

22 March 2013

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

Dear Hans

AOSSG comments on Exposure Draft ED/2012/3
Equity Method: Share of Other Net Asset Changes

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes*. In formulating its views, the AOSSG sought the views of its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region. This submission has been circulated to all AOSSG members for their comment after having been initially developed through the AOSSG Chair's Advisory Committee.

Most AOSSG members are not supportive of the IASB proposal to amend IAS 28 *Investments in Associates and Joint Ventures* to require an investor to recognise, in the investor's equity, its share of the changes in the net assets of the investee that are 'other net asset changes'. In addition, if the IASB were to proceed with this proposal, most members do not support the further proposal to reclassify to profit or loss any cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.

Some AOSSG members consider that, while the proposals are not the ideal solution, these members can support the IASB's proposals on the basis that they would be an immediate solution to the divergent practice. Other members support the proposals based on the rationale provided in paragraphs BC4 and BC7 of ED/2012/3.

Our views are explained in more detail in the Appendix.

If you have queries regarding any matters in this submission, please contact me.

Yours sincerely

A handwritten signature in black ink that reads 'K.M. Stevenson'.

Kevin M. Stevenson
AOSSG Chair

Appendix

Detailed comments on IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes*

Question 1 of ED/2012/3 – Proposal to recognise in the investor’s equity its share of the investee’s other net asset changes

- 1 Most AOSSG members do not support the proposal to amend IAS 28 *Investments in Associates and Joint Ventures* to require an investor to recognise in the investor’s equity its share of other net asset changes. AOSSG members consider that, in the case of an investee issuing additional shares to third parties and diluting the investor’s interest, any gain or loss on the dilution should be recognised in the same way as if the dilution were a result of a direct disposal of an interest in the investee. This is because the dilution has the same economic impact no matter how it comes about.
- 2 Furthermore, most AOSSG members consider there is insufficient rationale for the proposals in ED/2012/3. If the investor were to recognise its share of the investee’s other net asset changes in its own equity, it would appear to represent transactions between the investor and its non-controlling interest, which would be inconsistent with the principles of IAS 1 *Presentation of Financial Statements* and IAS 27 *Consolidated Financial Statements*.
- 3 Some AOSSG members are also concerned that the proposal does not adequately address potential cross-cutting issues with:
 - (a) paragraphs 48C and 48D of IAS 21 *The Effects of Changes in Foreign Exchange Rates*, which requires reclassification of exchange differences previously recognised in other comprehensive income when there is any reduction in ownership interest; and
 - (b) recent IASB decisions in relation to the accounting for a loss of control and reduction in ownership interests when control or significant influence is retained, as well as paragraph BC24D of IAS 39 *Financial Instruments: Recognition and Measurement*, which states that the acquisition of an interest in an associate represents the acquisition of a financial instrument.
- 4 Contrary to most members’ views in paragraphs 1 and 2 above:
 - (a) some AOSSG members consider that, while the proposal is not the ideal solution, these members can support the IASB’s proposal on the basis that they would be an immediate solution to the divergent practice. These members also provided their views on Question 2 (refer paragraph 7 below).

- (b) other members support the proposals based on the rationale provided in paragraphs BC4 and BC7 of ED/2012/3. These members also provided their views on Question 2 (refer paragraph 8 below).

Question 2 of ED/2013/2 – Proposal to reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method

- 5 If the IASB were to proceed with the proposal in Question 1, most AOSSG members disagree with the proposal to reclassify to profit or loss any cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method. Most AOSSG members consider the proposal is inconsistent with the prohibition in IFRS 3 *Business Combinations* against reclassifying/recycling amounts of equity to profit or loss that are not attributable to the investor (parent).
- 6 If the IASB disagrees with most members' views expressed in paragraph 1 above, and therefore decides that the investor should not recognise in profit or loss its share of the investee's other net asset changes, most AOSSG members would prefer those amounts to be recognised in the investor's other comprehensive income, rather than equity, and subsequently reclassified to profit or loss on discontinuation of the equity method of accounting. This would at least be consistent with the IASB's proposal to reclassify cumulative amounts of the other net asset changes to profit or loss on discontinuation of the equity method. If the IASB agrees with this approach, some of these members recommend that IAS 21 should be amended:
 - (a) to acknowledge that 'any reduction in an investor's ownership interest that is accounted for as a share of investee's other net asset changes' would not represent a partial disposal; and
 - (b) to require any cumulative OCI amounts that were previously recognised to be reclassified to profit or loss when the investor discontinues the use of the equity method.
- 7 While other AOSSG members can accept the earlier proposal [refer paragraph 4(a) above], they do not agree with the proposal to reclassify to profit or loss any cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method. These members consider the fundamental issue to be the lack of conceptual guidance and lack of consistent application across IFRSs in regards to the distinction between equity and other comprehensive income. These members recommend that the IASB develop a conceptual guidance that explains the rationale for when to present items in profit or loss, other comprehensive income or equity,

and for when to reclassify items from equity or other comprehensive income to profit or loss.

- 8 Other members disagree with the views in paragraphs 1 and 2 above, and support the proposal in Question 2 consistent with the rationale provided in paragraph BC10 of ED/2012/3.

Question 3 of ED/2013/2 - Other comments

- 9 AOSSG members note that the IASB Work Plan dated 26 February 2013 indicates plans to undertake a research project that will involve a fundamental assessment of the equity method of accounting in the near future. Most AOSSG members support the IASB undertaking this research project in due course, having regard to other priorities, to help resolve issues connected with the equity method of accounting. Some AOSSG members suggest that the IASB reviews the equity method of accounting in light of the diversity of views as to whether it is a form of consolidation or a form of valuation as part of its research project.
- 10 If the IASB were to proceed with its proposals, some AOSSG members consider the amendments should be applied prospectively. The proposed amendments would require the restatement of an investee's previously recognised 'other net asset changes' and AOSSG members consider that the cost of reflecting the effects of those changes in an investor's equity would outweigh any benefit to users of the financial statements.