COMITÊ DE PRONUNCIAMENTOS CONTÁBEIS

SAS Quadra 05. Bloco J. CFC
Brasília, Distrito Federal – Brazil
www.cpc.org.br

February 3, 2014

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

RE: ED 2013/10 – Equity Method in Separate Financial Statements

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1], the standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies welcomes the opportunity to respond the ED 2013/10 – Equity Method in Separate Financial Statements.

Overall, we agree with the proposals embedded in the mentioned ED. However, we believe that by addressing a specific situation of review in paragraph 25 of IAS 28 the Board is not considering a number of differences between consolidated and separate financial statements that will continue existing if the ED is issued as proposed in the current ED. We believe that the Board should consider clarifying its intention with such proposal. We also have some comments described in question 5 of this comment letter.

Question 1

The IASB proposes to permit the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

Do you agree with the inclusion of the equity method as one of the options? If not, why?

Yes, we agree. As we pointed out in several Annual Improvements comment letters, we believe that such option will benefit several jurisdictions, including Brazil, which requires entities to prepare individual (separate) financial statements for statutory

[1] The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

purposes, using the equity method to account for investments in subsidiaries, joint ventures and associates.

Question 2

The IASB proposes that an entity electing to change to the equity method would be required to apply that change retrospectively, and therefore would be required to apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

We agree with the use of IAS 8 in such instance.

Question 3

The IASB does not propose to provide any special relief for first-time adopters. A first time adopter electing to use the equity method would be required to apply the method from the date of transition to IFRSs in accordance with the general requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards.

Do you agree that a special relief is not required for a first-time adopter? If not, why and what alternative do you propose?

Yes, we agree there is no need to provide relief to first time adopters in relation to this change.

Question 4

The IASB proposes to amend paragraph 25 of IAS 28 in order to avoid a conflict with the principles of IFRS 10 Consolidated Financial Statements in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.

Do you agree with the proposed consequential amendment? If not, why?

We agree with the proposal. However, we believe that its basis for conclusion is not direct related to this proposed change. Paragraph 25 of IAS 28 is exclusively related to the situation on which the interest in an associate or a joint venture is reduced, but the investor continues to have significant influence after the interest reduction. However, BC 11 is dealing with the situation on which the entity loses control on a subsidiary but retains significant influence or joint control. In this case a remeasurement at fair value of the remaining interest is required, in accordance with paragraph 25 of IFRS 10, which is not the same situation described on paragraph 25 of IAS 28.

In addition, we, in Brazil, apply equity method in the separate financial statements in order to capture an effect similar to a collapsed accounting of the investment, i.e., equity and net income of the separate financial statements should be the same as equity and net income attributable to owners to the parent in the consolidated financial statements, but they might have some differences between separate and consolidated statements. Having said that, we do not agree with the IASB BC 10 wording, since it is not clear whether the Board is trying to achieve consistency between separate and consolidated financial statements. If so, there are some other differences between these two financial statements that are not being addressed in this ED, such as recognition of impairment losses of goodwill on investment (in separate statements, goodwill is not tested separately from the investment but at consolidated level it is tested as a separate asset) or acquisition costs on business combination (expensed in consolidation but included in cost of the investment in equity accounting).

Question 5

Do you have any other comments on the proposals?

We have the following additional comments:

a) Application of the equity method

Based on the ED, it is not clear for us, if an investor can make its accounting policy choice and account different types of investments in different ways (for example: subsidiaries at cost, associates under IFRS 9 or IAS 39 and join venture under equity method) or if the investor must choose only one specific option and applied it for all types of investments.

We recommend IASB to clarify this matter and, if it is the case, justify why investments in subsidiaries, associates or joint ventures in the separate financial statements are accounted for in the different ways.

In our view an entity shall choose as its accounting policy either cost, fair value or equity method and apply that policy to all investments in subsidiaries, joint ventures and associate companies.

b) Acquisition, loss of control or other changes in ownership interest

We understanding that it would be helpful if the ED clarify whether or not the principles applied to acquisition and loss of control and also changes in the ownership interest (without loss of control) in consolidated financial statements apply to separate financial statements accounted under equity method.

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c) Joint operation:

We recommend IASB to include in the ED additional guidance related to account for a joint operation that is not structured through a separate vehicle in the separate financial statements. In other words, should the joint operation that is not structured through a separate vehicle be accounted under equity method in separate financial statements? We believe that equity should be applied in such scenario, but would request to Board to express its position.

d) Subsidiaries with net assets deficiency

We suggest to clarify if an investor should discontinue recognizing its shares for further losses when the investor's share of losses of a subsidiary equals or exceeds its interest in the subsidiary or if it must recognize further losses in order to achieve the same net assets and profit loses attributable to the equity holders of the investor in the consolidated financial statements.

e) Treatment of other comprehensive income

We suggest that the Board consider adding additional guidance on treatment of other comprehensive income, for example, cumulative translation adjustment on equity method calculation. This amount apparently should not be part of the equity result.

If you have any questions about our comments, please contact us at operacoes@cpc.org.br.

Yours sincerely,

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Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)