



Hayes Knight

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9 January 2013

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
MELBOURNE VIC 8007

Email: standard@asb.gov.au

Dear Sir,

**EXPOSURE DRAFT ED 228
EQUITY METHOD SHARE OF OTHER NET ASSET CHANGES**

We appreciate the opportunity to provide comments on the Exposure Draft ED228.

We are responding on behalf of Hayes Knight Australian Network of firms which is a separate and legal entity.

We are a member firm of Morison International, the winners of the 2012 International Accounting Bulletin Awards for "Association of the year" and "Rising Star Association".

Hayes Knight notes the diversity in practice as to how investors recognise their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and are not distributions received ('other net asset changes'). Therefore, Hayes Knight supports the AASBs efforts to address the issue.

Our response to the specific questions are included in Appendix 1.

We would be pleased to discuss any comments further.

Please contact me on (02) 9221 6666 if you require any further information.

Yours faithfully,
Hayes Knight (NSW) Pty Ltd

A handwritten signature in black ink, appearing to read 'Pran Rathod'.

Pran Rathod - Director Audit Services
Registered Company Auditor

Associated offices

Australia Melbourne Brisbane Adelaide Darwin Perth **New Zealand** Auckland Albany Parnell

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Responses to Specific questions

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?

Comments:

The amendments propose an additional inclusion of changes in "other net assets" of the investee company. These changes would relate primarily from changes in issued capital of the investee company (issue of additional shares or share buy backs) or movements in other components of the equity, such as share based payments and issue of options.

We do not agree with the proposal to include "other net asset" changes for the following reasons:

- **An investee's other net asset changes are equity transactions that are unrelated to the investor and which should therefore not affect the investor's accounting under the equity method. Therefore, in our view, the recognition of other net asset changes by the investor would give a misleading representation of the investee's operations, since the investor is not a party in such 'equity' transactions.**
- **Certain types of exchange transactions (share based, options) may cause the investors ownership interest to decrease or increase. Issues in terms of recognition and disclosures will arise in relation to the possibility of changes in its percentage interest.**

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?

Comments:

As explained in the response to question 1, we believe that under the equity method under AASB 128 the investor should not account for other net asset changes in the investee; therefore, reclassification would not be needed under this view.

Question 3

Do you have any other comments on the proposals?

Comments:

We do not have any other comments on the proposals.