Madrid, 21 March 2013

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

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

Dear Sirs,

I am writing on behalf of Telefónica, S.A. one of the world's largest telecommunications companies by market cap. It operates in 24 countries and its customer base exceeds 315 million globally. Telefónica's growth strategy is focused on the markets in which it has a strong foothold: Europe and Latin America. Further information about the Telefónica Group and its activities is available on our website: www.telefonica.com

Telefónica appreciates the opportunity to provide comments to the International Accounting Standards Board on its 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 clarify the issues addressed in the ED. We acknowledge that the ED is intended to provide a short-term, practical solution to an issue that has led to diversity in practice. However, we believe that the proposed amendments would not improve financial reporting. We would therefore encourage the Board to conduct further debate on the conceptual basis of the equity method of accounting.

Our comments to the specific questions raised in the ED have been included in the Appendix attached to this letter.

If you would like to discuss any of the issues described herein, please do not hesitate to contact Marta Soto, Head of Accounting Practice, at +34.914.828.534 or by e-mail to marta.sotobodi@telefonica.com.

Yours sincerely,

Marta Soto
Head of Accounting Practice
Telefónica, S.A.

Appendix

Telefónica's responses to the questions asked in ED 2012/3 *Equity Method: Share of Other Net Asset Changes (Proposed Amendments to IAS 28)*

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?

Correction of IAS 28 has been necessary since its consequential amendment arising from the 2007 revision to IAS 1 Presentation of Financial Statements, and therefore Telefónica supports the Board's efforts to clarify the requirements and remove the inconsistency between paragraphs 3 and 10 in IAS 28.

We support the principle that an investor's share of all post-acquisition changes in the net assets of an investee should be recognised in the carrying amount of the investment. However, we disagree with the proposed amendment to recognise an investee's other net asset changes in an investor's equity.

We think that the proposed equity approach results in mixing owner changes affecting an investor's equity with non-owner changes, being changes in the equity of an investee. This would be inconsistent with the presentation requirements in IAS 1 "Presentation of Financial Statements", which require an entity to present transactions with owners in their capacity as owners through equity, whereas changes in net assets of an investee are not transactions with owners, since associates are not part of the consolidated group as defined in Appendix A of IFRS 10 "Consolidated Financial Statements".

In our view, the appropriate treatment of such "other net asset changes" is likely to depend upon the nature of such other equity movement in question. We believe that in this case a generalized treatment will raise undesired inconsistencies. For instance, for dilutions in ownership percentage, it is very difficult to see why these should not be treated as partial disposals in accordance with paragraph 25 in IAS 28 *Investments in Associates and Joint Ventures*, with the resulting entry taken to the investor's profit or loss, whereas for other equity movements, inclusion in profit or loss would be inappropriate.

We therefore encourage the Board and its staff to conduct further debate on the conceptual basis of the equity method of accounting, rather than providing these amendments as a short-term solution that would not improve financial reporting and would raise unintended consequences.

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?

Telefónica does not agree with the proposal that an investor's share of an investee's other net asset changes previously recorded in equity should then be recycled to profit or loss on discontinuing the equity method. In our view, recycling from equity would entail recycling amounts that have their origin in a mix of equity movements (for example, equity-settled share-based payments) and causes confusion about the distinction between other comprehensive income (OCI) and equity. We think that the proposed treatment results in the creation of a new category ("equity recycled to profit or loss") by treating equity like OCI, setting a new precedent. We agree with Mr. Ochi's view expressed in AV8 that if the proposal is to use equity as a temporary "home" for such other net asset changes, that "home" should be OCI rather than equity.

Nevertheless we disagree with the equity classification in the first place (please refer to our answer to Question 1).

Question 3 —

Do you have any other comments on the proposals?

Regarding the transition provisions, although retrospective application is the general approach to transition set out in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, we support prospective application for these amendments.

By the time these amendments become effective, many entities will have been applying IFRSs for a number of years and retrospective application would require them to restate many equity transactions undertaken by investees in the past. We believe that the potential burden and costs incurred in conducting a reassessment of transactions already accounted for may exceed the benefits.