February 21, 2013

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

RE: Comments on the Exposure Draft (ED) *Equity Method: Share of Other Net Asset Changes - Proposed amendments to IAS 28*

Dear Sirs/Madams,

I welcome the opportunity to provide comments on the above-mentioned ED.

1. Although the ED is intended to an expeditious approach as a short-term solution of diversity in practice, the proposal is **not** consistent with the *Conceptual Framework for Financial Reporting* at all. The ED would be the worst quality proposal published in the last several years. If the IASB develops a set of high quality standards, final form should be amended based on a well-organized notion.

2. Comment on the specific questions set out in the ED is addressed from paragraph 3 of this letter.

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?

3. I do **not** agree with the proposed treatment that an investor should recognise it in the investor's equity. This is because an investee is not part of the consolidated group as defined in Appendix A of IFRS 10 *Consolidated Financial Statements*, and thus the investee's other net asset changes are excluded from 'owner's transactions' that are presented within equity under IAS 1, even though they are the investee's equity transactions.

4. This rationale is described in paragraph BC8 of the ED. However, the latter half of

paragraph BC8 opposes such well-grounded conclusion because returning to the requirements of IAS 28 before the revision in 2007 is proposed.

5. In my view, returning to the previous requirements of IAS 28 is **not** reasonable because paragraph 11 of IAS 28 before the revision in 2007 comingled other comprehensive income (OCI) and equity transactions together. Therefore, in my understandings, a consequential amendment made by the 2007 revision to IAS 1 deleted the previous requirements of IAS 28.

6. The 2007 revision to IAS 1 separates the following two changes in equity based upon the *Conceptual Framework*:
   (a) changes arising from transactions with owners in their capacity as owners (ie all owner changes in equity)
   (b) other changes in equity (ie non-owner changes in equity)

   All owner changes in equity (above (a)) is presented in the statement of changes in equity. Non-owner changes in equity (above (b)) is presented in the statement of profit or loss and OCI because income and expenses are changes of assets or liabilities other than those with equity participants (paragraph 4.25 of the *Conceptual Framework*).

7. Paragraph BC6 of the ED introduces a view that including the investor's share of the investee's equity transactions in profit or loss would be inconsistent with the impression that the equity method is a one-line consolidation. However, the IASB should clear up the wrong impression in this particular transaction because whether shareholder of the investee is included in owners of the consolidated group has changed after the 2008 revision of IAS27 (current IFRS10). As a result, non-control interest (NCI) of the subsidiary is equity in the consolidated group but equity interest of the affiliate is not (See paragraph 3 of this letter).

8. Accordingly, out of three possible areas where the ED indicates, an approach that such changes are recognized in investor's equity is firstly denied. In other words, its share of other net assets changes should be recognized in investor's OCI or investor's profit or loss in accordance with the *Conceptual Framework*.

9. If including the investor's share of the investee's equity transactions in profit or loss risks giving a misleading representation of the investee's performance (paragraph BC4 of the ED), its share of other net assets changes are to be recognized in investor's OCI.

Then, it would be recycled to profit or loss when the equity method is discontinued, as proposed by the ED (See paragraphs 14-16 of this letter for further discussion of OCI and recycling).

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?

10. I do **<u>not</u>** agree with the proposed treatment that an investor shall reclassify to profit or loss the cumulative amount of equity that the investor had previously recognised. This is because profit or loss, a difference between income and expenses other than OCI, is only recognized arising from changes of assets or liabilities other than those with owners. According to the *Conceptual Framework*, equity shall **<u>not</u>** be reclassified to profit or loss.

11. I advocate that the cumulative amount of equity that an investor had previously recognized remained in the investor's equity, even after the investor loses significant influence over the investee, is not a fair presentation, and should move to retained earnings.

12. In my view, proposed treatments in the ED make mistake twice: its share of other net assets changes is initially recognized in investor's equity, and subsequently it is reclassified to profit or loss. Both these treatments are **<u>not</u>** complied with the *Conceptual Framework*. In other words, an initial mistake requires a subsequent mistake again.

13. As commented in paragraph 8 of this letter, it is resolved when such changes are initially recognized in investor's OCI and are reclassified to profit or loss when the investor loses significant influence over the investee.

Question 3 Do you have any other comments on the proposal?

<u>Additional matter where investor's share of associate's other net asset changes is recognised in investor's OCI</u>

14. Although the reason why an alternative as investor's OCI is not proposed is unclear, I

noted that Agenda Paper 10 of the IASB July 2012 meeting said as follows:

(a) the IFRS Interpretations Committee universally rejected the argument that the list of OCI in paragraph 7 of IAS 1 is not considered to be exhaustive.

(b) the Conceptual Framework is the top priority for the IASB's future projects and one of the phases will deal with presentation including OCI. It would not be a good idea to add another OCI item at this time.

15. One of the most weaknesses in the IFRS is a role of OCI and recycling. Therefore, the IASB is running the project to revise its Conceptual Framework. However, the proposal in the ED that equity is reclassified to profit or loss causes more serious distortion as commented in paragraph 10 of this letter.

16. In the US and Japan, recycling is essential because OCIs are simply adjustment items between *net income* and *comprehensive income* that have are clean surplus relationship. Net income only affects changes in retained earnings and comprehensive income only affects changes in accumulated comprehensive income (ie retained earnings plus AOCIs). Maintaining two clean surplus relationships, the IFRS should follow the same notion.

17. As described in AV8 of the ED, if the proposal does not prefer an investor to recognise its share of other net asset changes in the investor's profit or loss, it should be in the investor's OCI rather than in the investor's equity. Then, it is reclassified to profit or loss when the investor loses significant influence over the investee. This is consistent with other recycling mechanism that the items in OCI previously recognised are reclassified into profit or loss when they are realized.

I hope above comment will contribute to the forthcoming deliberations in this matter.

Yours faithfully,

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