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

Dear Hans

AASB comments on IASB Exposure Draft ED/2013/10
Equity Method in Separate Financial Statements

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on ED/2013/10 *Equity Method in Separate Financial Statements*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB acknowledges the IASB's efforts to help reduce compliance costs of some respondents to its *2011 Agenda Consultation* by proposing to allow the option to use equity method in separate financial statements. However, the AASB is concerned that the proposals could result in the IASB inappropriately setting a precedent of amending International Financial Reporting Standards to address specific local legislative requirements.

The AASB notes that the equity method of accounting is the subject of an IASB research project, which will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers. As such, the AASB recommends that any amendments to IFRSs in relation to the application of the equity method be considered as part of this project.

The AASB's responses to the specific matters for comment in ED/2013/10 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Kala Kandiah (kkandiah@aasb.gov.au).

Yours sincerely

K.M. Stevenson

Kevin M Stevenson
Chairman & CEO

APPENDIX

AASB comments on IASB ED/2013/10 *Equity Method in Separate Financial Statements*

Question 1 – Use of the equity method

The AASB does not support the inclusion of 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. The AASB is concerned that the proposals could result in the IASB inappropriately setting a precedent of amending IFRSs to address specific local legislative requirements.

The AASB notes that the equity method of accounting is the subject of an IASB research project, which will involve a fundamental assessment of the equity method in terms of its usefulness to investors and difficulties for preparers. As such, the AASB recommends that any amendments to IFRSs in relation to the application of the equity method be considered as part of this project.

Question 2—Transition provisions

As noted in our response to Question 1 above, the AASB does not support the proposals in ED/2013/10. However, if the IASB proceeds with the proposals, the AASB agrees that an entity electing to change to the equity method should be required to apply that change retrospectively, and therefore be required to apply IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. The AASB considers that retrospective application would provide useful comparative information to users. Further, retrospective application aligns with the rationale provided in paragraph BC12 of ED/2013/10 that an entity should be able to use the information that is used for consolidation of the subsidiary in its consolidated financial statements for applying the equity method to the investment in the subsidiary in its separate financial statements.

Question 3—First-time adopters

As noted in our response to Question 1 above, the AASB does not support the proposals in ED/2013/10. However, if the IASB proceeds with the proposals, the AASB agrees with the rationale in BC14 of ED/2013/10 and supports the proposal that a first-time adopter electing to use the equity method 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.*

Question 4—Consequential amendment to IAS 28 *Investments in Associates and Joint Ventures*

Paragraph BC11 of ED/2013/10 states that the proposed the amendment to paragraph 25 of IAS 28 is to avoid any conflict with the principles of IFRS 10 *Consolidated Financial Statements*, which requires an entity to recognise any investment retained in a former subsidiary at its fair value when control is lost.

The principles of IFRS 10 referred to in paragraph BC11 of ED/2013/10 provide accounting guidance in the preparation of consolidated financial statements. The AASB does not agree that these principles should be applied in the preparation of separate financial statements.

In consolidated financial statements, loss of control of a subsidiary is a significant economic event where the parent subsidiary relationship ceases to exist and an investor-investee relationship begins that differs significantly from the former parent-subsidiary relationship (paragraph BCZ182 of IFRS 10). In separate financial statements, the nature of an investment in a subsidiary, an associate or a joint venture is the same (i.e. they are assets in an investor-investee relationship). Further, paragraph BC10 of IAS 27 states that the focus in separate financial statements is on the performance of these assets as investments. Therefore, in separate financial statements, when an investment in a subsidiary becomes an investment in an associate or joint venture, the AASB considers that the principles of IFRS 10 should not apply as there is no significant change to the existing investor-investee relationship (i.e. no significant economic event occurs).

Notwithstanding the above, if the IASB proceeds with its proposals, the AASB considers that the proposed amendment to paragraph 25 of IAS 28 does not reflect the intention of the IASB as expressed in paragraph BC11 of ED/2013/10. The AASB considers that the proposed amendment to IAS 28 does not require an entity that applies the equity method in separate financial statements to remeasure any retained investment to fair value if an investor loses control over a subsidiary.

The AASB also considers that the proposed amendments to IAS 28, as currently drafted, would potentially result in accounting inconsistencies as it is unclear how loss of control of a subsidiary that is at cost in separate financial statements would be accounted for.

Question 5- Other comments

The AASB suggests that the definition for separate financial statements in paragraph 4 and paragraph 6 of ED/2013/10 be combined to make it clear, particularly to entities that only have investments in joint ventures and associates, that separate financial statements are those presented <u>in addition</u> to the financial statements required by IAS 28 *Investments in Associates and Joint Ventures.*