



Memorandum

To:	AASB members	Date:	23 May 2014
From:	Christina Ng	Agenda Item:	5.3 (M138)
Subject:	Equity Method: Share of Other Net Asset Changes – Project Update	File:	

Action

Receive an update on the developments of the IASB Equity Method: Share of Other Net Asset Changes project.

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 for 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](#) to the IASB on 21 March 2013.
- 2 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 Other Comprehensive Income (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. ED/2012/3 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 an investor discontinues the use of the equity method, the investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised.
- 3 At its October 2013 meeting, the IASB deliberated the responses it received on ED/2012/3 and noted there was limited support for the proposals in ED/2012/3. The IASB tentatively decided not to proceed with the proposals. Refer [AASB December 2013 Agenda paper 4.6](#) for more details.
- 4 The IASB then considered further IASB staff analysis on the issue of how an investor should recognise its ‘share of other net asset changes’, including four alternatives to the proposals in

ED/2012/3, and observed that each alternative has its challenges as well. Subsequently, the IASB reconsidered its proposed amendments in ED/2012/3 and tentatively decided that the proposed amendments are appropriate until the IASB revisits the principles of the equity method of accounting. Refer [AASB April 2014 Agenda paper 11.1](#) for more details.

- 5 At its March 2014 meeting, the IASB tentatively decided to finalise the proposed amendments in ED/2012/3. At the meeting, two IASB members communicated their intention to dissent from the final amendments.

Recent developments since the April 2014 AASB meeting

- 6 Subsequent to its decision to finalise the proposed amendments in March 2014, three more IASB members expressed their intention to dissent as they reflected further on the consequences of the amendments (rather than as a result of any new technical issues). This presents a total of five IASB members who expressed intent to dissent from the final amendments.
- 7 At its 22 May 2014 meeting, the IASB discussed whether to continue to proceed with finalising the project in the light of the unclear support for the proposed amendments. When put to a vote, only nine IASB members were in favour of finalising the proposed amendments, which confirmed there was insufficient support to approve the proposed amendments.
- 8 Accordingly, the IASB decided not to proceed with the proposed amendments and to address the issues in this project as part of its research project on Equity Method of Accounting, which AASB staff understand will commence shortly¹. This final outcome is consistent with the [AASB's recommendation in its submission to the IASB on ED/2012/3](#).

AASB staff recommendation

- 9 AASB staff consider there is no issue to raise with the IASB at this stage. AASB staff will monitor the IASB's research project on Equity Method of Accounting.

Question for the Board

Do members agree with AASB staff recommendation in paragraph 9 above?

¹ The IASB Accounting Standards Advisory Forum (ASAF) will discuss the planned scope of the Equity Method of Accounting research project on 2-3 June 2014. Refer [IASB ASAF Agenda paper 3A](#) for more details.