

IASB
30 Cannon Street
London
EC4M 6XH

Paris, March 26, 2013

RE: Comments on ED2012/3 Equity method: Share of other net asset changes

Dear Sir / Madam,

Mazars welcomes the opportunity to comment on the Exposure Draft on Equity method: share of other net asset changes.

Net asset changes of an investee that are not recognised in profit or loss or other comprehensive income of the investee may arise from transactions whose consequences are very diverse from the investor's point of view.

We therefore wonder whether it is suitable to have a single accounting treatment to portray such diverse situations. Moreover, we believe that this amendment risks creating structuring possibilities, depending on the accounting objectives to be achieved. Similar situations could in effect offer a structuring choice between P&L and equity, which is not a desirable outcome.

In the meantime, we acknowledge that having a single accounting treatment is a simple and pragmatic solution to avoid diversity in practice. This could be considered as a valuable interim solution pending a global conceptual debate on equity accounting.

Should the Board maintain its objective of a single accounting treatment for all other net asset changes of the investee, we believe that the proposed amendment should not be adopted as it is.

More specifically, we consider that:

1. Recognising the changes directly in equity would go against the principles set in IAS 1 that only transactions with owners in their capacity as owners are recognised in equity. The proposed amendment envisages impacting equity without clear conceptual justification.

2. We do not agree with the reclassification in P&L of amounts previously accounted for in equity in the event of loss of significant influence. If it is justified to recognise these components in equity rather than in profit or loss, then there is no reason to amend the impact when significant influence is lost (i.e. no recycling in profit or loss). Moreover, this recycling is not consistent with the accounting treatment in IAS 27R / IFRS 10.
3. There is an inconsistency in maintaining the partial recycling provisions of IAS 28.25 while the overall consequences of the other net asset changes are to be recognized in equity.

Should the Board maintain the objectives set in its proposed amendment, we consider that, in order to avoid these inconsistencies and to maintain the objective of simplicity through a single accounting treatment, accounting for other net asset changes of the investee in the investor's OCI is a better solution. Nevertheless our preference would go to a thorough analysis on how performance of investments accounted for using the equity method should be portrayed. This would imply a discussion on the ambiguous status of equity accounting (is it a consolidation method or a valuation one?).

Our answers to the specific questions raised in this Exposure Draft are presented in the attached appendix.

We would be pleased to discuss our comments with you and are at your disposal should you require further clarification or additional information.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michel Barbet-Massin', with a stylized flourish at the end.

Michel Barbet-Massin
Head of Financial Reporting Technical Support

Appendix 1: detailed answers to the questions raised in the Exposure Draft.

Question 1 Recognition of changes in the investor's equity

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?

As a preliminary remark, while acknowledging the appeal of the simplicity of a single accounting treatment, we question whether it is conceptually justifiable to apply the same accounting procedure to very different operations (i.e. situations as diverse as, for example, shared-based payments by the investee or unequally subscribed capital increases).

This said, we also want to point out that we do not agree with some of the Board's justifications for proposing the amendment. More specifically:

- the amendment proposes to return to the previous version of IAS 28 (as it was before the 2007 revision). It is true that, before the 2007 revision, IAS 28 referred to the recognition of some components in equity. However, the components in question were not clearly defined and the examples in IAS 28 only related to elements that are now part of OCI.

Moreover, the IFRIC answered in its July 2009 Agenda decision that a dilution was similar to a disposal. Following this position there seems to be a very widespread practice of accounting for dilutions in profit or loss (in the same way as reductions in the percentage held after a partial disposal of the equity-accounted shares).

- The Board partly justifies its approach by stating that these transactions do not give a proper representation of the investee's performance.

While we agree with that statement, we note that other transactions relating to the investee give rise to P&L impacts that are not part of the investee's performance: for example, a goodwill arising from initial recognition of the equity-accounted investment, or a gain or loss on a partial disposal of the investment.

We believe it necessary that the Board conducts a thorough analysis of which elements of performance relating to equity accounting should be portrayed in the investor's financial statements and how such performance should be portrayed. We believe that such an analysis would imply a discussion on the ambiguous status of equity accounting: is it a consolidation method or a valuation one?

Should the Board maintain its short term objective of a single accounting treatment for all other net asset changes of the investee, we do not agree with the proposed amendment as it is drafted for the following reasons:

- Recognising the changes directly in equity would go against the principles set in IAS 1 that only transactions with owners in their capacity as owners are recognised in equity. All other transactions resulting in net asset changes normally impact profit or loss, or OCI if specifically provided by an IFRS. This amendment proposes to generate equity impacts for an investee without clear justification.
- Maintaining the recycling provisions of IAS 28.25, while the amendment proposes that the overall net asset changes are accounted for in equity, seems inconsistent.
- We do not agree with the proposal to recycle in P&L amounts previously recognised in equity, as proposes the amendment (see below our comments to question 2).

We also believe the Board should be aware that this amendment risks creating structuring possibilities, depending on the accounting objectives to be achieved.

For example, an investor could opt for either (a) simple dilution of its holding, with an impact on equity or (b) subscription to the increase in capital realised by the investee, followed by the disposal of part of its shares (with an impact on P&L). The investor could end up with the same share of equity, and the same amount of cash, but with different impacts (equity in the one case, P&L in the other).

Question 2 Reclassification when losing significant influence

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?

We do not agree with the reclassification in P&L of amounts previously accounted for in equity when the investor discontinues the use of the equity method.

This amendment suggests creating a new type of equity that would be recyclable in profit or loss, which does not correspond with any of the components initially accounted for in Other Comprehensive Income. We do not agree with such a creation without a conceptual debate on what are equity accounting, equity and performance.

Moreover, the Board does not provide a clear rationale for recycling. In BC 10 the Board explains that *“The IASB thinks that the cumulative amount of equity that the investor had previously recognised should move to retained earnings if the investor loses significant influence over the investee and discontinues the use of the equity method.”*

BC 10 does not explain why the IASB thinks that. If the Boards’ conviction is that the cumulative amount of equity should move to retained earnings, we note that this reclassification does not necessarily imply recycling in P&L. Under IAS 16, a revaluation surplus is reclassified from OCI to retained earnings when the revalued asset is amortised, without any P&L impact.

We also note that IAS 27R and IFRS 10 do not allow recycling in profit or loss of impacts initially accounted for in equity (e.g. the loss or gain on disposal realised during the reduction of the percentage interest in a subsidiary from 85% to 60%, which must be recognised definitively in equity), although this situation could be considered as similar to other net asset changes of an investee accounted for under the equity method.

Question 3 Other comments

Do you have any other comments on the proposals?

As already said, we appreciate the simplicity of a single accounting treatment proposed by the amendment, even if we are not convinced that it can apply to all the situations encompassed by the amendment.

Should the Board maintain its objectives of:

- a single accounting treatment for all other net asset changes of the investee,
- no P&L impact until the investor discontinues the use of the equity method, and
- recycling in P&L the cumulative amount recognised in respect of other net asset changes of the investee when the investor discontinues the use of the equity method

we believe that creating in IAS 28 a new category of OCI to account for other net asset changes of the investee would be a better solution to address this issue. In effect:

- this would remain consistent with IAS 1 and the fact that only transactions with owners in their capacity as owners are recognised directly in equity;
- some OCI components can be recycled in P&L while equity cannot.

If the Board elects this proposal, we believe that OCI components, that are to be recycled in P&L according to IAS 28.25 when the ownership interest decreases due to other net asset changes of the investee, should be reclassified in this new category of OCI instead and recycled in P&L only when the investor discontinues the use of the equity method.