ICAEW

28 February 2013

Our ref: ICAEW Rep 41/13

Your ref: ED/2012/3

Mr Hans Hoogervorst
International Accounting Standards Board
30 Canon Street
London
EC4M 6XH

Dear Hans

EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES (PROPOSED AMENDMENTS TO IAS 28)

ICAEW is pleased to respond to your request for comments on ED/2012/3 *Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES (PROPOSED AMENDMENTS TO IAS 28)

Memorandum of comment submitted in March 2013 by ICAEW, in response to IASB exposure draft *Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)* published in November 2012.

Contents	**Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft *Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)* published by the IASB on 22 November 2012.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

This significant change to the equity method of accounting needs further consideration

5. We do not support the proposed amendment. We agree that correction of IAS 28 has been necessary since its consequential amendment in 2007. As noted in the Exposure Draft, this amendment replaced a reference that encompassed the investee's equity in its entirety ('changes in the investee's equity that have not been recognised in the investee's profit or loss') with a reference only to certain types of equity movement ('changes in the investee's other comprehensive income'). As such paragraph 10 now appears to suggest that changes in equity not taken to P/L or OCI, or that were not distributions, would not adjust the investment balance. This is unfortunate and could be read as fundamentally altering the application of the equity method. Yet the primary definition of the equity method in paragraph 3 of IAS 28 remains unchanged: 'the investment is … adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets'. The reference here to 'net assets' seems quite clearly to imply that no net equity movements should be excluded. This opacity means that the treatment of other equity movements in the investor's own accounts is unclear – should they be ignored, taken to profit or loss, OCI, or equity?

Broader shortcomings with equity accounting

6. It should be noted that equity accounting is not universally favoured as the most appropriate technique for dealing with significant interests. We appreciate that there is not scope within the current agenda to restart the Board's equity accounting project – although further research might usefully be done. But given these broader concerns we question the appropriateness of attempting to address the problem the Board has identified through a minor amendment to IAS 28 – particularly when it involves significant change to application of the equity method. We feel that the current exposure draft rather illustrates than adequately addresses these deficiencies. The issue has been in existence for several years now and consequently we question the urgency of the change at this time.

We disagree with the Exposure Draft's conclusion

7. We disagree with the Board's conclusions both that these movements should all be taken to equity outside P/L or OCI and that it is then appropriate to recycle to P/L on discontinuing the equity method. The appropriate treatment of the initial entry is likely to depend upon the other equity movement in question. For dilutions in stake, it is difficult to see why these should not be treated as partial disposals with the resultant entry taken to the investor's P/L. Yet for some equity movements, inclusion in P/L would be inappropriate. There is the potential for complexity here, and as the alternative view demonstrates, scope for different opinions. These issues merit further research. They also highlight that the current proposals are not yet adequately developed to support amendment of IAS 28. The proposed treatment also creates a new category ('equity recycled to profit or loss'). There seems little conceptual support for the creation of this new category, and unfortunately it therefore adds to the general confusion surrounding recycling.

The alternative view is a valuable contribution to debate

8. The alternative view expressed in the Exposure Draft appears to offer a useful starting point for further debate. We do not agree with all of the alternative view's conclusions. In some cases taking other equity movements to P/L would be inappropriate – for example, for equity settled share based payments it would mean negating the P/L charge. Nonetheless, the fact that the alternative view makes these suggestions further highlights that there are a number of important issues the exposure draft is not successful in resolving. In our opinion the proposed amendment to IAS 28 should be shelved for now. Instead further consideration should be given to the methodology of equity accounting – perhaps as a research project, such that once these issues are fully resolved a complete and conceptually consistent answer can be published.

RESPONSES TO SPECIFIC QUESTIONS

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?

9. No, we disagree. As we explain in paragraphs 5-8 above, we believe that further research is needed. The solution proposed in the exposure draft does not in our opinion effectively address the issues raised and risks merely creating more complication.

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?

10. No, we disagree. We believe it is undesirable to be creating a new category here. The rules around recycling in other circumstances are already inconsistent, this suggestion merely adds to that confusion.

Question 3: Do you have any other comments on the proposals?

11. A broader project is needed to examine equity accounting. We appreciate that this cannot be undertaken within the current agenda period, but the Board might usefully undertake some further research in this area.