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22 February 2013

By email: commentletters@ifrs.org

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

Dear Mr. Hoogervorst

IASB's Exposure Draft of Equity Method: Share of Other Net Asset Changes, Proposed amendments to IAS 28

We refer to the International Accounting Standards Board's Exposure Draft: Equity Method: Share of Other Net Asset Changes, Proposed amendments to IAS 28.

Our comments on the specific questions raised in the exposure draft are attached. Should you have any questions, please do not hesitate to contact our Senior Business Manager Ms. Caris Wan at 2521 1855.

Yours sincerely

Boey Wong
Secretary

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Response of the Hong Kong Association of Banks ("HKAB") to the Specific Questions in the International Accounting Standards Board's Exposure Draft: Equity Method: Share of Other Net Asset Changes, Proposed amendments to IAS 28

Question 1

The IASB proposed 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?

We support the Board's proposal to amend IAS 28 so that an investor would 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. We agree that the changes as drafted to paragraph 10 of IAS 28 are necessary to reflect an investor's share of net assets in the investee and appropriately classify such items outside of profit or loss and OCI as they do not reflect performance of the investee.

Question 2

The IASB proposes that an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognized when the investor discontinues the use of the equity method. Do you agree? Why or why not?

We do not agree with the Board's proposal that an investor should 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. Experience has shown that transactions where investees make changes to their share capital which have a direct impact on the share of net assets attributable to a non-controlling investor are not infrequent. However, it should also be understood that such transactions are often undertaken without the involvement, or consent, of an investor who only has the ability to exercise significant influence but not control over the investee. Whilst these transactions have economic substance and should thus be reflected, we do not believe they reflect performance. BC4, in our view, thus correctly advocates accounting for such transactions directly within equity and not within the income statement. However, we do not believe these amounts should be recycled to the income statement upon the discontinuance of the equity method of accounting.

Our reading of BC9 shows that the Board also holds a similar view in that the accounting applied for an investment in a subsidiary cannot be applied by analogy to an investment in an associate or joint venture even though the transaction would have an economic effect in both cases. We support the view that items recognised in other comprehensive income should be recycled to the income statement (as required by paragraph 22(c) of IAS 28), and there is merit in doing so since items in other comprehensive income represent the effects of "unrealised" transactions, for which the accounting spans over more than one accounting period but nevertheless is part of an entity's performance. However, just as transactions with owners are not "recycled" from equity to the income statement, we believe these "other equity transactions of an associate" (which are also a form of transactions with owners) should also not be recycled to the income statement upon discontinuance of the equity method of accounting. Accordingly, we believe the change proposed to paragraph 22(c)(ii) of IAS 28 should be withdrawn.

Alternatively, if the intention in paragraph 10 of IAS 28 is to account for such changes in a separate component of equity, these amounts should be transferred to retained earnings within equity upon discontinuance of the equity method of accounting. The language, as drafted in paragraph 22(c)(ii) of IAS 28 would then require amendment.

Notwithstanding our comments above, the ED is somewhat unclear as to whether it is the intention of the Board to require recycling when an investor moves from the equity method to consolidation. Paragraph 22(c) addresses when an investor discontinues the use of the equity method. Paragraph BC10, which provides the justification for the approach in paragraph 22, states: "The IASB thinks that the cumulative amount of equity that the investor had previously recognized should move to retained earnings if the investor loses significant influence over the investee and discontinues the use of the equity method." The reference to losing significant influence could be interpreted as excluding situations where the investor has obtained control of the investee (which is actually an increase in influence). We suggested that this be clarified in BC10.

Question 3

Do you have any other comments on the proposal?

We do not agree that the amendment proposed should be applied retrospectively. We hold the view that the amendments should be applied prospectively. The Board explains in BC12 that since the exemption for business combinations already applies to investments in associates and joint ventures at the date of transition (paragraph C5 of IFRS 1), a further amendment to IFRS 1 would not be required. However, this only addresses first time adopters of IFRS and does not take into consideration that existing appliers of IFRS may have been applying IFRS since a number of years by the time this amendment becomes effective, and the amendment will require them to restate many transactions undertaken by investees over a number of years in the past. Reflecting the effects of these past transactions in equity today (since most adjustments would be reflected only in opening equity and the opening balance sheet carrying value of the associate) would provide very limited benefit to existing users of the financial statements who are more concerned with the current and future performance of an entity.