SOCIÉTÉ FRANÇAISE
DES ANALYSTES
FINANCIERS

20 January 2025

Mr. Andreas Barckow
Chairman
International Accounting Standards Board
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Canary Wharf
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Exposure Draft "Equity Method of Accounting".

Comments by the Financial Analysis and Accounting Commisson of the French Society of Financial Analysts (SFAF)

Dear Sir,

The French Society of Financial Analysts, SFAF (Société Française des Analystes Financiers), is pleased to submit its contribution as part of the consultation undertaken by the IASB on the Exposure Draft *Equity Method of Accounting*.

SFAF represents more than 1,400 members in France and is itself a member of the European Federation of Financial Analysts Societies (EFFAS), which comprises 16 member organizations representing more than 15,000 investments professionals. Its Accounting and Financial Analysis Commission was created to represent analysts, fund managers and professional investors in the debate on accounting standards more than 40 years ago. Financial analysts are among the principal users of corporate financial statements and therefore wish to express their opinion on the implementation of new or revised accounting standards.

For this reason, our Society, through its Accounting and Financial Analysis Commission, is keen to respond to your consultation on Equity Method of Accounting, a subject of great importance for our members.

As a general statement, we very much welcome the IASB's intention to improve consistency on how to apply IAS 28 *Investments in Associates and Joint Ventures* in financial statements, bringing more comparability for users of financial statements, a key feature of what should bring international standards. In addition, we believe that, generally speaking, the technical choices made in the Exposure Draft are the right ones.

Beyond the technicalities, we nevertheless, feel that providing simple illustrative examples would have made understanding of the proposed choices a lot simpler.

SFAF's Accounting Commission answers to the detailed questions of the Exposure Draft are the following:

1.- Measurement of cost of an associate

We support the valuation of equity associates at fair value when significant influence is gained, including fair value of previously held interest in the investment. This would be broken down in the net fair value of assets and liabilities of the associate, plus goodwill (if positive). This treatment when significant influence is gained, is consistent with IFRS 3 when control is gained.

We also consider that contingent considerations need to be included in the fair value of equity associates. This will reflect the full reality of the investment decision, and will be consistent with IFRS 3 accounting treatment for contingent considerations for subsidiaries.

We also support that, transaction cost for gaining significant influence, should be expensed, once, consistently with cost when gaining control (IFRS 3).

2. Changes in an investor's ownership interest while retaining significant influence

We support the proposed treatment when purchasing (or selling) additional ownership while retaining significant influence, i.e. adjusting the equity method associate with the fair value of the additional ownership purchased (or sold). This requires a measure of net assets and liabilities of the associates at the time of additional purchase.

The main reason for this support is that the resulting total amount for associates reflects the full amount of capital invested in the equity associates, as key measure for investors, and a necessary information to properly fulfil the stewardship goal. This process of adding different valuations levels for the associate fairly reflects the different prices paid at different moments. This is in contradiction with the approach used in IFRS 3 since the 2005 changes, which SFAF's Accounting Commission challenged as soon as it was proposed[1]: "*We would point that mixtures are happening almost everywhere in the balance sheet*". SFAF's Acccounting Commission, when replying ti IASB'S Request for information on IFRS 3, in 2014, repeated[2] its view, writing that "*the fact that revision of the standard blocked the valuation at the date of control is inconsistent with what investors want to follow, i.e. capital invested.*" adding "*We also stress that this approach has very disturbing consequences (that were well identified when the standard was revised*", and concluding that "*From an investor perspective (with a parent company approach), we fully support adjusting the valuation of a controlled subsidiary with each change in ownership percentage.*" Finally, we believe that the improved transparency and consistency resulting from the proposed changes are worth the additional costs.

[1] SFAF 2005 comment letter available at https://www.sfaf.com/base-documentaire/telechargement/209
[2] SFAF 2014 comment letter available at https://www.sfaf.com/base-documentaire/telechargement/229

When disposing of an ownership interest while retaining significance influence, we also support the recognition of the gain, or loss, in the income statement, as it fairly represents the reality of the change. We also note that this in contradiction with the approach retained in IFRS 3 for controlled entities, a flawed approach that SFAF opposed in the above-mentioned comment letters.

3.- Recognition of the investor's shares of losses

We agree with the proposed clarification, as it is consistent with the proposed clarification in Question 2.

We also support to recognise separately the profit and loss and other comprehensive income for associates. The example used in paragraph 52 makes the application clearer.

4.- Transactions with associates

We agree to recognise in full gains and losses, whether upstream and downstream, with an associate. We believe this choice makes the understanding of financial statements a lot simpler and clearer to users.

We nevertheless believe that, in order to limit structuring opportunities, disclosures should be enhanced and detailed to provide all information to users to understand the nature and extend of these gains and losses.

5.- Impairment indicators (decline in fair value)

We support the proposed clarifications for impairments indicators, as it will make impairments on associates closer to the mechanism used by IAS 36. We particularly welcome the decision to remove the "*significant and prolonged*" words, as IAS 36 has already extensively showed that needed impairments have been delayed and reduced in amount (the well-known "*too little-too late*" phenomenon[3]). Keeping these words for associates would have allowed for even more "*too little-too late*".

6.- Investments in subsidiaries to which the equity method is applied in separate financial statements

We have no view on this question.

[3] See SFAF 2014 comment letter page 3 available at https://www.sfaf.com/base-documentaire/telechargement/229 and SFAF 2020 comment letter available at https://www.sfaf.com/base-documentaire/telechargement/246

7.- Disclosure requirements: IAS 12 and IAS 27

The ED proposals in terms of disclosures are very welcome as they will allow a better understanding of impacts of equity associates in the balance sheet and income statement. We nevertheless believe that, to have a complete understanding, gains and losses from upstream should also be disclosed. And that all these impacts should have their cash impact easily understandable.

In particular, we strongly support the reconciliation between the opening and the closing carrying amounts of associates.

8.- Disclosure requirements for eligible subsidiaries IFRS-19

No view on this question.

9.- Transition

We doubt that is would easy and useful to apply retrospectively the full recognition of gains and losses with associates, as proposed in a). We agree with point b) and c).

10.- Expected effects of the proposals

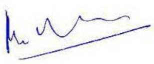
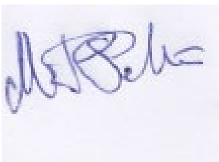
No view on this question

11.- Other comments

No view on this question

We thank you for the opportunity given to us to provide our view on such important aspects of financial reporting for users. If you would like to further discuss the views expressed in this letter, please do not hesitate to contact us.

Yours faithfully,

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