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Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Canon Street
London, EC4M 6XH
United Kingdom
(By Electronic Submission: commentletters@ifrs.org)

cc:
Mr. Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Melbourne, VIC, 8007
(By Electronic Submission: standard@aasb.gov.au)

20 March 2013

Dear Mr Hoogervorst,

Exposure Draft ED/2012/3 *Equity method - Share of Other Net Asset Changes*

We are responding to the IASB Exposure Draft *Equity method - Share of Other Net Asset Changes.* Our responses to the questions included within the consultation document are provided in the attached Appendix.

We agree there is diversity in practice on how investors should recognise their share of changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and that are not distributions received. The proposed rule to recognise other net assets changes in equity would be simple to apply, however we do not consider this accounting reflects the substance of some transactions. We prefer for the Board to defer the issue, since it has added two projects to its agenda – the equity method of accounting, and the conceptual use of OCI and recycling – that could impact the accounting proposed in the exposure draft.

If you have any questions in relation to this submission, please do not hesitate to contact me at +61 2 8232 5193.

Yours sincerely

Frank Palmer

Frank Palmer
Accounting Policy & Advisory Team Leader
Macquarie Group Limited

About Macquarie Group

Macquarie Group is a global financial services provider. It acts primarily as an investment intermediary for institutional, corporate and retail clients and counterparties around the world.

Macquarie has built a uniquely diversified business. It has established leading market positions as a global specialist in a wide range of sectors, including resources, agriculture and commodities, energy and infrastructure, with a deep knowledge of Asia-Pacific financial markets.

Alignment of interests is a longstanding feature of Macquarie's client-focused business, demonstrated by its willingness to both invest alongside clients and closely align the interests of shareholders and staff.

Macquarie's diverse range of services includes corporate finance and advisory, equities research and broking, funds and asset management, foreign exchange, fixed income and commodities trading, lending and leasing and private wealth management.

Macquarie Group Limited is listed in Australia (ASX:MQG; ADR:MQBKY) and is regulated by APRA, the Australian banking regulator, as the owner of Macquarie Bank Limited, an authorised deposit taker. Macquarie also owns a bank in the UK, Macquarie Bank International Limited, which is regulated by the FSA.

Founded in 1969, Macquarie employs more than 13,400 people in 28 countries. At 30 September 2012, Macquarie had assets under management of $A341 billion.

APPENDIX

Question 1

The IASB proposes to amend IAS 28 so that an investor should recognise in the investor's equity its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received. Do you agree? Why or why not?

We agree that the proposal to recognise the share of changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not the distributions in investor's equity, is simple to apply; however we do not agree with creating such a rule because the accounting does not reflect the substance of some transactions. For example, when an associate issues additional shares to third parties in exchange for cash consideration, the accounting by existing investors would not reflect the substance. The same economic effect, but a different accounting outcome, may be achieved by the third parties purchasing the proportionate interest from each of the existing investors and for those investors to reinvest these funds in the associate.

On the basis that the IASB progresses with its proposals, we provide our comments below to each of the questions.

An investment in an associate is not part of the consolidated group that includes the investor and its subsidiaries ("investor group"), being the 'entity' for which consolidated financial statements are prepared. Therefore transactions between an associate and its other third party investors are not transactions of the investor group entity. Consequently, the investor group's equity should not reflect the "equity" of the associate.

An investor accounts for its investment in an associate as an investor, not the underlying net assets of the associate as if it were controlled. We consider the equity method should not be extended further as proposed in this exposure draft. Para BC24D of IAS 39 *Financial Instruments: Recognition and Measurement* describes the equity method as an acquisition of a financial asset, and adds that the acquisition of an interest in an associate does not represent an acquisition of a business with subsequent consolidation of the constituent net assets. It does not imply that the principles for business combinations and consolidations can be applied by analogy to the equity method.

Further, we consider the proposals are inconsistent with the requirement of IAS 1 *Presentation of Financial Statements* to separate changes in equity of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Other owners of an associate are not owners of the investor group.

While we acknowledge there is a diversity of views of the current treatment, we recommend deferring this issue due to two existing IASB projects – the equity method of accounting and the conceptual use of OCI and recycling – which may resolve the matter. The project on equity accounting is expected to address the fundamental reason for applying the equity method of accounting.

Question 2

The IASB also proposes that an investor shall 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. Do you agree? Why or why not?

The proposal to require the cumulative amount of the equity to be 'recycled' to profit or loss when the equity method is discontinued would result in treating equity similar to OCI, which would result in complexity and confuse users about the differences between OCI and equity.

The rules of recycling OCI in other circumstances are already inconsistent, and these proposals add to that confusion. The issue of recycling cumulative amounts recognised in OCI to profit or loss is another issue that is to be the subject of the IASB's Conceptual project. We disagree with the way the IASB is currently addressing this issue through its various projects and standards (e.g. IFRS9 and IAS19), which sometimes requires and sometimes prohibits recycling without a consistent rationale.

If these proposals affirm that equity accounting is considered a 'method' to reflect a one-line consolidation approach, then we think the decision of whether to recycle should follow the treatment that would apply relating to the cause of the underlying movement. However, we do not think recycling an amount only upon disposal of the investment reflects the substance of some transactions (such as dilutions), because we consider dilutions to be a disposal at the time that the dilution occurs. Further, it might lead to deferral of losses in equity.

Question 3

Do you have any other comments on the proposals?

No other comments.