



Australian Government

**Australian Accounting
Standards Board**

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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 Exposure Draft ED/2012/3
Equity Method: Share of Other Net Asset Changes

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes*. In formulating its views, the AASB sought and considered the views of its Australian constituents. The comment letters received are published on the AASB's website.

The AASB supports the IASB's efforts to address the diversity in practice relating to the equity method of accounting of an investor's share of an investee's 'other net asset changes'. However, the AASB has strong reservations about the proposals. In particular, the AASB considers the transactions giving rise to an investee's other net asset changes are not in the nature of an investor's transactions in its own equity. The Board's views are explained further in the Appendix.

Given the number of issues that arise in applying the equity method of accounting, the AASB also encourages the IASB to undertake, in due course, a thorough review of the method in light of the diversity of views, including as to whether it is a form of consolidation or a form of valuation.

If you have any queries regarding any matters in this submission, please contact Christina Ng (cng@asb.gov.au).

Yours sincerely

A handwritten signature in black ink that reads "K.M. Stevenson".

Kevin M. Stevenson
Chairman

APPENDIX

Detailed comments on the IASB ED/2012/3 *Equity Method: Share of Other Net Asset Changes*

1. Overall, the AASB is not supportive of the proposals in ED/2012/3 as it believes the transactions giving rise to an investee's 'other net asset changes' are not in the nature of an investor's transactions in its own equity.

Recognise in the investor's equity its share of the investee's other net asset changes [relates to Question 1 of ED/2012/3]

2. The AASB does not support the proposal to amend IAS 28 *Investment in Associates and Joint Ventures* to require an investor to recognise in the investor's equity its share of other net asset changes. The AASB considers that, in the case of an investee issuing additional shares to third parties and diluting the investor's interest, any gain or loss on the dilution should be recognised in the same way as if the dilution were a result of a direct disposal of an interest in the investee. This is because the dilution has the same economic impact on the investor no matter how it comes about.
3. In addition, the AASB considers there is insufficient rationale provided in ED/2012/3 for the proposal. If the investor were to recognise 'its share of the investee's other net asset changes in its own equity', that would give the impression of representing transactions between the investor and its non-controlling interest, which would not be appropriate.
4. Furthermore, presenting these amounts in an investor's own equity would be inconsistent with paragraph 106(d) of IAS 1 *Presentation of Financial Statements*, which requires amounts related to transactions with owners in their capacity as owners to be presented in equity and amounts related to non-owner changes in equity to be presented in other comprehensive income.

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 [relates to Question 2 of ED/2012/3]

5. Even if the IASB were to proceed with the proposal that is the subject of Question 1, the AASB disagrees with the subsequent proposal to reclassify to profit or loss any cumulative amount of equity that the investor had previously recognised when the investor discontinues the use of the equity method.
6. The AASB considers that proposal to be inconsistent with:
 - (a) the prohibition in IFRS 3 *Business Combinations* from reclassifying/recycling amounts of equity to profit or loss that are not attributable to the investor (parent); and
 - (b) IAS 1, in that only items that were previously recognised in other comprehensive income are reclassified to profit or loss.

APPENDIX

If the IASB disagrees with the view of the AASB expressed in paragraph 2 above, and therefore decides that the investor should not initially recognise in profit or loss its share of the investee's other net asset changes, the AASB would prefer those amounts 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. This would at least be more consistent with the principles in IFRS 3, IAS 1 and the IASB's proposal to reclassify cumulative amounts of the other net asset changes to profit or loss on discontinuation of the equity method.

Other comments [relates to Question 3 of ED/2012/3]

7. The AASB notes that the IASB Work Plan dated 26 February 2013 indicates plans to undertake a research project that will involve a fundamental assessment of the equity method of accounting in the near future. The AASB encourages the IASB to undertake this research project, in due course having regard to other priorities, in view of resolving the diversity in practice of the equity method of accounting.
8. The AASB suggests that the IASB reviews the equity method of accounting in light of the diversity of views as to whether it is a form of consolidation or a form of valuation as part of its research project.