BAKER TILLY

3 Hardman Street
Manchester
M3 3HF
United Kingdom

T: +44 (0)161 830 4000
F: +44 (0)161 830 4001

www.bakertilly.co.uk

Our ref: NATS/NW
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International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

nicky.warburton@bakertilly.co.uk

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Dear Sir or Madam

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

We welcome the opportunity to comment on the IASB's Exposure Draft ED/2012/3 Equity Method: Share of Other Net Asset Changes.

We do not support the proposed amendments which we consider will not achieve the stated aims and if adopted, would introduce a new, and in our view inappropriate, category of recycling, without due consideration of the consistency with other standards.

Our detailed responses to the questions raised are set out in Appendix 1. We have also taken this opportunity to comment on the IASBs process for amendments and consequential amendments to financial reporting standards.

If you would like to discuss any aspect of this response please do not hesitate to contact me.

Yours faithfully

N Warburton

Nicky Warburton
Technical Associate Director
Baker Tilly UK Audit LLP

Appendix 1

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?

Disagree - Whilst we appreciate that the current version IAS 28 does not deal with such changes, we do not agree that they can be dealt with under the umbrella of one recognition principle. This is because it will lead to an accounting treatment which is inconsistent with the accounting treatment applied to similar transactions. This is demonstrated in the example in the ED where the investor loses ownership interest without a sale of part of its holding in the investee (via a deemed disposal). The amendment treats the gain or loss on the deemed disposal as an adjustment to equity however a deemed disposal of an equity instrument accounted for under IAS 39 would lead to gain or loss being recognised in profit or loss. A gain or loss would also be recognised in profit or loss if a parent undertaking lost control as a result of a similar transaction. The only deemed disposal which would be treated as a change in equity is when control of a subsidiary undertaking is retained and IAS 27 (revised 2008) Basis of Conclusions paragraphs 41-42 makes it clear as to the reason why this is the case. In our view the reason given in IAS 27 (revised 2008) does not support the recognition of a gain or loss arising when an interest in an associate is reduced or increased.

By contrast if an entity buys back shares with the objective of issuing them to employees in the future, it may be appropriate for the transaction to be treated as a deduction in equity with no gain or loss recognised when the new issue occurs. This would be consistent with the treatment of treasury shares by an individual entity.

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?

Disagree -We do not agree with the recycling of cumulative amounts recognised in equity that the investor has previously recognised when the investor discontinues the use of the equity method. If a gain or loss is not going to be recognised in the profit and loss in respect of a deemed disposal when significant influence is retained, then the question then arises, 'Why should it be part of the gain or loss when the investor loses significant influence'. These two concepts appear to be contradictory and hence supports our response to question 1 that such gains and losses should be recognised when the deemed disposal occurs not when control is obtained or significant influence is lost. In addition the requirement is inconsistent with the requirements of IFRS 3 paragraph 42 which deals with business combinations achieved in stages. IFRS 3 only requires the recycling of items of other comprehensive income where it would be required if the acquirer had disposed directly of the previously held equity interest. In the circumstances highlighted above, the issue of shares and the buy-back of shares would not be recycled through profit and loss.

Question 3

Do you have any other comments on the proposals?

Yes

1. *IASB's process for amendments and consequential amendments to financial reporting standards*

   It is unfortunate that the IASB deems it necessary to propose these amendments in part to reverse an unintended consequence of a previous amendment particularly given that the new suite of standards IFRS 10, IFRS 11, IFRS 12, and the revised versions of IAS 27 and IAS 28 have not yet been in issue for long, are not yet mandatorily effective and have already been subject to other amendments. Piecemeal amendments not only create a drain on resource at the IASB which we understand is currently in short supply but creates, in our view confusion for users and preparers alike.

   We appreciate the benefits of timely updates, where necessary, but numerous amendments to financial reporting standards make them more difficult and costly to apply in practice.

   We encourage the IASB to take steps to reduce the number of amendments and consequential amendments in future.

2. *Equity Accounting*

   A more fundamental review of equity accounting should be undertaken rather than attempting to make piecemeal changes without the benefit of the full due process and at a time when there are already changes being made to new standards before their mandatory implementation dates.