IASB's rationale for these proposals.

We agree.

Question 3 - Recognition of the investor's share of losses
Paragraphs 49-52 of [draft] IAS 28 (revised 202x)

Paragraph 38 of IAS 28 requires that if an investor's share of losses equals or exceeds its interest in the associate, the investor discontinue 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;

We agree.

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

While we agree that OCI and net income of the associate should be recognized and presented separately, we believe that the proposals may lead to quite complex situations which require undue effort to track off-balance sheet stocks of net income and OCI. We also wonder how OCI should be allocated between its different components when the amount is capped by the amount recognized in net income.

Question 4 - Transactions with associates
Paragraph 53 of [draft] IAS 28 (revised 202x)

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

We welcome this proposal to resolve the current conflict between standards in a pragmatic and feasible manner. It will avoid many "manual" entries which lead to complexity and less secure accounting practices.
It may be useful to state that this principle applies equally to all commercial transactions between an investor and its associate/joint venture, that is, sales and purchases of goods and services.

Question 5 - Impairment indicators (decline in fair value)
Paragraph 57 of [draft] IAS 28 (revised 202x)

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";

We agree that the assessment should be made by comparing the fair value to the carrying amount of the net investment at the reporting date rather than to the cost of the investment on initial recognition.

(b) to remove "significant or prolonged" decline in fair value; and

We disagree.

We understand that the IASB's proposal is due to the fact that impairment on an associate or joint-venture may be reversed. Nevertheless, we believe that the "significant or prolonged" terms are still useful, thus avoiding too frequent impairment testing without any impairment recognition in case the value in use is greater than the carrying amount, in particular for listed investments.

(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.

The indicators proposed are reasonable.

Question 7 - Disclosure requirements

Paragraphs 20(c), 21(d)-21(e) and 23A-23B of IFRS 12 and paragraph 17A of IAS 27

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;

We understand that such informationwhenever material, could be useful because of the different natures of such income and expense and their infrequent occurrence.

(b) gains or losses resulting from "downstream" transactions with its associates or joint ventures;

We disagree with the requirement to disclose any gains or losses from downstream transactions with associates.

The IASB specifies in BC 144 the reasons for such a proposal :

- allow users to adjust the recognised gain or loss, if desired, in their analysis
  - ⇨ the notes are not designed to help users make alternative measurements of performance. If the IASB has amended the provisions relating to the non-elimination of these margins, it is because it considers that the resulting information is more useful.
- allow users to assess the reasonableness and sustainability of these transactions and their pricing for benchmarking against market terms.
  - ⇨ Transactions with associates (and JVs) are already covered by IAS 24 "Related party disclosures" and we do not see why the IASB should go further with such related parties by adding specific disclosures, even if the investor will now recognise in full gains and losses resulting from all downstream transactions.

(c) information about contingent consideration arrangements; and
(d) a reconciliation between the opening and closing carrying amount of its investments.

Question 9 - Transition

Paragraphs C3–C10 of [draft] IAS 28 (revised 202x)

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.*

We agree with these proposals, which we consider to offer a reasonable cost/benefit balance.

Question 11 - Other comments

As the IASB is aware, insurers might be interested in applying the fair value option provided in IAS 28.18 in order to be allowed to present income and expenses from those investments in the operating category rather than in the investment one.

Amending IAS 28 could be therefore be the appropriate opportunity for revisiting the wording of IAS 28.18, especially by clearly extending its scope to all equity method investments held indirectly or directly by insurers as part of their insurance activity, either to hedge insurance contracts (irrespective of their measurement model) or for solvency purposes. This would partly address the issues that the insurance industry will face when IFRS 18 becomes effective.