



European Financial Reporting Advisory Group ■

ED/2015/7 Effective Date of Amendments to IFRS 10 and IAS 28

Feedback to constituents – EFRAG Final Comment Letter

November 2015

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft *Effective Date of Amendments to IFRS 10 and IAS 28* ('the ED') on 23 October 2015. This feedback statement summarises the main comments received by EFRAG on its draft comment letter and explains how those comments were considered in EFRAG's final comment letter.

Background to the ED

In the Exposure Draft, the IASB proposes to defer indefinitely the effective date of the amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* which were published in 2014 and with an effective date on 1 January 2016 (the "2014 Amendments"). In the Basis for Conclusions, the IASB explains that its research project on equity accounting is currently investigating potential improvements and simplifications to the equity method of accounting. The deferral of the effective date of the 2014 Amendments means that entities will not need to change the way in which they apply IAS 28 twice over a short period of time and the IASB will be able to address the issues covered by the 2014 Amendments comprehensively.

The IASB also proposes that early application should be allowed as it considered that early application was unlikely to increase diversity in practice. Further details are available on the EFRAG [website](#).

EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 9 September 2015. In its draft comment letter, EFRAG agreed with the IASB's proposal to defer indefinitely the effective date of the 2014 Amendments. EFRAG considered that this deferral would give the IASB the opportunity to address the application problems arising from the equity method requirements set out in IAS 28 in a comprehensive way and in a single project. It would also give the IASB the opportunity to reconsider the issues and challenges identified by EFRAG during its consultative phase. Finally, EFRAG considered

that deferring the effective date of the 2014 Amendments indefinitely would also reduce the risk of requiring successive rounds of changes to IAS 28 in a short period of time.

Comments received from constituents

Five comment letters were received from constituents and considered in finalising the comment letter:

- European Securities and Markets Authority (ESMA);
- Accounting Standards Committee of Germany (ASCG);
- Instituto de Contabilidad y Auditoria de Cuentas (ICAC);
- Autorité des Normes Comptables (ANC); and
- Norwegian Accounting Standards Board (NASB).

Overall, three respondents supported a deferral of the effective date, although one respondent thought that the IASB should not wait for the results of its research project on the equity method to address a limited number of practical issues. Two of these respondents were against early application being permitted. By contrast, two respondents disagreed with EFRAG's tentative view and preferred to proceed with the 2014 Amendments; this was consistent with their earlier support to the amendments. EFRAG, in contrast, was opposed to the amendments. The comment letters are available on the EFRAG [website](#).

EFRAG's final comment letter

In its final comment letter EFRAG retained its tentative position, supporting the IASB's proposal to defer indefinitely the effective date of the 2014 Amendments, and urged the IASB to decide on/clarify on what principle-basis the equity method should apply and to progress that project as a priority in order to bring a solution to the outstanding issues in a timely manner. Furthermore, EFRAG agreed with those opposing early application after the effective date of the 2014 Amendments has been postponed, so as to limit changes in practice, until the direction for change, if any, is defined.

Detailed analysis of issues, comments received and changes made to EFRAG final comment letter

EFRAG's tentative views expressed in the draft comment letter and constituents' comments

In its draft comment letter, EFRAG agreed with the IASB's proposal to defer indefinitely the effective date of the 2014 Amendments. EFRAG considered that this deferral would give the IASB the opportunity to address the application problems arising from the equity method in a comprehensive way and in a single project. It would also give the IASB the opportunity to reconsider the issues and challenges identified by EFRAG during its consultative phase. Finally, EFRAG considered that the deferral would also reduce the risk of requiring successive rounds of changes to IAS 28 in a short period of time.

Three respondents agreed with the postponement of the amendments and the IASB clarifying the underlying rationale of the equity method and how it should be applied in practice. In addition, one of these respondents advocated the postponement being limited in time and for having the IASB's standard setting activity focused on the resolution of the practical issues. Two of these respondents disagreed with the IASB proposal to continue to permit early application. One respondent detailed that it was "meaningless to permit entities to anticipate what remains a virtual standard, not included in particular in any EU Endorsement" and there was no need for early application provisions as IAS 8's requirements were adequate enough to help entities determine whether they should apply the proposed interpretation.

Two respondents did not agree with the IASB's proposal to defer indefinitely the effective date of the 2014 Amendments. These respondents believed that the application of the 2014 Amendments would offer the benefits of increased clarity and the reduction of diversity in practice for the majority of transactions that are in the scope of the amendments.

EFRAG's response to constituent comments

EFRAG final position

EFRAG considered the views of those who opposed the deferral of the application date of the 2014 Amendments. EFRAG assessed that these views reflected a different assessment about the intrinsic quality of the 2014 Amendments. Although EFRAG remained supportive of the IASB's efforts to address the diversity in practice, it reiterated the view that the IASB should look at the 2014 Amendments more comprehensively, together with other issues related to the equity method of accounting, before introducing additional narrow-scope changes to IAS 28. Therefore, EFRAG decided to continue to support the IASB's proposal to defer the effective date.

EFRAG also considered the arguments of those who approved the deferral but opposed early application and decided to reflect in its letter opposition to early application remaining possible after the effective date of the 2014 Amendments has been postponed. This would ensure that the application of an unsatisfactory standard is as limited as practical.

Finally, EFRAG discussed whether it could support a time-limited postponement. However, EFRAG rejected this recommendation in favour of a restriction on early application because:

- in EFRAG's view, the IASB's research project on equity method of accounting should have a high priority and it should bring, in the near future, a solution to the outstanding issues.
- the ED is a positive response to EFRAG's past requests that there should be no further amendments until the rationale for the equity method is resolved.