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ED/2012/3 Equity Method: Share of Other Net Asset Changes – Proposed amendments to IAS 28

Orange is pleased to comment on the International Accounting Standards Board's Exposure Draft ED/2012/3 Equity Method: Share of Other Net Asset Changes - Proposed amendments to IAS 28 (the ED).

We agree that guidance on the issues addressed in the ED is welcomed. However, we believe the ED should not be finalized in its current form. Our view is that investor should report the effect of dilution/relution-type transactions of its share in an equity-accounted investee's net assets in profit or loss (or eventually OCI) rather than in equity.

In stating this view, we would like to emphasize that (a)direct movements in equity should not be broadened to non owners transaction as it would blurr a concept in the very same manner we experienced with the debate on profit or loss vs OCI and would not report the performance of the investor; (b) the discontinuation of the equity method is not an adequate trigger to the proposed reclassification to profit or loss of changes recognized in the investor's equity, rather it is the decrease in the interests owned by the investor; (c) the scope of §10(d) should be clarified.

Our responses to the Invitation to Comment are set out in the Appendix to this letter.

If you have any questions on our response, please do not hesitate to contact us

Yours sincerely,

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Responses to Invitation to Comment questions

Question 1 - the IASB proposes to amend IAS 28 so that an investor should recognize 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 agree that guidance on the issues addressed in the ED are welcomed . However we believe, the diversity in practice existed before the amendment referred to in the ED introduction. Therefore, we do not agree with BC 8 and believe that reverting to an hypothetical state of practice is not adequate.

We strongly disagree that direct movements in equity should be broadened to non owners transactions as it would blurr a concept in the very same manner we experienced with the debate on profit and loss vs OCI. We fully support Mr Ochi alternative view in AV3-AV4 and AV7-AV8.

Furthermore, the debate in the basis for conclusion (ref to BC6-7) about whether the equity method is a one line consolidation is not helpful after the orientation taken with the revised ias27 that clarifies that consolidation is linked to control, and that loss of control is a significant event leading to remeasurement of any retained interest, whereas the sale of interests while retaining control is transaction between owners that as such is never recycled. The discussion in the BC blurs the understanding of the choices made for IAS27 and for the proposed amendment. Furthermore, an investor manages its equity accounted investees and therefore always has a decision to take if a transaction may dilute or relute its interests. Therefore, contrarily to BC4, it is part of the investor's performance, even if its nature may warrant a separate presentation or disclosure in the statement of comprehensive income. We fully support Mr Ochi alternative view in AV9-AV11 to recognize those changes in profit or loss.

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?

We disagree with this reclassification approach, as we do not believe that discontinuation of the equity method is the adequate economic event for reclassification, rather it is the decrease in the interests owned by the investor.

Question 3 - do you have any other comments on the proposals?

We believe the notion of 'the investor's share of net asset changes of the investee' should be clarified : some believe that it includes changes resulting from the partial sale of interests or from the increase of interests in a equity accounted for investee.; others read those changes as not being within the scope of paragraph 10(d). This is partially linked to the breadth of the discussion that took place in the preparation of this ED and the sentences in the BC1 that “all post acquisitions changes in the net assets of an investee should be recognized by the investor” while the one referring to the amendment mentions “share of other net assets changes” . The uncertainty is reinforced by the wording in §10 (d) that uses the terminology ” investee’s net asset changes” while the examples refer to movements in the share capital or other components of equity of the investee.

If the intention is that the scope limited to the former, § 25 should be expanded to clarify that, on a partial disposal of an equity accounted investee, a gain or loss is recognized for the difference between proceeds and proportionate share of the carrying value.

With respect to an investor’s accounting for an investee’s equity-settled share-based payment plan, §10(d) appears to imply that the counterpart of the share of an investee’s share-based payment expense recognized in profit or loss should be the investor’s equity. We think that the corresponding credit should be to credit its investment either in profit or loss with an appropriate disclosure (or OCI). When the related shares are issued to employees (or other third parties), the effect should be recorded as any dilution.