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MOORE STEPHENS

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Dear Ms Batista

EFRAG Short Discussion Series – The Equity Method: A Measurement Basis or One-Line Consolidation

Moore Stephens LLP is pleased to respond to EFRAG on their short discussion series, the Equity Method: A Measurement Basis or One-Line Consolidation issued January 2014.

We support the objective of the paper in stimulating debate about the equity method and contributing to the IASB work in this area. We agree with the concerns about the lack of clarity on the application of the equity method and the need for a better understanding of what the equity method aims to achieve in reporting for an investment in an associate or joint venture.

Attached to this letter you will find Appendix 1 with our comments to the specific questions raised in the paper.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Jamie Tomlin, Senior Technical Manager (+ 44 (0) 207 651 1619).

Yours faithfully



Moore Stephens LLP

Appendix 1

Response to EFRAG Short Discussion Series – The Equity Method: A Measurement Basis or One-Line Consolidation

Question 1: Do you consider the equity method under IAS 28 as a measurement basis, a one-line consolidation approach or something different? Please explain.

Due to the way that IAS 28 is written, we consider the equity method to be a way of accounting that has evolved to deal with a specific circumstance rather than being either a measurement basis or a one-line consolidation.

To adopt a position of either a measurement basis or a one-line consolidation basis approach as being a definitive approach may provide assistance to dealing with transactions or events that are not explicitly dealt with in the standard but would give rise to diverse treatments where this is not applied consistently between entities.

We are also of the opinion that by taking a view that the equity method could purport to be one of either of the two methods noted this would, and should, give rise to debate about whether the equity method as currently set out in IAS 28 is entirely consistent with that method. This opinion very much mirrors the concerns identified in the short discussion series that IAS 28 is not clearly underpinned by a clear objective of the equity method. Consequently, we are supportive of what EFRAG are trying to achieve with this paper.

Question 2: If you view the equity method under IAS 28 as being akin to a one-line consolidation approach, do you believe that the consolidation procedures should be based on the entity concept in IFRS 10 or not (eg based on proprietary approach)? Please explain.

We have alternative views on the equity method, arising principally because IAS 28 describes the method rather than explains what the method is trying to achieve. Whilst IAS 28 may strongly suggest that the equity method is akin to a one-line consolidation, and paragraph 26 is perhaps strongest in this regard, this neither confirms what the equity method is intended to achieve nor does it set out to what extent the procedures and concepts are similar to consolidation techniques in IFRS 10. In the absence of any clear application of the concepts of consolidation in IFRS 10 to the equity method this paragraph could be considered little more than a passing comment.

If the equity method is to be akin to a one-line consolidation the consolidation procedures based on the entity concept in IFRS 10 has attraction in that such methods would be generally accepted and understood. However, the proprietary approach should be considered further as this approach would reflect that the group does not have control over the associate, but control only over its interest such that it has “only” a significant influence over the entity. This is an important distinction that must be retained in the accounting for an associate.

Because the concept of a group as defined in IFRS includes only a parent and its subsidiaries, and consolidated financial statements are those of the group without any reference to interests other than the parent and subsidiaries, the term “one-line consolidation” could be read as bringing an associate within the scope of the group. Whilst the term “one-line consolidation” may help to summarise an approach for the equity method we would recommend that it is avoided, and hence it remains clear that an associate is not in the scope of the group.

Question 3: Do you think that for some transactions a measurement basis appropriately reflects the underlying economics of the transaction and provides useful information, whilst for other transactions a one-line consolidation approach is preferable? Could you provide some examples of transactions where application of either of the concepts would be more appropriate?

The diversity of business practice will inevitably lead to circumstances where a measurement basis would appropriately reflect the economics of the transaction. The use of the measurement basis may be appropriate where an entity transacts with an associate where the existence of the significant influence has had no bearing on the transaction. In such circumstances the elimination of part of any gain, for example, may not be an appropriate reflection of the transaction where this is no different to a transaction with a third party. Where an entity transacts with an associate as a conscious part of its strategy then the measurement basis may not properly reflect the nature of the transaction. Distinguishing between the two would be problematic in practice, and whilst guidance such as frequency of transaction, nature of transaction, possibly the business model of the investor, could be developed to assist with this, it would involve significant judgement with a likely diversity in practice. We therefore believe that it would be very difficult to develop an approach for the equity method that did not treat all transactions consistently.

Question 4: Have you had practical problems in applying IAS 28, because the underlying nature of the equity method is unclear? If so, could you please describe those problems and how you addressed them?

We have had problems in applying IAS 28 with respect to accounting for transactions between an investor and its associate or joint venture. We welcome the recent narrow-scope amendments published by the IASB, together with the further exposure draft, but share the concerns noted in the discussion paper in paragraph 40.