pwc

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

21st March 2013

Dear Sir/Madam

Exposure Draft ED/2012/3 – Equity Method: Share of Other Net Asset Changes ('the Exposure Draft')

We are pleased to respond to your invitation to comment on the Exposure Draft on behalf of PricewaterhouseCoopers.

Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the Exposure Draft. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We do not support the proposed amendments as we believe that the recognition in equity of an investor's share of other net asset changes in an investee is inconsistent with the concepts and requirements of other relevant IFRS. We understand the Board's desire to introduce a practical solution but do not believe that this is a sufficient reason to introduce new concepts resulting in the recognition of certain non-owner transactions in equity.

Our preference would be for the IASB to analyse each type of other net asset change separately and determine the appropriate accounting treatment for each. This should reflect the economic impact on the investor of the underlying associate transactions, within the context of equity method. However, if the Board believes that a practical solution covering all types of other net asset changes is needed then we would prefer that these are recognised in the investor's profit or loss.

Our responses to the specific questions posed in the invitation to comment are attached as Appendix A to this letter.

If you have any questions in relation to this letter please do not hesitate to contact John Hitchins, PwC Global Chief Accountant (020 7804 2497), or Ago Vilu (+372 6141 800).

Yours faithfully

PricewaterhouseCoopers

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APPENDIX A

Responses to the specific questions in the Exposure Draft

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 do not support the proposed amendments as they appear to be inconsistent with the specific requirements of other IFRS. Further, the approach proposed, in many circumstances, would not reflect the economic substance of the underlying transactions.

<u>Conceptual issues</u>

The overall change in equity, under IAS 1.109, except for changes resulting from transactions with owners in their capacity as owners, represents the total amount of income and expense generated by the entity's activities during the period. Consequently, all non-owner changes in equity are included in the statement of comprehensive income. Other net asset changes of an investee do not, by definition, result from transactions with owners of the group in their capacity as owners, and therefore recognition in equity is inconsistent with the requirements of IAS 1.

Although certain types of other net asset changes arise from the investee's transactions with its owners, they are non-owner transactions from the investor's perspective as explained below. From the perspective of the investor, some of them represent deemed disposals or acquisitions, while others reflect the performance or operating activity of the investee.

<u>Deemed disposals and acquisitions</u>

Changes in other net assets of the investee that, in substance, represent deemed disposals or acquisitions should be accounted for similarly to actual disposals or acquisitions. The dilution of an investor's ownership interest arising from the investee's share issue to third parties is equivalent to a disposal of a portion of the investee. We believe that it should be accounted for in the same manner as an actual disposal with any gain or loss resulting from the transaction recognised in profit or loss.

Furthermore, IAS 28.19A requires that if an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss a proportionate amount of any gain or loss previously recognised in OCI. IAS 28.19A seems to apply to any reduction of investor's interest, including deemed disposals. Therefore, in accordance with the guidance in IAS 28.19A, any gains or losses resulting from the reduction of investor's interest should be recorded in profit or loss rather than in equity.

An increase of the investor's ownership interest of an investee that arises when an investee buys back its shares from third parties is economically equivalent to the acquisition of additional stake in the investee and should be accounted for in a similar way. The same economic impact would be achieved if the investee distributed the cash used for the share buy-back to its shareholders as dividends, and the investor used the dividends received to acquire an additional stake in the investee from other shareholders. The investor should recognise a deemed acquisition and carry out a notional purchase price allocation but this would not result in any amounts that need to be recognised in equity.

Other types of other net asset changes

Other types of other net asset changes need to be analyzed to determine the most appropriate accounting treatment as each tends to have unique elements of complexity. Examples include the issuance and potential exercise of equity settled share options by the investee to its employees or an investee's transactions with a non-controlling interest holder in its subsidiary. Given the challenges of these and other types of other net asset changes, our preference would be for the Board to analyze each separately to determine the accounting that best reflects the transaction economics, is consistent with deemed disposals and acquisitions guidance referred to above and conforms to the IASB's conceptual framework. However, if the Board believes that a practical solution is needed, we would prefer that these items are recognized in the investor's profit and 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 do not support recognition of the share of other net asset changes in investor's equity, therefore recycling would not be needed.

Recycling from OCI and potentially from equity is an important conceptual topic that the Board will be discussing as part of its work on the Conceptual Framework. It does not seem appropriate to set a precedent that would require recycling from equity for this narrow topic as the Conceptual Framework may well reach different conclusions.

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

We have no other comments.