Accounting Standards Board
AcSB
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Conseil des normes comptables

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March 22, 2013

Submitted electronically via www.ifrs.org

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

Dear Sirs,

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

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) Exposure Draft, "Equity Method: Share of Other Net Asset Changes (Proposed Amendments to IAS 28)," issued in November 2012.

The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including financial statement users, preparers, auditors, and academics. Additional information about the AcSB can be found at www.frascanada.ca.

The views expressed in this letter take into account comments from individual members of the AcSB and its staff. However, they do not necessarily represent a common view of the AcSB, its committees or staff. Formal positions of the AcSB are developed only through due process.

We commend the Board in its efforts to address standards implementation issues. However, we do not think that developing a narrow scope amendment to IAS 28 on this particular issue is appropriate, given the fundamental reassessment of the equity method that is included in the Board's research agenda. Instead, we recommend that the IASB expedite its work on the equity method of accounting, rather than devoting effort to addressing narrow issues related to the current standard.

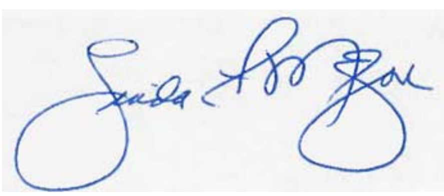
If a short-term solution is deemed to be necessary, we do not agree with the Exposure Draft proposal that other net asset changes should be recorded in equity. This approach mixes changes in equity arising from transactions with owners together with non-owner changes in equity, which is what the amendments to IAS 1 in 2007 sought to eliminate. Other net asset changes are not transactions with owners of the reporting entity (the investor) and should therefore not be recorded directly in the investor's equity. The investee's capital transactions are part of the performance of the investor for the period and should be accounted for as such. Therefore, if IAS 28 is amended to address this issue we recommend including the effect of other net asset changes in profit or loss.

We do not see any significant benefits of retrospective application of the proposals and are concerned that this might be difficult for other net asset changes that occurred many years ago. We recommend that, if the IASB proceeds with the proposed changes, they be applied prospectively.

Detailed responses to each of the Exposure Draft questions are provided in the Appendix to this letter.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact Peter Martin, Director, Accounting Standards at +1 416 204-3276 (email peter.martin@cica.ca), or Grace Lang, Principal, Accounting Standards at +1 416 204-3478 (email grace.lang@cica.ca).

Yours truly,



Linda F. Mezon, CPA, CA
Vice-Chair, Canadian Accounting Standards Board

APPENDIX

Comments of the Canadian Accounting Standards Board on the IASB's Exposure Draft, "Equity Method: Share of Other Net Asset Changes (Proposed Amendments to IAS 28)" dated November 2012

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 agree that an investor should recognize in 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 ("other net asset changes"). As discussed in our letter above, we would prefer no changes be made to IAS 28 at this time and instead a comprehensive evaluation of the equity method be performed, so that all equity method issues can be dealt with simultaneously. However, if a short-term solution is adopted, we think that the effect of an investor's share of other net asset changes should be recognized in profit or loss, instead of equity. We do not view equity method accounting as simply a one-line consolidation and think that the effects of other net asset changes represent part of the performance of the investor for the period. The results of the investor's decision to invest in the investee include all changes in the value of that investment.

We also think that the proposals are inconsistent with the objective of the 2007 amendments to IAS 1. That objective was to separate changes in equity arising from transactions with owners of the reporting entity in their capacity as owners from other changes in equity. An equity accounted investee is not part of the consolidated group as defined by IFRS 10. Other investors in the investee are not owners of the consolidated reporting entity. Consequently, other net asset changes in an investee should not be recognized in consolidated financial statements as if they were the investor's own equity transactions.

We recognize the challenges related to call option transactions entered into by an investee over its own equity (including share-based payments). Such transactions consist of two elements – the issuance of the call option, which is reported immediately, and the dilution that is reported on exercise of the option, which could occur in a subsequent period. We understand the concern that offsetting amounts could be reported in different periods, but we do not think that this is sufficient reason to require inappropriate accounting for all changes in other net assets of the investee. If the IASB does proceed to amend IAS 28, one option is to report the effect of the transaction in the investor's other comprehensive income with note disclosure of the potential dilution effect. Then, on exercise of the options, or when they expire, the amount in other comprehensive income would be recycled to profit or 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?

If the IASB does confirm the exposure draft proposal that the investor recognize its share of other net asset changes of an investee in equity, we think that reclassification is necessary to ensure that the total amount reported in profit or loss over the time the equity method is applied is appropriate. That approach is also consistent with the treatment of any other amounts previously recognized in the investor's other comprehensive income. However, a consequential amendment would need to be made to paragraph 106 in IAS 1, which currently addresses subsidiaries and transactions with owners but does not include associates accounted for using the equity method.

Question 3

Do you have any other comments on the proposals?

The exposure draft proposes retrospective application of the amendment to IAS 28. We are concerned that this might be difficult for other net asset changes that occurred many years ago. We do not see a significant benefit in retrospective application of the proposals and recommend that the proposals be applied prospectively to net asset changes after the date of initial application of the proposals.