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Dutch Accounting Standards Board

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Direct dial: +31 (0)88 4960391
Date: Hoofddorp, January 20, 2025
Re: DASB Comment Letter on Exposure Draft ED/2024/7 'Equity Method of Accounting'

Dear members of the International Accounting Standards Board,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the Exposure Draft ED/2024/7 'Equity Method of Accounting', issued by the IASB in September 2024.

In general, we welcome the IASB's initiative to clarify the application of the equity method and make it more understandable. Within the scope of this project, we have the following concerns and remarks:

- The DASB fundamentally does not agree with the proposal to recognize gains and losses on transactions with (and between) subsidiaries measured in accordance with the equity method without elimination in the separate financial statements. We believe that, conceptually, transactions with subsidiaries are fundamentally different from transactions with associates and joint ventures. In addition, from a practicability perspective the required information to make eliminations in respect of subsidiaries will be readily available. Full recognition of gains and losses will, in our view, potentially trigger the initiation of transactions for which the accounting does not reflect their economic substance. This creates the risk of structuring opportunities and earnings management as there is no conflict of interest between shareholders. Furthermore, the distribution of dividends is usually determined based on the separate financial statements. In our view, additional disclosures will not be sufficient to mitigate this risk. We therefore recommend to prescribe an alternative treatment when applying the equity method for subsidiaries in the separate financial statements. This alternative treatment should eliminate gains and losses as currently required by paragraph 28 of IAS 28.

- Side stream transactions are not mentioned in the ED and the Basis for Conclusions. It is not clear for us how this kind of transactions will be impacted by the proposals. In line with our comment above we are especially concerned when the results of side stream transactions between subsidiaries would no longer be eliminated in the separate financial statements, and believe such results should (remain to) be eliminated.
- In the proposal, to some extent, a parallel is drawn between the concepts included in IFRS 3 Business Combinations and the application of the equity method. However, IFRS 3 is only applicable to the acquisition of a business. Therefore, we would recommend to further clarify how these concepts are applied to acquisitions of associates[1] which do not contain a business. We believe that this is especially relevant for the accounting treatment of transaction costs and contingent consideration. In case of an acquisition of an associate which does not contain a business we would expect the same accounting treatment for transaction costs and contingent consideration as for asset acquisitions within the scope of IAS 16, IAS 38 and IAS 40. Furthermore, the ED is not fully clear on how to account for transaction costs. We have the impression that the proposal does not allow the recognition of transaction costs as part of the cost of the associate. In our view, transaction costs should be capitalized for all acquisitions of associates (containing a business or not).
- The proposals add additional disclosure requirements for downstream transactions with associates and joint ventures (i.e. to assess earnings quality). As we also see an elevated risk of earnings management with upstream and side stream transactions we recommend to add additional disclosure requirements for all of these transactions with a material nature (especially when non-recurring).

We have included our detailed response to the Exposure Draft questions in Appendix 1 and in Appendix 2 the DASB reaction on the Draft Comment letter of EFRAG

If you have any questions, please do not hesitate to contact me.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix 1 : Responses to Exposure Draft questions
Appendix 2 : DASB reaction on the Draft Comment letter of EFRAG

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[1] For simplicity, just like the ED, the answers are expressed in relation to investments in associates, but should be read as also referring to JVs.

Appendix 1 – IASB – Responses to Exposure Draft

Question 1 — Measurement of cost of an associate

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.

In general, the DASB agrees with the proposals. Our main concern is that in various explanations a parallel is drawn with IFRS 3. However, IFRS 3 is only applicable to acquisitions of a business. We would recommend to further clarify how these concepts should be applied to acquisitions of associates which do not contain a business.

Additionally, in our view the proposed treatment of transaction costs is unclear in the exposure draft. The lack of further guidance on this matter suggests to us that the IASB proposes to follow the analogy of IFRS 3 Business Combinations which would imply that transaction costs are not capitalized but expensed. We do not agree with such proposal, especially not in case of the acquisition of an associate which does not contain a business. Additionally, in case of the acquisition of an associate which does contain a business we also would be in favour of capitalising the transaction costs.

Furthermore, the DASB noted that the definition of cost included in the ED is similar to other IFRS Accounting Standards but not exactly the same. To avoid confusion we would recommend to further clarify that in the definition.

Question 2 — Changes in an investor's ownership interest while retaining significant influence
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 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

In general, the DASB agrees with the proposals in the ED. The DASB also acknowledges that the layered approach is potentially complex and costly. However, we understand this is already generally applied in practice. We do not recommend to include additional practical application guidance for determining the purchase price allocation; based on the general principles of IFRS the concept materiality should already be possible to be applied.

Question 3 — Recognition of the 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 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. (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.

The DASB welcomes the clarifications provided in the proposal and largely agrees with the proposals.

However we would recommend to further clarify how the composition of the associate's carrying amount should be seen in the case net assets are negative. Would the carrying amount of the associate be seen in total as goodwill, or will the goodwill be higher and offset by the negative asset value?

Question 4 — Transactions with associates
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

In general, the DASB agrees with the proposal to recognise full gains and losses resulting from up- and downstream transactions with associates as it reduces practical complexity and improves consistency within the standards.

The DASB expects that the fact that associates are not controlled by the same parent generally creates sufficient safeguards to reduce the risk of undesired structuring opportunities and earnings management.

However, the DASB believes that there is a potential risk within larger groups. In these larger groups it could be that entities in the financial statements of a sub-group are associates and in the financial statements of the ultimate parents are a subsidiary. In these situations management could enter into transactions that possibly do not reflect the economic substance in the financial statements of a sub-group to accomplish a certain outcome. For example, these transactions could influence the reserves available for dividend distributions.

As in these situations the associates are ultimately under common control, the conflict of interests is limited and risks of structuring opportunities and earnings management remain. In these kind of common control situations, we are in favour of eliminating gains and losses.

We noted that additional disclosure requirements are added to give more insights into gains and losses arising from downstream transactions with associates. However, we consider upstream and side stream transactions to be relevant as well. Therefore, we would recommend to address that concern (see also question 7).

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.

Overall, the DASB agrees with the proposals in the ED. The proposed changes improve the understandability of the standard significantly. We support the recommendation to further reference the requirements as included in IAS 36 to avoid repetition and unintended inconsistencies.

Question 6 — Investments in subsidiaries to which the equity method is applied in 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 this proposal? If you disagree, please explain why you disagree and your suggested alternative.

The DASB fundamentally does not agree with the proposals included in the ED. In our view the proposed changes should not be applicable to subsidiaries accounted for in accordance with the equity method in the separate financial statements.

The primary reason for that is that we see a higher risk that transactions with subsidiaries do not reflect the economic substance due to a risk of structuring opportunities. This risk with associates is less due to the conflict of interests between the different parties/shareholders involved in such transactions. However, this is not present with subsidiaries as they are controlled by the same parent. These concerns cannot be resolved by additional disclosure requirements (this might result in the recognition of gains and losses in the separate financial statements which are not in accordance with the economic substance of the transactions, this could also have an impact on the distributable equity).

In the Netherlands, entities have the option to apply the equity method in the separate financial statements, with mandatory elimination of intra-group results.
As a consequence of the concerns raised above we fundamentally disagree with the proposals made. We see structuring opportunities for entities applying IFRS Accounting Standards in their separate financial statements to increase distributable reserves (see also our comments in respect of side stream transactions as part of question 11).

In our view, having a difference in this element of applying the equity method would not be a concern, as in our view the relationship of an entity with its subsidiary is substantially different than its relationship with an associate (significant influence) or a joint venture (joint control), both from a conceptual point of view as well as a practical point of view (the information to make any such eliminations should be readily available in the case of a subsidiary).

Question 7 — Disclosure requirements
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.

In general we agree with the proposals in the ED for the disclosures on associates. For our view on the equity method on subsidiaries we refer to question 6.

Furthermore, we see also an elevated risk in up- and sidestream transactions, therefore we would recommend to broaden the requirement to material upstream, downstream and sidestream transactions (with a one-off/non-recurring nature).

Additionally, the DASB recommends that a disaggregated reconciliation (roll forward) should be prepared for material investments only.

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).

In general we agree with the proposals in the ED. We would further recommend to add a disclosure requirement for the reconciliation between the opening and closing carrying amounts of its investments on a total level. As we see an elevated risk in upstream stream transactions as well we would recommend to broaden the requirement to side-, up- and downstream transactions.

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

In general we agree with the proposals made in the ED on the transition approach. We are also not in favour of including an option for prospective application of the restricted unrecognized results.

Question 10 — Expected effects of the proposals
Paragraphs BC217–BC229 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?

We have no further additions to the expected effects of the proposals.

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)?

Side stream transactions

Side stream transactions are not mentioned in the ED or the Basis for Conclusion. It is not clear to us how this kind of transactions is impacted by the proposals.
In line with our comment on question 6 we are especially concerned when the results of side stream transactions between subsidiaries would no longer be eliminated in the separate financial statements of the parent applying the equity method to such subsidiaries.
In current practice not only the results between the parent and its subsidiaries are eliminated but also the results on transaction between its (indirect) subsidiaries.

Fair value measurement for associates and joint ventures

The IASB may also consider amending the exemption criteria for applying the equity method to enable electing fair value measurement voluntarily if the investor believes this provides more useful information to the users of the financial statements, especially when the investee itself is a listed company, or in case of private equity interests that are managed on a fair value basis. This additional option would further improve alignment of IAS 28 with the Conceptual Framework by providing useful information without undue costs arising from the requirements of IAS 28, such as expenses of purchase price allocation, and processing accounting policy differences between the investor and the investee, and requiring the investee to provide supplemental financial information to accommodate reporting or audit requirements of the investor. Furthermore, when the investee is a listed company, financial reporting requirements towards the investor can create a conflict between the reporting obligations of the investor and the restriction on insider information imposed by listing regulations. Therefore we propose adding a fair value option as alternative to equity method for consideration of the IASB. With regard to the presentation, we propose that at initial recognition, an entity may make an irrevocable election to present subsequent changes in fair value in other comprehensive income or in profit or loss (comparable to IFRS 9).

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Our ref:	RJ-EFRAG 633 B
Direct dial:	+31 (0)88 4960391
Date:	Hoofddorp, January 6, 2025
Re:	DASB reaction to EFRAG Draft Comment Letter on IASB Exposure Draft ED/2024/7 'Equity Method of Accounting'

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the EFRAG Draft Comment Letter on the Exposure Draft ED/2024/7 'Equity Method of Accounting', issued by the IASB in September 2024.

In general, we welcome the ED's initiative to clarify the application of the equity method and make it more understandable. The DASB largely agrees with the EFRAG draft comment letter. However, within the scope of this project, we have the following concerns and remarks:

- The DASB fundamentally does not agree with the proposal to recognize gains and losses on transactions with subsidiaries measured in accordance with the equity method without elimination in the separate financial statements. We believe that, conceptually, transactions with subsidiaries are fundamentally different from transactions with associates. In addition, from a practicability perspective the required information to make eliminations in respect of subsidiaries will be readily available. Full recognition of gains and losses will, in our view, potentially trigger the initiation of transactions for which the accounting does not reflect their economic substance and creates the risk of structuring opportunities and earnings management as there is no conflict of interest between shareholders. Furthermore, the distribution of dividends is usually determined based on the separate financial statements. In our view, additional disclosures will not be sufficient to mitigate this risk. We therefore recommend to prescribe an alternative treatment when applying the equity method for subsidiaries in the separate financial statements. This alternative treatment should eliminate gains and losses as currently required by paragraph 28 of IAS 28.

- Side stream transactions are not mentioned in the ED, the Basis for Conclusions and the EFRAG draft comment letter. It is not clear for us how this kind of transactions will be impacted by the proposals. In line with our comment above we are especially concerned when the results of side stream transactions between subsidiaries would no longer be eliminated in the separate financial statements.

- EFRAG recommends to consider it inappropriate to recognize additional goodwill in the situations where the net assets of an investee are already negative. We do not agree with that recommendation as in our view it is more accurate to first recognize goodwill and subsequently test it for impairment.

- In the proposal, to some extent, a parallel is drawn between the concepts included in IFRS 3 Business Combinations and the application of the equity method. However, IFRS 3 is only applicable to the acquisition of a business. Therefore, we would recommend to further clarify how these concepts are applied to acquisitions of associates[1] which do not contain a business. We believe that this is especially relevant for the accounting treatment of transaction costs and contingent consideration. In case of an acquisition of an associate which does not contain a business we would expect the same accounting treatment for transaction costs and contingent consideration as for asset acquisitions within the scope of IAS 16, IAS 38 and IAS 40. Furthermore, the ED is not fully clear on how to account for transaction costs. We have the impression that the proposal does not allow the recognition of transaction costs as part of the cost of the associate. In our view, transaction costs should be capitalized for all acquisitions of associates (containing a business or not).

- The proposals added additional disclosure requirements for downstream transactions with associates and joint ventures (i.e. to assess earnings quality). As we also see an elevated risk of earnings management with upstream and side stream transactions we recommend to add additional disclosure requirements for all of these transactions with a material nature (especially when non-recurring).

We have included our detailed response to the Exposure Draft questions in Appendix 1.
If you have any questions, please do not hesitate to contact me.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix 1 : Responses to Exposure Draft questions

[1] For simplicity, just like the ED, the answers are expressed in relation to investments in associates, but should be read as also referring to JVs.

Appendix 1 – IASB – Responses to Exposure Draft

Question 1 — Measurement of cost of an associate

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.

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.

1.3 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.

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

In general, the DASB agrees with the comments provided by EFRAG. Same as EFRAG, our main concern is that in various explanations a parallel is drawn with IFRS 3. However, IFRS 3 is only applicable to acquisitions of a business. We would recommend to further clarify how these concepts should be applied to acquisitions of associates which do not contain a business.

With regards to the questions raised by EFRAG:

1.1 In our view the proposed treatment of transaction costs is unclear in the exposure draft. The lack of further guidance on this matter suggests to us that the IASB proposes to follow the analogy of IFRS 3 Business Combinations which would imply that transaction costs are not capitalized but expensed. We do not agree which such proposal, especially not in case of the acquisition of an associate which does not contain a business. Additionally, in case of the acquisition of an associate which does contain a business we also would be in favour of capitalising the transaction costs.

1.2 As far as we are aware both elements of the proposal referred to in 1.2 are part of established practice and no significant issues have been noted so far, therefore we did not identify those concerns.

1.3 We agree with the approach of including deferred tax effects in the carrying amount of the investment. In our view, this is already common practice and in line with the principles of the acquisition method in IFRS 3.

Question 2 — Changes in an investor's ownership interest while retaining significant influence
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 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
EFRAG's questions 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? If you disagree, please explain why you disagree and your suggested alternative.

In general, the DASB agrees with the comments provided by EFRAG. The DASB also acknowledges that the layered approach is potentially complex and costly. However, we understand this is already generally applied in practice. We do not recommend to include additional practical application guidance for determining the purchase price allocation.

In our view, the two alternatives provided by EFRAG in paragraph 48 are solutions for solving a practical problem. In our view, the purchase price allocation is to be performed based on the information available and requires a best effort to determine the fair values of the identifiable assets and liabilities. Management is required to apply judgement in performing the purchase price allocation taking into account materiality.

In our view, both alternatives can be applied as part of the application of materiality considerations only and should therefore not be included in the proposal as an actual alternative. As in current practice, they should be feasible (without explicit mentioning in the standard) when resulting in materially correct outcomes

We recommend that EFRAG reconsiders the two alternative solutions and proposes to the IASB to add the materiality considerations in the basis for conclusions. It would not be necessary to specifically mention materiality in the standard itself, as this reflects a general concept under IFRS.

Question 3 — Recognition of the 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 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. (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.

The DASB welcomes the clarifications provided in the proposal and largely agrees with the comments provided by EFRAG, except for the following. We do not agree with the consideration mentioned in paragraph 68 of the EFRAG draft comment letter, whereby EFRAG considers it as inappropriate to recognize additional goodwill in the situation where the net assets of an investee are already negative. For us it is not clear how EFRAG would recommend to account for such transactions, we assume through the income statement?

We do not agree with this recommendation in case the contribution relates to the increase in shareholding. We prefer generally to first recognise goodwill and subsequently test it for impairment (and if applicable recognise an impairment loss). However, we agree that in the situation where a contribution solely relates to financing of historical losses no additional goodwill should be recognised. In our experience such 'contributions' are significantly different from acquiring an additional interest in the associate from another shareholder.

Additionally, we would not consider purchasing an additional ownership in an entity with negative assets as a triggering event by default for impairment testing purposes. In principle, we would consider the purchase price paid as the fair value of the additional interest. We believe that all facts and circumstances should be taken into account before concluding that there is a triggering event.

Furthermore, we would recommend to further clarify how the composition of the associate's carrying amount should be seen in the case net assets are negative. Would the carrying amount of the associate be seen in total as goodwill, or will the goodwill be higher and offset by the negative asset value?

Question 4 — Transactions with associates
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

In general, the DASB agrees with the proposal and comments provided by EFRAG to recognise full gains and losses resulting from up- and downstream transactions with associates, as it reduces practical complexity and improves consistency within the standards.

The DASB expects that the fact that associates are not controlled by the same parent generally creates sufficient safeguards to reduce the risk of undesired structuring opportunities and earnings management.

However, the DASB believes that there is a potential risk within larger groups. In these larger groups it could be that entities in the financial statements of a sub-group are associates and in the financial statements of the ultimate parents are a subsidiary. In these situations management could enter into transactions that possibly do not reflect the economic substance in the financial statements of a sub-group to accomplish a certain outcome. For example, these transactions could influence the reserves available for dividend distributions.

As in these situations the associates are ultimately under common control, the conflict of interests is limited and risks of structuring opportunities and earnings management remain. In these kind of common control situations we are in favour of eliminating gains and losses.

We noted that additional disclosure requirements are added to give more insights into gains and losses arising from downstream transactions with associates. However, we consider upstream and side stream transactions to be relevant as well. Therefore, we would recommend to address that concern (see also question 7).

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.

Overall, the DASB agrees with the proposals and comments made by EFRAG. The proposed changes improve the understandability of the standard significantly. We support the recommendation given in paragraph 104 to further reference the requirements as included in IAS 36 to avoid repetition and unintended inconsistencies. Furthermore, the DASB does not identify the concern raised by some stakeholders (made in paragraph 102) that the proposed changes will result in an unnecessary increase in the frequency of impairment testing.

Question 6 — Investments in subsidiaries to which the equity method is applied in 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 this proposal? If you disagree, please explain why you disagree and your suggested alternative.

EFRAG questions to constituents- separate financial statements
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.

The DASB fundamentally does not agree with the proposals included in the ED and comments made by EFRAG. In our view the proposed changes should not be applicable to subsidiaries accounted for in accordance with the equity method in the separate financial statements.

The primary reason for that is that we see a higher risk that transactions with subsidiaries do not reflect the economic substance due to a risk of structuring opportunities. This risk with associates is less due to the conflict of interests between the different parties/shareholders involved in such transactions. However, this is not present with subsidiaries as they are controlled by the same parent. These concerns cannot be resolved by additional disclosure requirements (this might result in the recognition of gains and losses in the separate financial statement which are not in accordance with the economic substance of the transactions, this could also have an impact on the distributable equity).

In our view, having two separate forms of the equity method would not be a concern, as in our view the relationship of an entity with its subsidiary is substantially different than its relationship with an associate (significant influence) or a joint venture (joint control), both from a conceptual point of view as well as a practical point of view (the information to make any such eliminations should be readily available in the case of a subsidiary).

With regards to the questions raised by EFRAG:

6.1 In the Netherlands, entities have the option to apply the equity method in the separate financial statements, with mandatory elimination of intra-group results.

As a consequence of the concerns raised above we fundamentally disagree with the proposals made. We see structuring opportunities for entities applying IFRS Accounting Standards in their separate financial statements to increase distributable reserves (see also our comments in respect of side stream transactions as part of question 11).

6.2 We consider this a relevant topic and question. However, in our view this is outside of the scope of this exposure draft considering the project scope.

6.3 We consider the overall proposal to apply the proposed equity method to the accounting for subsidiaries in the separate financial statements without elimination of results with (and between) subsidiaries as not appropriate. Therefore, we are also not in favour of any additional options to this method.

Question 7 — Disclosure requirements
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.

In general we agree with the proposals and responses made by EFRAG for the disclosures on associates. For our view on the equity method on subsidiaries we refer to question 6.

Furthermore, we see also an elevated risk in up- and side stream transactions therefore we would recommend to broaden the requirement to material up- and downstream transactions (with a one-off/non-recurring nature).

The DASB also agrees with the recommendation that a disaggregated reconciliation (roll forward) should be prepared for material investments only.

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).

In general we agree with the proposals and responses by EFRAG. Especially we agree with the recommendation of EFRAG to include a disclosure requirement for the reconciliation between the opening and closing carrying amounts of its investments on a total level. Furthermore, in our view we see an elevated risk in upstream stream transactions as well and therefore we would recommend to broaden the requirement to side-, up- and downstream transactions.

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
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

In general we agree with the responses of EFRAG on the transition approach. However, we would not recommend to include an option for prospective application of the restricted unrecognized results.

Question 10 — Expected effects of the proposals
Paragraphs BC217–BC229 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?

We have no further additions to the expected effects of the proposals.

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)?

Side stream transactions

Side stream transactions are not mentioned in the ED, the Basis for Conclusion or the comment letter of EFRAG. It is not clear to us how these kind of transactions are impacted by the proposals.

In line with our comment on question 6 we are especially concerned when the results of side stream transactions between subsidiaries would no longer be eliminated in the separate financial statements of the parent applying the equity method to such subsidiaries.

In current practice not only the results between the parent and its subsidiaries are eliminated but also the results on transaction between its (indirect) subsidiaries.

Fair value measurement for associates and joint ventures

The IASB may also consider amending the exemption criteria for applying the equity method to enable electing fair value measurement voluntarily if the investor believes this provides more useful information to the users of the financial statements, especially when the investee itself is a listed company, or in case of private equity interests that are managed on a fair value basis. This additional option would further improve alignment of IAS 28 with the Conceptual Framework by providing useful information without undue costs arising from the requirements of IAS 28, such as expenses of purchase price allocation, and processing accounting policy differences between the investor and the investee, and requiring the investee to provide supplemental financial information to accommodate reporting or audit requirements of the investor. Furthermore, when the investee is a listed company, financial reporting requirements towards the investor can create a conflict between the reporting obligations of the investor and the restriction on insider information imposed by listing regulations. Therefore we propose adding a fair value option as alternative to equity method for consideration of the IASB. With regard to the presentation, we propose that at initial recognition, an entity may make an irrevocable election to present subsequent changes in fair value in other comprehensive income or in profit or loss (comparable to IFRS 9).