

STAFF PAPER

October 2012

IASB Meeting

Project	Equity method: share of other net asset changes (Amendments to IAS 28 <i>Investments in Associates and Joint Ventures</i>)		
Paper topic	Summary of due process followed		
CONTACT(S)	Kazuhiro Sakaguchi	ksakaguchi@ifrs.org	+44 (0)20 7246 6930

This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IASB and does not represent the views of the IASB or any individual member of the IASB. Comments on the application of IFRSs do not purport to set out acceptable or unacceptable application of IFRSs. Technical decisions are made in public and reported in IASB *Update*.

Introduction and purpose

1. In July 2012 the IASB tentatively decided to publish an exposure draft proposing amendments to IAS 28 *Investments in Associates and Joint Ventures*. These amendments are intended to clarify the accounting by an investor for its share of changes in the net assets of an associate or joint venture that are not included in the investee's profit or loss or other comprehensive income and are not distributions. The balloting process of Exposure Draft *Equity method: share of other net asset changes (Amendments to IAS 28 Investments in Associates and Joint Ventures)* (the Exposure Draft), is underway and publication scheduled for November 2012.
2. The purpose of this paper is to:
 - (a) provide the IASB with a brief summary of the proposed amendments ;
and
 - (b) explain the steps in the due process the IASB has taken before the publication of the Exposure Draft (see Appendix A) and ask the IASB to confirm that it has complied with the due process requirements to date.

Summary of the proposals

3. Paragraph 3 of IAS 28 defines the equity method as a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. In other words, under the equity method, all post-acquisition changes in the net assets of an investee should be recognised by the investor.
4. However, as a result of a consequential amendment made as part of the 2007 revision to IAS 1 *Presentation of Financial Statements*, paragraph 10 of IAS 28 no longer states whether, and if so, where, the investor should account for its share of other net asset changes of the investee that are not recognised in profit or loss or other comprehensive income (OCI) of the investee, or that are not distributions received ('other net asset changes'). Other net asset changes derive from the changes of the investee's net assets and, therefore, do not include those arising from direct transactions of the investor (eg an investor sells part of its investment or acquires additional share of the investee). As a result of the consequential amendment, some view that paragraphs 3 and 10 as inconsistent, or at least unclear.
5. This issue was brought to the attention of the IFRS Interpretations Committee (the Interpretations Committee) in March 2011 and first discussed at its May 2011 meeting. The issue and possible solutions were discussed by the Interpretations Committee and the IASB at several meetings from May 2011 to July 2012. As a result of these discussions, the IASB tentatively decided to propose the amendments to IAS 28 as set out in the Exposure Draft subject to ballot.
6. The IASB proposes to amend IAS 28 to require an investor to 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 other comprehensive income of the investee, or that are not distributions received.

Confirmation of due process steps

7. In Appendix A we have summarised the due process steps we have taken in developing the Exposure Draft. For summarising these steps and thereby demonstrating that the IASB has met all the due process requirements to date, we used the reporting template ‘Development and publication of an **exposure draft** for an IFRS, practice guidance or Conceptual Framework chapter’ in ‘Appendix 4—Due Process Protocol’ of the draft of the revised Due Process Handbook

Compliance with Due Process to date

8. We note that the required due process steps applicable so far at this stage in the due process have been completed, as documented in appendix A.

Question for the IASB on compliance with Due Process

1. Is the IASB satisfied that all required Due Process steps applicable so far have been complied with?

Appendix A

Confirmation of Due Process Steps followed in the development of the Exposure Draft *Equity method: share of other net asset changes (Amendments to IAS 28 Investments in Associates and Joint Ventures)*.

The following table sets out the due process steps followed by the IASB in the development of the Exposure Draft (prepared as at 4 October 2012):

<i>Step</i>	<i>Required/Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held to discuss topic. Project Website contains a full description with up-to-date information on the project. Meeting papers posted in a timely fashion.	Members of the IASB discuss with DPOC progress on major projects, in relation to the due process being conducted. DPOC reviews comments from interested parties on IASB due process as appropriate.	This issue was discussed several times by both the IASB and the Interpretation Committee. The IASB tentatively decided at its July 2012 meeting to propose the amendments to IAS 28 as set out in the Exposure Draft. Project webpage was updated by the staff after every IASB or Interpretations Committee meeting in which this issue was discussed.
Formal consultation with the Trustees and the IFRS Advisory Council	Required	Discussions with the IFRS Advisory Council on topic.	DPOC meets with the Advisory Council to understand perspectives of stakeholders on due process of IASB. IFRS Advisory Council chair invited to Trustees' meetings and meetings of DPOC	This proposed amendment is part of the IASB's and the Interpretations Committee's work on maintenance of IFRSs. The issue relates to an inconsistency in IFRSs that is leading to diversity in practice. The proposed amendment is narrow in scope and occupies little of the IASB's time. Given the limited nature of the project and the narrow scope of the proposed amendments, the IASB does not undertake a separate consultation with the Advisory Council.
Analysis of likely effects of the forthcoming IFRS or major amendment, for example, costs or on-going associated costs.	Required	Publication of effect analysis	IASB reviews with DPOC results of effect analysis and how it has considered such findings in proposed IFRS. IASB provides a copy of the effect analysis to the DPOC at the point of standard's publication.	Given the narrow scope and the expected limited consequences of the proposed amendments, an effects analysis is not prepared.
Consultative groups utilised, if formed	Optional	Number of consultative group meetings, and evidence of substantive involvement in issues Consultative group review of draft exposure draft	DPOC receives report of consultative group activity from IASB.	N/A

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
Fieldwork undertaken in analysing proposals	Optional	IASB describes approach taken on fieldwork IASB explains why it does not believe fieldwork is warranted, if that is the preferred path Number of field tests	DPOC to review the IASB's explanation if fieldwork is deemed by IASB as not required and have the opportunity to discuss the explanation with IASB DPOC receives a report on fieldwork activities and how findings have been taken into consideration by IASB	N/A
Outreach meetings with a broad range of stakeholders, with special effort for investors	Optional	Number of meetings held and location Evidence of specific targeted efforts for investors	DPOC receives a report on outreach activities and IASB reviews with DPOC outreach plan for the ED and its approach to the optional steps to ensure extensive outreach and public consultation	N/A
Webcasts and podcasts to provide interested parties with high level updates or other useful information about specific projects.	Optional	Number of and participation in webcasts	DPOC receives a report on outreach activities	N/A
Public discussions with representative groups.	Optional	Number of discussions held	DPOC receives a report on outreach activities	N/A
Online survey to generate evidence in support of or against a particular approach.	Optional	Number and results of surveys	DPOC receives a report on outreach activities	N/A
Regional discussion forums, where possible, with national standard-setters with the IASB.	Optional	Schedule of meetings held in these forums	DPOC receives a report on outreach activities DPOC receives a report on outreach activities	N/A
Round-tables between external participants and members of the IASB.	Optional	Number of meetings held	DPOC receives a report on outreach activities	N/A
Drafting quality assurance steps are adequate	Required	Translations team included in review process.	DPOC receives summary report on due process steps before an exposure draft is issued.	Translations team has reviewed and formatting changes will be made as a result of their review.
Drafting quality assurance steps are adequate	Required	XBRL team included in review process.	DPOC receives summary report on due process steps	XBRL team reviewed pre-ballot draft, and will also review ballot draft

<i>Step</i>	<i>Required/ Optional</i>	<i>Metrics or evidence</i>	<i>Protocol for and evidence provided to DPOC</i>	<i>Actions</i>
			before an exposure draft is issued.	
Drafting quality assurance steps are adequate	Optional	External reviewers used to review drafts and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued, including the extent to which external reviewers have been used in the drafting process.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft made available to members of IFASS and comments collected and considered by the IASB	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Drafting quality assurance steps are adequate	Optional	Review draft posted on project website.	DPOC receives summary report on due process steps before an exposure draft is issued.	N/A
Due process steps reviewed by IASB	Required	Summary of all due process steps discussed by the Board before an IFRS is issued	DPOC receives summary report on due process steps before an exposure draft is issued.	This step will be met by this Staff Paper.
Exposure draft has appropriate comment period.	Required	IASB sets comment period for response. Any period outside the normal comment period requires explanation from IASB to DPOC, and subsequent approval.	DPOC receives notice of any change in comment period length and approval if required.	The IASB agreed at the July 2012 meeting that the standard comment period of 120 days will be used for this exposure draft.
Press release to announce publication of exposure draft.	Optional	Press release published Media coverage	DPOC informed of the release of the exposure draft.	Press release will be prepared and ready to be published with exposure draft.
Snapshot document to explain the rationale and basic concepts included in the exposure draft.	Optional	Snapshot posted on IASB Website	DPOC receives a report on outreach activities. Snapshot sent to DPOC members.	N/A
Exposure draft published	Required	Exposure draft posted on IASB website	DPOC informed of the release of the exposure draft.	Exposure draft will be made available on the public website on publication date.