International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
www.ifrs.org

Chris Barnard
Germany

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- **Your Ref: Comment letter on Exposure Draft ED/2012/3**
- **Equity Method: Share of Other Net Asset Changes, Proposed amendments to IAS 28**

Dear Sir.

Thank you for giving us the opportunity to comment on your exposure draft ED/2012/3 Equity Method: Share of Other Net Asset Changes, Proposed amendments to IAS 28. The IASB has published this exposure draft of proposed amendments to IAS 28 in order to specify 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 other comprehensive income of the investee, and that are not distributions received (other net asset changes).

Paragraph 3 of IAS 28 indicates that all changes in the net assets of an investee should be recognised in equity by the investor.[1] However, paragraph 10 of IAS 28 is silent on whether, or where, the investor should account for its ownership interest of the other net asset changes.[2] Therefore paragraphs 3 and 10 of IAS 28 are unclear and are not necessarily internally consistent. I therefore support your proposed amendments, which will reduce diversity in practice and improve the clarity of financial reporting thereon.

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[1] See paragraph 3 of IAS 28: "The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets."

[2] See paragraph 10 of IAS 28: "Under the equity method, on initial recognition the investment in an associate or a joint venture is recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the investee's profit or loss is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income."

Answers to specific questions raised by the IASB

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?

Yes, I agree with this. I agree with paragraph BC6 that equity method accounting is a one-line consolidation, and therefore 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. I note that this treatment raises certain inconsistencies with IAS 1 and IFRS 10; however I agree that this is the most reasonable approach as a short-term solution. In the longer term I would support a further debate on the conceptual basis of the equity method of accounting, which should be used as an opportunity to clarify all open issues.

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?

Yes, I agree 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. I agree with the conclusions in paragraph BC10 here.

Yours faithfully

C.R. Barnard

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