RSM International
11 Old Jewry, 2nd Floor, London EC2R 8DU, England
T +44 (0)20 7601 1080 **F** +44 (0)20 7601 1090
www.rsmi.com

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Email: commentletters@ifrs.org

22 March 2013

Dear Mr Hoogervorst,

Re: Exposure Draft ED/2012/3 - Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)

We are pleased to comment on the Exposure Draft ED/2012/3 *Equity Method: Share of Other Net Asset Changes (Proposed amendments to IAS 28)* ("the ED").

We welcome the Board's efforts to address the recognition issue by investors of their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and are not distributions received, because of diversity in practice. However, we do not support the proposed amendments.

Our comments and responses to the questions set out in the Invitation to Comment of the ED are detailed hereafter.

We would be pleased to respond to any questions the Board or their staff may have about any of our comments. Please direct any questions to Robert Dohrer, Global Leader - Quality and Risk of RSM International (tel: +44 207 601 1087; email: robert.dohrer@rsmi.com).

Sincerely,

Jean M Stephens

Jean M Stephens
Chief Executive Officer
RSM International

RSM is the brand used by a network of independent accounting and advisory firms each of which practices in its own right. RSM International Limited does not itself provide any accounting and advisory services.

RSM International Limited
Registered in England & Wales
Registration no: 4040598
Registered office: as above

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?

We disagree with the proposed amendments. In our opinion, reflecting changes in the investee's other net assets in the investor's equity is inconsistent with the existing IFRS literature, primarily because these changes do not result from transactions of the investor in their capacity as owners. As such, the proposal is, in our view, a departure from IAS 1 *Presentation of Financial Statements* that requires an entity to present only transactions with owners in their capacity as owners through equity.

We believe that the proposal in the ED is also inconsistent with IFRS 10 *Consolidated Financial Statements* that requires a parent to recognise a gain or loss when the parent loses control of a subsidiary, even in cases where the investor retains an interest in the investee as an associate. Also, as illustrated in the example provided in paragraph AV6 of the ED, the proposed treatment would cause difficulties in that similar transactions could be treated quite differently.

Instead of the proposed amendments, we support the alternative view and arguments of Takatsugu Ochi as included in the ED. We believe that reflecting changes in the investee's other net assets that do not result from transactions of the investor in their capacity as owners in profit or loss is a more appropriate and consistent accounting treatment, as well as the most practical short term solution.

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?

Given our response to Question 1, the issue of reclassification from equity to profit or loss is not relevant.

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

We have the following two comments for the Board to consider.

- Although accounting by investors for their share of the changes in an investee's other net assets in profit or loss would represent the most practical short term solution (our response to Question 1 above), we are also of the view that the investee's other net asset changes should be accounted for as deemed disposals and acquisitions (in the same way as actual disposals and acquisitions of interest in an investee). Consequently, reductions in the investor's share of other net assets of the investee (ie disposals) would be recognised in profit or loss, while increases in the investor's share of other net assets of the investee (ie acquisitions) would be recognised as an incremental purchase of the investment. As mentioned in paragraph BC2 of the ED, this was the initial recommendation to the Board by the IFRS Interpretations Committee.

- In our view, this ED again highlights the need for the IASB to define clearly the concepts of 'equity' and 'other comprehensive income (OCI)'. A clearer concept of OCI would also help eliminating the general confusion surrounding 'recycling'.

END OF DOCUMENT