Korea Accounting Institute KAI
Korea Accounting Standards Board KASB

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Exposure Draft 'Equity Method: Share of Other Net Asset Changes'
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH
United Kingdom

Dear Sir or Madam:

The Korea Accounting Standards Board (KASB) has finalized its comments on Exposure Draft 'Equity Method: Share of Other Net Asset Changes(Proposed amendments to IAS 28)'

I would appreciate your including our comments in your summary of analysis.

The enclosed comments represent official positions of the KASB. They have been determined after extensive due process and deliberation.

Please do not hesitate to contact us if you have any inquiries regarding our comments. You may direct your inquiries either to me(suklim@kasb.or.kr) or to Ms. Min Young Jean (myjean@kasb.or.kr), Technical Manager of the KASB.

Yours faithfully,

Suk S Lim

Mr. Suk-Sig (Steve) Lim
Chair, Korea Accounting Standards Board

Cc: Sungsoo Kwon, Research Fellow of Research Department

We are pleased to comment on the Exposure Draft ‘Equity Method: Share of Other Net Asset Changes(Proposed amendments to IAS 28)’. Our comments include views from a public hearing and responses collected from the various associations. We finalized the comment letter through the due process established in the KASB.

Exposure Draft ‘Equity Method: Share of Other Net Asset Changes(Proposed amendments to IAS 28)’

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?

The KASB disagrees with the IASB's proposal for the following reasons.

First, we believe the IASB's proposal is inconsistent with IAS 1 which has been revised in 2007. According to the current IAS 1, an entity is required to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. As a result, net asset changes resulting from the transactions with non-owners should be presented as profit or loss or other comprehensive income. However, the ED requires to recognize net asset changes of associates as the equity of an investor and thus it is inconsistent with IAS 1.

Second, we believe that users may be confused. This is because if the investor's equity reflects the capital increase or decrease of an associate and changes as a result, it may convey incorrect information about the investor's equity. Namely users may believe that the changes in the investor's equity have resulted from transactions with owners.

Thus, we'd like to propose alternative accounting.

First, the KASB would like to suggest categorizing the investor's share in the other net asset changes of an associate into other comprehensive income of the investor. Considering the problems that would arise when other net asset changes are recognised as equity and the fact that this revision has been pushed ahead to improve comparability in practice prior to revising the equity method in a fundamental manner, we believe that it is better to present other net asset changes in OCI or profit or loss.

However, presenting other net asset changes of an associate in profit or loss would go against the concept of equity method which requires only the investment asset based on the performance of the investee to be recognized as revenue, as shown in IAS 28 paragraph 11*. This may cause confusion among the information users and therefore we believe that other net asset changes of an associate should be recognised as OCI.

> * IAS 28.11 ... Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint ventures's performance and, as a result, the return on its investment....

Second, we suggest the IASB add requirements to apply when an investor's share in an associate increases or decreases, in spite of continuing to have significant influence. When the investor's interest in an associate increases directly or indirectly, the investor should add the cost of acquiring the additional stake to the carrying value of the associate and calculate goodwill arising on the purchase of the additional stake.

And if an investor's ownership interest in an associate is directly or indirectly reduced in spite of continuing to have significant influence, the investor should recognise gain or loss resulting from the difference between the carrying value of the associate proportionate to the percentage reduced and the fair value of the consideration received.

Third, we think the IASB needs to clarify how to account for the equity change of an associate resulting in no net asset changes.

The ED paragraph 10(d) requires an investor to include the other equity component changes of an associate like the equity settled share-based payment transaction into the other net asset change. Because an investee recognises the cost as expense and the amount of the cost recognised as expense would be vested to the third party (for example, employees) other than shareholders of the investee, it is a proper accounting to reflect the investor's share in the cost of the investee as loss.

However, according to the ED, if an investor additionally recognises in the investor's equity its share in the amount of equity the investee recognised as a result of the share-based payment transaction, the investor will not appropriately reflect the investor's decreased share in the net assets of an associate.

Percentage ownership 30%

Investee			
(Dr) cost (P/L)	100	(Cr) share-based payment(equity)	100
Investor(current IFRSs)			

(Dr) loss on investment in associate	30	(Cr) investment in associate	30
Investor(Exposure Draft)			
(Dr) loss on investment in associate	30	(Cr) investment in associate	30
investment in associate	30	other net asset change(equity)	30

Lastly, it is recommended to include the reason why OCI was rejected. The ED clearly explains why the IASB did not choose an alternative to recognise the other net asset change as profit or loss in BC4~BC5. However, it does not mention why they dismissed the alternative of OCI.

In spite of our suggestions, if IASB wants to keep its decision described in the ED, we think the IASB needs to clarify where exactly the investor's share in the other net asset changes of an associate should be presented within equity other than in OCI and retained earnings.

One commentator in Korea agrees with the IASB's proposal on the assumption that IAS 1 will be revised to allow the other net asset change to be reflected as equity even though it does not result from transactions with owners. This is because they believe, from the point of one-line consolidation, the other net asset changes of an associate should be symmetrically reflected on an investor's financial statement.

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 KASB disagrees with the IASB's suggestion for the following reasons.

We do not think there are enough logical and conceptual grounds to reclassify equity into profit or loss.

It lacks sufficient grounds to reclassify equity into profit or loss only when an investor stops to use equity method, unlike partial disposal or impairment.

Furthermore, reclassifying equity into profit or loss has been confined only to the case where equity was previously recognized as OCI.

In regard to recycling, if the IASB agrees with the KASB's suggestion to recognize the other net asset changes as OCI, the amount presented in OCI should be recycled when there is partial disposal and discontinuation like the current IAS 28.

However, one commentator who agrees with the IASB on question 1 in Korea, also agrees with the IASB's suggestion on question 2.

Question 3

Do you have any other comments on the proposals?

We think the new requirements need to be adopted prospectively.

From the perspective that this revision is developed to reduce the diversity in practice in the short run and that it is not based on a logical principal in accordance with the conceptual framework, we believe that it is undesirable to burden preparers with retrospective adoption.

Also, the burden on preparers should be considered since equity method accounting is expected to be changed again resulting from the prearranged complete revision of the equity method accounting.

Meanwhile, in case the revisions are prospectively adopted, it is necessary to include detailed transitional provisions with regard to accounting of the items which have been categorized into other component of equity or profit or loss.

The KASB possesses numerous cases of equity method accounting and is certain that those cases will be of much help to the IASB when revising the equity method accounting in the future. Thus if you will need to consider our cases when revising related requirements, please do not hesitate to contact the KASB.