



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

March 28, 2013

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

Our Reference: 2013/JE/C1/IASB/52

RE: Exposure Draft: Proposed Amendments to IAS 28

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Equity Method: Share of Other Net Asset Changes – Proposed Amendments to IAS 28*.

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of C1. They are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

While we support the objective of this project, we have provided some feedback on certain aspects of the proposal below. More specifically, although we understand that the Board's objective is to timely address the diversity in practice that currently exists, we have provided below thoughts supporting recognition of an investee's other net asset changes both in the investor's equity and in the investor's profit or loss; the latter would require further consideration by the Board. We believe that we can enforce either approach. Our comments below address the specific questions posed by the Board.

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Furthermore, while we recognize that the Board's objective may be best accomplished by eliminating the diversity in practice by specifying the accounting for an investee's other net asset changes as the result of this short-term project, we also believe current practice could be incrementally improved on a timely basis if the method of accounting for those transactions was left to an accounting policy decision and the policy election was required to be disclosed. This would provide investors with access to the information that they need to understand how an investee's other net asset changes are being accounted for.

Question 1

The IASB proposes to amend IAS 28 so that an investor should recognize in the investor's 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. Do you agree? Why or why not?

Response 1

Some C1 members support the proposed amendments as a function of them being a short-term solution that is the most reasonable and expeditious approach to addressing diversity in practice. Furthermore, these members note that the changes made to IAS 28 in 2007 may not have received much attention from constituents since the changes were made as consequential amendments that arose as a function of changes made to IAS 1. As such, these members appreciate the fact that the proposed amendments represent a return to the previous requirements. Also, amongst these members, some believe that these transactions, which represent the investee's equity transactions, would more appropriately be reflected in the investor's equity than the investor's profit or loss since the transactions do not reflect the investee's performance. Lastly, these members do, however, recommend that the IASB take on a broader project whereby it reconsiders this issue in conjunction with the principles of the equity method of accounting including whether or not it represents a one-line consolidation.

Other C1 members believe that the proposed short-term solution is a confusing application of several concepts. More specifically, these members agree with some of the same thoughts presented in Mr. Ochi's alternative view including the following: 1) the proposal is inconsistent with IAS 1, *Presentation of Financial Statements*, which requires separation of changes in equity of an entity that result from transactions with owners in their capacity as owners from other changes in equity; 2) the proposal is inconsistent with IFRS 10, *Consolidated Financial Statements*, because the accounting that results from a loss of control and reduction in ownership transaction to, for example 30%, will result in a different accounting outcome depending on whether or not the loss of control and reduction occur simultaneously or in two steps; and 3) the equity method of accounting does not represent a one-line consolidation, and these transactions are more akin to acquisitions and disposals rather than being subsequent changes in the investment post acquisition. Lastly, amongst these members, some believe that recording these amounts in equity and then recycling them is akin to recording them in OCI, and they are not in favor of expanding the use of OCI for this purpose. Others would prefer that the use of OCI be expanded for these transactions in the event that the IASB does not opt for these transactions to be recorded in 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 recognized when the investor discontinues the use of the equity method. Do you agree? Why or why not?

Response 2

Although recycling non-OCI equity is a new concept, members that support changes in other net assets being recorded in equity agree with the IASB that once the investor discontinues the use of the equity

method, the cumulative amount of other net asset changes held in equity should be reclassified to profit or loss as there does not appear to be any conceptual basis for retaining it as part of equity.

Question 3

Do you have any other comments on the proposals?

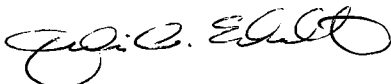
Response 3

Some C1 members are troubled by an inconsistency that arises within IAS 28 as a result of the proposed ED when other net asset changes cause OCI to be recycled. For example, if an investor applies the equity method of accounting both before and after a reduction of ownership transaction, the effects of the reduction in ownership (e.g., investee share issuance) is accounted for by the investor in equity (as proposed by the ED). In principle, the dilution is not treated akin to a sale transaction. In some instances, a reduction of ownership transaction will result in the investor recycling a proportionate amount of OCI to profit or loss pursuant to paragraph 25 of IAS 28. In principle, with respect to OCI, the effect of the dilution is assumed to be akin to a sale transaction. Accordingly, some members believe that there should be consistency within IAS 28 as to what is, in effect, treated in principle as a sale transaction. Furthermore, these members do not think that a transaction characterized as an equity transaction (i.e., the issuance of shares by an investee that results in dilution) should have a related impact on profit or loss (i.e., the dilution, which is an equity transaction, is the impetus for recycling OCI to profit or loss). These members are in favor of recycling OCI to equity.

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We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at 202-551-5300.

Sincerely,



Julie A. Erhardt
Chairman
IOSCO Committee 1
International Organization of Securities Commissions