

EFRAG  
35 Square de Meeûs  
B-1000 Brussels  
Belgium

Oslo, 15 May 2014

Dear Sir/Madam

## **The Equity Method: A Measurement Basis or One-line Consolidation?**

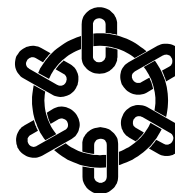
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to comment on the short discussion paper "*The Equity Method: A Measurement Basis or One-line Consolidation?*".

EFRAGs initiative to stimulate the debate on the equity method of accounting is well received by Norsk RegnskapsStiftelse, and we believe EFRAGs contributions to the debate could provide helpful input to the IASB's research project on the equity method. We find the discussion paper informative, well-structured, and relevant. The way the discussion paper presents the historical development of the equity method is useful because we have to know the past to understand the present. In particular, the retrospect is useful in determining whether the equity method in the current IAS 28 is a measurement basis or one-line consolidation.

We agree that the equity method under the current IAS 28 lacks a set of principles that clearly apply to all aspects of accounting under the equity method. Furthermore, we acknowledge that these insufficiently robust principles and lack of guidance have caused diversity in the way the equity method is applied in practice

In its research project on the equity method we believe the main objective of the IASB should be to clarify what the equity method aims to achieve in reporting for an investment in an associate or a joint venture.

It is argued that many procedures appropriate for application of the equity method are similar to the consolidation procedures described in IFRS 10. However, from the perspective of the consolidated financial statements IFRS 10 focuses on 'control' as the single basis of consolidation. Thus, all other investees held by a parent company (including associates and joint ventures) are excluded from the defined group in the parent's consolidated financial statements. Moreover, recent IASB amendments to IAS 28 and IAS 39 explain that an investment in an associate or a joint venture is a single unit of account, rather than the individual assets and liabilities of the investees. In our view, both the focus on control in IFRS 10 and the decisions explaining that an investment in an associate and joint venture is a single unit of account are conceptually sound. Hence, we believe the equity method cannot conceptually be a one-line consolidation.



Investments in joint venture are often more integrated in investor's business model than investments in associates. The number of transactions between investor and investee is often significantly higher, and an investor will often take a significant amount of the output from the joint venture. Applying the same set of principles of the equity method for an investment in a joint venture and an associate may therefore reduce the relevance of information in financial reporting. However, we believe this issue should be solved within IFRS 11 and not by amendments to the equity method in IAS 28.

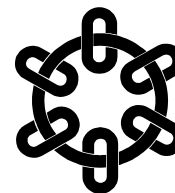
Although the perspective from a parent's separate financial statements is not discussed in the discussion paper, we note that several issues concerning the equity method in separate financial statements are extensively debated. We encourage EFRAG to include the perspective of separate financial statements in the debate on the equity method of accounting.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

Yours faithfully,

Erlend Kvaal

Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



## Appendix: Question to constituents

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

From the perspective of the consolidated financial statements we conceptually consider the equity method under IAS 28 as a measurement basis.

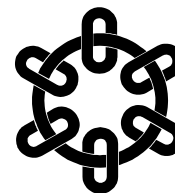
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2. If you view the equity method under IAS 28 as being akin to a one-line consolidation approach, do you believe that the consolidation procedures should be based on the entity concept in IFRS 10 or not (e.g. based on a proprietary approach)? Please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

We do not view the equity method under IAS 28 as being akin to a one-line consolidation approach.

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?

We generally believe a measurement basis more appropriately reflects the underlying economics of transactions concerning investments in an associate or a joint venture. In particular, we believe a measurement basis is more appropriate for transactions between investor and its associate or joint venture. An investment in an associate or a joint venture is a single unit of account and investor holds a non-controlled investee. Hence, we believe transactions between investor and an associate or a joint venture in general should be accounted for similar to any other transaction with a third party. Investor's profits or losses arising from such transactions should therefore be recognised in full in profit or loss.



In practice however, we often find that investments in joint ventures are more integrated in investor's business model than investments in associates. The number of transactions between investor and the joint venture is often high, and investor will often take a significant amount of the output from the joint venture. Applying the same set of principles of the equity method for an investment in a joint venture and an associate may therefore not appropriately reflect the underlying economics of all transactions between investor and equity-accounted investees. Hence, we believe a different method is required to account for an investment in a joint venture being highly integrated in investor's business model, than the equity model applicable for an investment in an associate. However, we believe this issue regarding joint ventures should be solved within IFRS 11 and not by amendments or guidance to the equity method in IAS 28.

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?

Although we are aware of several practical problems in applying IAS 28, Norsk RegnskapsStiftelse is not a preparer of financial reporting and we therefore decide not to reply to this question.