European Securities and Markets Authority

The Chair

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ESMA/2014/185

Mr. Hans Hoogervorst
International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

The IASB's Exposure Draft Equity Method in Separate Financial Statements *(Proposed amendments to IAS 27)*

Dear Mr Hoogervorst,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the IASB's due process regarding the Exposure Draft ED/2013/10– Equity method in Separate financial statements *(Proposed amendments to IAS 27) ('ED')*. We are pleased to provide you with the following comments with the aim of improving the transparency and decision-usefulness of financial statements and the enforceability of IFRSs.

In the European Union application of IFRS is only required for the preparation of the consolidated financial statements of entities with listed securities on regulated markets. Member States may permit or require IFRSs to be used by entities when preparing their separate financial statements. While ESMA primarily focuses on the supervision and enforcement of consolidated financial statements, we would like to express some concerns in relation to the separate financial statements as those form part of the annual financial reports.

ESMA would have expected the IASB to provide more in-depth technical arguments supporting the re-introduction of the equity method as a measurement basis for subsidiaries, joint ventures and associates in the separate financial statements. In 2003 ESMA's predecessor agreed with the IASB's assessment that the equity method was accurately reflecting the economic interest in an investee in the investor's consolidated financial statements and that there was no need to provide the same information in the separate financial statements.

Furthermore, ESMA is aware of the on-going debate on the equity method in the IFRS IC and therefore, we would have welcomed that the IFRS IC first had clarified what this method actually represents, before proposing to reintroduce it for the separate financial statements.

ESMA believes that introducing options in the standards does not constitute a positive development for the IFRSs, even if options are introduced to accommodate concerns raised by certain jurisdictions and/or regions. Options can lead to more diversity of reporting practices which impairs overall comparability between entities.

ESMA would also like to point out to a more technical issue in the ED; there seems to be a disconnection between paragraph BC 11 of the ED and the proposed consequential amendments to paragraph 25 of IAS 28 – *Investment in Associates and Joint Ventures*. As a consequence of this disconnection, the re-measurement requirement in case of loss of control is not sufficiently clear. Furthermore, we are not sure that IAS 28 is the right place for these proposed consequential amendments.

Please do not hesitate to contact us should you wish to discuss any of the issues we have raised.

Yours sincerely,

Steven Maijoor
Chair
European Securities and Markets Authority