SwissHoldings

Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

24 March 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Exposure Draft – Equity Method: Share of Other Net Assets Changes (proposed amendments to IAS 28)

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Service Groups in Switzerland, represents 57 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to comment on the proposed amendment to the equity method. Our response (in the appendix) has been prepared in conjunction with our member companies.

We thank you for the opportunity to submit our comments on your proposal.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

David Frick	Christian Stiefel
Chair, Nestlé SA	Chair Executive Committee

cc SH Board

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APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

Question 1 – Recognition of share of other net assets changes

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 appreciate that, due to consequential amendments as part of the 2007 revision of IAS 1, there is currently a lack of clarity in the IAS 28 guidance related to recognition of the share of changes in other net assets of associated companies which are not included in profit or loss or other comprehensive income. The current proposal suggests that changes in an associated company's equity should be mirrored within the investor's equity. This proposal would reinstate requirements which were in place prior to the 2007 amendments and imply that there is no difference in the accounting treatment from the perspective of the investor or the investee. This also means that, in contradiction with the current IFRS guidance, equity would not only reflect transactions with the entity's owners, but also transactions with the associated company's owners.

We agree with the concept suggested in the ED that the result of applying the equity method should be equivalent to ensuring that the financial statements of the investor recognize the proportional share of the associated company's net assets, however we consider that aspects of the proposals made by the Board are inconsistent with the current IFRS 10 guidance and in certain circumstances would result in these changes being recognized differently in the investor's financial statements depending on whether they resulted from actions of the investor or the investee.

We consider however that the impact of the investee diluting the interests of the investor should be recognized in the same way as a partial disposal by the investor. As a result any dilution in gains/losses resulting from the actions of the investee should be recognised in the profit or loss in the period in which they occur similar to the current IFRS requirement to reclassify a proportional share of OCI items to the profit and loss upon a partial disposal of an associated company. Any other treatment prescribed by the Board could lead to entities structuring deals in a way that they can achieve a desired accounting treatment (recognition in equity vs. profit or loss). Similarly, increases in the investor's ownership in an investee as a result of the investee's actions should be treated in the same way as an additional purchase of a stake in the associated company by the investor even if in certain cases this may also result in gains or losses as a result of changing the carrying value of the investment in the associated company being recognized in the investor's profit or loss account.

We recognize that if all equity changes of the associated company are recognized in profit or loss, any share-based compensation entries recorded in the financial statements of the associated company will in effect be eliminated in the reporting of the associated company's performance. The share-based compensation will only have an impact when it affects the equity of the associated company or results in a change of the investor's interest as a result of the associated company issuing additional outstanding shares. However, in our proposal only actions of the associated company which change the investor's ownership in the associated company would be recognized against profit or loss. Share-based compensation issued by the associated company does not lead to a change in the investor's ownership or the net assets of the associated company. It is only when the associated company either receives the proceeds from options or issues new outstanding shares to settle employee's claims out of share-based compensation that there will be a change in net assets of the associated company or the percentage ownership of the investor will change. We consider that only recognizing gains or losses resulting from the change in ownership percentage or from the net assets of the investee in profit or loss is the preferred accounting treatment as it also results in the consolidated equity of the investor only recording transactions with its own shareholders and those of fully consolidated entities with outstanding non-controlling interests. We also consider that the result of associated companies do not only have to reflect their performance but also certain changes in the value of the investor's stake. This is also current practice under which a revaluation gain on an interest held in an associated company before the investor takes control is recognized in results from associated companies.

Question 2 – Reclassification to profit or loss

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?

As mentioned above, we are of the view that increases/decreases in the effective ownership of an associated company arising from actions of the investee should be accounted for in the same manner as actual increases/decreases in the investor's stake. This means that the effect of such transactions would be recognized in the profit or loss in the period in which they occur, thus no recycling from equity would be needed.

Further we note that the proposal of the Board would create a precedent, whereby items within equity would possibly be recycled to profit or loss, which has never been the case before, outside of OCI items. Further this could represent an incentive for entities to structure deals in a way that losses are deferred in equity rather than presented in profit or loss in the period in which they occur.

Question 3 – Other comments

Do you have any other comments on the proposals?

No further comments.