March 22, 2013.

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

Consejo Mexicano de Normas de Información Financiera (the Mexican Financial Reporting Standards Board, or CINIF), the accounting standard setting body in Mexico, is pleased to respond to the questions posed in the **Exposure Draft ED/2012/3, Equity Method: Share of Other Net Asset Changes – Proposed amendments to IAS 28**. The ED required our comments to be received by 22 March 2013.

**Overall comments**

We support the efforts of the International Accounting Standards Board (IASB) to address the current diversity in practice in accounting for "other net asset changes" in an investee, defined in the ED as net asset changes other than those resulting from profit or loss or other comprehensive income and distributions received. However, we disagree that: a) other net asset changes be recognized in the investor's shareholders' equity; b) the amount that the ED proposes to allocate to equity be reclassified to profit or loss when the investor discontinues the equity method; and c) the standard be applied retrospectively.

We believe that the proposal is not a solution to address the current diversity in practice, and it would instead generate inconsistencies regarding basic notions and specific requirements included in other IFRS, and in certain cases it would not reflect the economic substance of the transaction.

Given that the current diversity in practice has arisen in accounting for other net asset changes due to the conceptual difficulties faced upon applying equity accounting, we propose that this issue form part of the longer-term comprehensive project that will allow these issues to be resolved. Unfortunately, the ED far from resolving these issues, would create serious conceptual confusion that we explain in our answers to the questions included in the ED.

Additionally, given that we agree with the Interpretations Committee conclusions dated March 2011 that are mentioned in paragraph B2 of the ED, and which we address in the following paragraphs, we also propose that those conclusions form part of a comprehensive project on the equity method of accounting.

**Questions**

| **Question 1**<br><br>**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 recognized in profit or loss or OCI of the investee, and that are not distributions received. Do you agree? Why or why not?** |
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We disagree with the proposal to recognize other net asset changes directly in the investor's equity because we believe that it is not a solution to address the current diversity in practice, but it would instead generate inconsistencies regarding the basic notions and specific requirements included in other IFRS, and in certain cases it would not reflect the substance of the transaction. Given that the current diversity in practice has arisen in accounting for other net asset changes due to the conceptual difficulties faced upon applying equity accounting, we propose that this issue form part of the longer-term comprehensive project that will allow these issues to be resolved. Unfortunately, the ED, far from resolving these issues, would create a serious conceptual confusion.

We mainly disagree with the proposed changes to IAS 28 because we consider that recognizing in the permanent investment of equity changes of the investee occurring in a subsequent period to date of acquisition is inconsistent with the booking at acquisition cost required for the initial recognition of the investment in the associate or joint venture.

That is, in the initial recognition, it would be unlikely that the acquisition cost of the investment be equal to the proportional portion in the investee's equity.

On the other hand, we agree with the Interpretations Committee conclusions dated March 2011 that are mentioned in paragraph B2 of the ED. The Committee tentatively agreed on the following principles:

a) Where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for a partial disposal and recognised in profit or loss of the investor; and

b) Where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as incremental purchase of the investment and recognized at cost.

Additionally, the “other net asset changes” do not arise from transactions with the group’s owners and, therefore, its recognition in equity would set a new category in the equity.. Under IAS 1.109, all equity changes, except those resulting from transactions with owners in their capacity as such, represent the total amount of income and expenses generated by the entity’s activities in a certain period. Therefore, such changes not due to such transactions should be recognized in the statement of comprehensive income.

Those changes in the investee´s net assets that essentially represent deemed purchases or sales should be booked as purchases or sales. That is, any diluting effect in an investor’s interest due to the issue of such investment’s shares to third parties is equal to such investment’s partial divestiture and should be booked accordingly as any other income or loss impacting the statement of comprehensive income.

Other types of changes in net assets should be analyzed to determine the best accounting treatment for each of them. The transactions that are ultimately likened to divestitures or acquisitions should be booked similar to actual acquisitions or divestitures when the economic impact occurs from the investor’s perspective.

**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?**

As stated in our answer to question 1, we disagree with the proposal to recognize other changes in an investee’s net assets in equity. However, if that proposal is approved, we believe this proposal would come into conflict with the notion introduced by IAS 1, which determines that only reclassifications between other comprehensive income and profit or loss are allowed. Therefore, the reclassification model would not be applicable. Moreover, reclassifying these items to profit or loss could set a new precedent since, as mentioned above, only items recognized in other comprehensive income may be reclassified to profit or loss.

**Question 3**

**Do you have any other comments on the proposals?**

As already mentioned, we disagree with the proposal of the ED; however, if the proposal is approved, we want to comment the following:

The ED proposes that an investor apply the full standard retroactively. Although this is conceptually understandable, we believe that it may be too expensive for the issuing entities, and the benefits of fully applying the standard retroactively may not be justified in view of the cost of undertaking such task.
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Should you require additional information on our comments listed above, please contact Elsa B. García at (52) 55 5596 5633 ext. 108 or me at (52) 55 5596 5633 ext. 103 or by e-mail at egarcia@cinif.org.mx or fperezcervantes@cinif.org.mx, respectively.

Kind regards,

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