Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	26 November 2013
From:	**Christina Ng**	**Agenda Item:**	4.6
Subject:	**Equity Method: Share of Other Net Asset Changes – Project Update**	**File:**	

Action

Receive an update on recent tentative decisions made by the IASB in its Equity Method: Share of Other Net Asset Changes project and consider whether there are any issues that need to be raised with the IASB on those tentative decisions at this stage.

Overview of the project

1 IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes* (incorporated into AASB ED 228 of the same name) was issued in November 2012. The comment period on AASB ED 228 and ED/2012/3 ended on 8 February 2013 and 22 March 2013 respectively. The AASB provided comments on ED/2012/3[1] to the IASB on 21 March 2013.

2 ED/2012/3 is one of three related IASB narrow-scope amendments project which commenced as an IFRS Interpretations Committee project (Agenda papers 4.4 and 4.5 deal with the other related narrow-scope projects). 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.

1 The AASB submission on ED/2012/3 is available on the AASB website (http://www.aasb.gov.au/admin/file/content106/c2/AASB_Comments_IASB_ED-2012-3_Equity_Method_March_2013.pdf)

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

Summary of feedback on ED/2012/3[2]

4 The IASB noted that two-thirds of respondents (including the AASB) disagree with the ED/2012/3 proposal outlined in paragraph 2(a) above on the basis that:

(a) the proposed amendments would result in inconsistent accounting outcomes with IFRS 10 *Consolidated Financial Statements* and IAS 1 *Presentation of Financial Statements* as an investee is not part of the consolidated group and accordingly the investee's other net asset changes should be excluded from the 'owner's transactions' presented within equity;

(b) the proposed amendments would result in inconsistent accounting with paragraph 4.25 of the *Conceptual Framework*[3] as a 'credit' (or 'debit') in relation to 'other net asset changes' meets the definition of income (or expense) and does not arise from contributions from (or distributions to) equity participants;

(c) the equity method of accounting should not be regarded as a one-line consolidation because not all consolidation procedures are applied for the purpose of the equity method;

(d) the accounting of an investee's 'other net asset changes' should be consistent with the accounting of indirect increases or decreases in the investor's share of the investment ('deemed acquisitions or disposals') as both types of transactions are economically similar;

(e) a clear set of principles for the use of equity method of accounting should be developed before proceeding with the proposed amendments.

5 There were mixed views (with no clear and predominant view) as to whether respondents agree with the ED/2012/3 proposal outlined in paragraph 2(b) above. The AASB disagreed with this proposal and expressed its preference for those 'other net asset changes' to be initially 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.

IASB tentative decisions

6 At its October 2013 meeting, the IASB tentatively decided not to proceed with the proposals in ED/2012/3. The IASB directed IASB staff to conduct more analysis as to whether an investor should recognise the investee's share of 'other net asset changes', including an

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2 The summary feedback is outlined in IASB Paper 12C of the October 2013 meeting.

3 Paragraph 4.25 of the *Conceptual Framework* states:
The elements of income and expenses are defined as follows:
(a) Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.
(b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

investee's share-based payment transactions, in the profit or loss or other comprehensive income.

AASB staff recommendation

7 AASB staff note that the AASB's concerns with regards to the proposals in ED/2012/3 have been considered (as outlined in paragraph 4 above) and the IASB has tentatively decided not to pursue those proposals. AASB staff have not identified any additional issues that are significant enough to warrant them being raised with the IASB at this stage. Accordingly, AASB staff do not think there are any issues arising from the October 2013 IASB meeting that need to be raised with the IASB at this stage. AASB staff will continue to monitor the IASB's progress on this project.

Question for the Board

Do members agree with AASB staff recommendation in paragraph 7 above?