Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	5 February 2013
From:	**Christina Ng**	**Agenda Item:**	14.1
Subject:	**Narrow scope amendments to IAS 28**	**File:**	

Action

Consider preliminary staff views on the IASB proposals to amend IAS 28 *Investment in Associates and Joint Ventures* and provide preliminary Board views to assist staff in formulating the basis of the AASB's submission to the IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (Agenda paper 14.2), subject to any later submissions from constituents.

Attachments

Agenda paper 14.2 – AASB ED 228 *Equity Method: Share of Other Net Asset Changes* (which incorporates IASB ED/2012/3)

Agenda paper 14.3 – Submission 1 in relation to AASB ED 228

Background

1. AASB ED 228, which incorporates IASB ED/2012/3, proposes to clarify the application of the equity method in IAS 28. In particular, the IASB proposes to amend IAS 28 so that:

   (a) an investor shall recognise, in its equity, its share of 'other net asset changes' of an investee, that is, the changes in net assets of an investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received. Examples of 'other net asset changes' are changes to the investee's share capital, such as when an investee issues additional shares to, or buys back shares from, third parties, and movements in other components of the investee's equity, such as, when an investee accounts for an equity-settled share-based payment transaction. The IASB also proposes to add an example to illustrate the accounting by an investor of its share of other net asset changes in an investee (page 7 of ED 228); and

   (b) when the investor discontinues the use of the equity method, an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised.

2. ED/2012/3 does not propose an effective date, but indicates that early adoption would be allowed. Retrospective application is proposed.

3. Comments to the AASB on AASB ED 228 are due by 8 February 2013 (after the date of this memo) and to the IASB on IASB ED/2012/3 are due by 22 March 2013. At the time of writing this memo, one submission has been received (Agenda paper 14.3).

Submission 1

4. Submission 1 of AASB ED 228 (Agenda paper 14.3) does not support the proposed amendment in IAS 28 based on their view that the changes in an investee's other net asset changes are not equity transactions that are related to the investor, and accordingly, should not affect the investor's accounting.

Staff preliminary views in relation to the proposals in paragraphs 1(a) and 1(b) above

5. Paragraph 2 of IAS 28 defines equity method as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

6. Staff consider that, ideally, the issue would be resolved by determining what equity accounting is trying to achieve. However, staff note that this has yet to be articulated by the IASB and equity accounting appears to be neither a pure cost measurement nor a fair value measurement, and accordingly, it is not clear what the resulting investment carrying amount represents.

7. In the context of resolving the issue in the short-term (and in light of IAS 28's explicit requirement about the equity method that was inadvertently deleted in 2007), staff acknowledge that an investee's other net asset changes are considered post-acquisition changes in the investee's share of net assets, and IAS 28, by definition, would require an investor to adjust its investment for those changes. Following this requirement, staff can accept the IASB's rationale in paragraph BC7, in that IAS 28 requires:

   (a) an investor's share of an investee's profit or loss to be recognised in the investor's profit or loss; and
   (b) an investor's share of the investee's OCI to be recognised in the investor's OCI.

   Consistent with this approach, an investor's share of the investee's other net assets changes (that do not result from transactions that are neither profit or loss nor OCI but rather, are the investee's equity transactions) would be recognised in the investor's equity.

8. Overall, staff can accept the IASB's proposals in paragraphs 1(a) and 1(b) above as a short-term solution to address the diversity in practice [paragraph BC8 of ED/2012/3]. But the AASB's submission could perhaps implore the IASB to, in due course, undertake a longer term project to renew the suitability and definition of the equity method.

Question to the Board
What are the Board's preliminary views on staff preliminary views above?

Next steps

Comments on ED 228 are due to the AASB by 8 February 2013. As mentioned above, AASB staff received one submission at the time of writing this memo. AASB staff will provide a verbal update if we receive any more submissions on ED 228 at the 20-21 February 2013 AASB meeting.

Comments on ED/2012/3 are due to the IASB after the February 2013 AASB meeting. Consequently, AASB staff propose that the AASB submission on ED 228 be finalised out-of-session through the Chairman.