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STAFF PAPER

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Project	**IAS 28 *Investments in Associates and Joint Ventures***		
Paper topic	Exposure Draft *Equity Method: Share of Other Net Asset Changes*		
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Introduction and purpose of this paper

1. In November 2012, the IASB published for comment the Exposure Draft *Equity Method: Share of Other Net Asset Changes* (proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*). [1]

2. The proposed amendments intend to specify that:

   (a) 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 other comprehensive income (OCI) of the investee, and that are not distributions received ('other net asset changes'); and

   (b) the 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.

3. A considerable number of respondents disagreed with the IASB's proposals, for various reasons, but there was no predominant view of how to account for the other net asset changes. The IFRS Interpretations Committee (the 'Interpretations Committee') discussed the comments received on the Exposure Draft at its July 2013 meeting, and tentatively decided to resubmit its original proposal to the

[1] http://www.ifrs.org/Current-Projects/IASB-Projects/equity-accounting/Exposure-Draft-November-2012/Pages/Open-for-comment-Exposure-Draft-Equity-Method-November-2012.aspx

IASB, which had been rejected by the IASB in June 2012. At that time the Interpretations Committee proposed to the IASB that:

(a) where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognised in profit or loss of the investor;

(b) where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as an incremental purchase of the investment and recognised at cost; and

(c) call option transactions entered into by an investee over its own equity (such as share-based payments) would be excluded from the scope of the proposal.

4. If the IASB was not persuaded by the original proposal again, the Interpretations Committee's preference is to recognise all types of other net asset changes in the investor's profit or loss, because in its view they are income and expenses.

5. In October 2013, the IASB discussed the feedback from respondents on the Exposure Draft. It also discussed the Interpretations Committee's proposal to the IASB in respect of the proposed amendment and several possible ways to move this project forward. Eight IASB members voted for making amendments based on the IASB's proposal in the Exposure Draft, which did not meet the minimum voting requirements.

6. The IASB tentatively rejected the following options:

(a) aborting the project, because of the need to address existing diversity in practice;

(b) proceeding with the IASB's proposal in the Exposure Draft, because of a number of concerns about departing from current IFRS literature; and

(c) proceeding with the Interpretations Committee's original proposal to the IASB, because it does not address call option transactions entered into by an investee over its own equity (such as share-based payments).

7. Consequently, the IASB directed the staff to conduct more analysis as to whether an investor should recognise its share of other net asset changes of the investee in the investor's profit or loss or OCI. In particular, the IASB directed the staff to include an analysis of how these alternatives are applied to share-based payment transactions.

Staff analysis on examples

8. IAS 28 defines that the equity method is 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. Consequently, we think that an investor should recognise its share of other net asset changes of the investee because the changes represent a change in the investor's share of the investee's net assets. We note that no respondents to the Exposure Draft questioned whether the investor should recognise its share of other net asset changes of the investee.

9. We acknowledge that the IASB rejected the Interpretations Committee's original proposal at the October 2013 meeting because it does not address call option transactions such as share-based payments. Nonetheless, we have included an analysis of how the Interpretations Committee's original proposal would be applied to the examples below so that the IASB can make a decision based on broader options. On the basis of the staff analysis, we present a hybrid approach based on the Interpretations Committee’s original proposal in the latter part of this paper.

10. Consequently, at this meeting, we will present to the IASB three views of **how** an investor should account for its share of other net asset changes of the investee:

    (a) **View 1: investor’s profit or loss.** This view is consistent with the Interpretations Committee’s second preference (and that was consistent with the Alternative View in the Exposure Draft).

    (b) **View 2: investor’s OCI, with the cumulative amount of OCI being reclassified to profit or loss when the investor discontinues the use**

of the equity method. This view is consistent with the staff proposal at the July 2013 Interpretations Committee meeting.

(c) **View 3: investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases**. This view is consistent with the Interpretations Committee's original proposal and, therefore, excludes call option transactions entered into by an investee over its own equity (such as share-based payments) from the scope.

11. We have analysed some examples for each view, including two examples on share-based payment transactions. Examples 1-3 are the same examples presented in the staff paper for the October 2013 IASB meeting. The details are found in Appendix A of this paper.

    (a) Example 1: associate issues additional shares to a third party.

    (b) Example 2: associate buys back its shares from a third party.

    (c) Example 3: associate issues share options to a third party for an item of property, plant & equipment (PP&E)

    (d) Example 4: associate issues share options to its employees.

12. The assumption for all examples is that an investor has a 30 per cent investment in the associate and has significant influence over that associate. The investor maintains significant influence over the associate after the transaction specified in each example.

Example 1: associate issues additional shares to a third party

13. In Example 1, as a result of an associate issuing additional shares to a third party for cash, the investor's share decreases from 30 per cent to 25 per cent, while the associate's net assets increase from CU1,000[2] to CU1,500 for the cash received. Accordingly, the investor's share of the associate's net assets increases from

[2] In this paper, monetary amounts are denominated in 'currency units (CU)'.

CU300 (CU1,000 x 30%) to CU375 (CU1,500 x 25%) as a result of the transaction.

14. Under View 1, the investor debits CU75 to investment account and credits CU75 to profit or loss to reflect the increase in the carrying amount of the investment. The investor's share percentage decreases while the associate's net assets increase as a result of the transaction. In other words, the investor made a profit through an indirect disposal of the shares of the associate. Because the effect of the transaction is recognised in profit or loss, the investor does not make a reclassification entry when it discontinues the use of the equity method.

15. Under View 2, the investor debits CU75 to investment account and credits CU75 to OCI to reflect the increase in the carrying amount of the investment. The investor reclassifies the amount of OCI to profit or loss when it discontinues the use of the equity method.

16. Under View 3, the investor debits CU75 to investment account and credits CU75 to profit or loss to reflect the increase in the carrying amount of the investment. This is because the investor made a profit through an indirect disposal of the shares of the associate as stated in View 1 above. This accounting is based on the approach described in paragraph 3(a) of this paper.

Example 2: associate buys back its shares from a third party

17. In Example 2, as a result of an associate buying back its shares from a third party by cash, the investor's share increases from 30 per cent to 35 per cent, while the associate's net assets decreases CU1,000 to CU700 for the cash paid. In this Example, the investor's share of the associate's net assets decreases from CU300 (CU1,000 x 30%) to CU245 (CU700 x 35%) as a result of the transaction.

18. Under View 1, the investor debits CU75 to profit or loss and credits CU75 to investment account to reflect the decrease in the carrying amount of the investment. The investor's share percentage increases while the associate's net assets decrease as a result of the transaction. In other words, the investor made a loss through an indirect acquisition of the shares of the associate. Because the

effect of the transaction is recognised in profit or loss, the investor does not make a reclassification entry when it discontinues the use of the equity method.

19. Under View 2, the investor debits CU55 to OCI and credits CU55 to investment account to reflect the decrease in the carrying amount of the investment. The investor reclassifies the cumulative amount of OCI (CU55) to profit or loss when it discontinues the use of the equity method.

20. Under View 3, because the investor made an indirect acquisition of the shares of the associate, the investor recognises the share of the other net asset changes at cost. This results in nothing being recorded for deemed acquisitions because the investor did not pay directly for the additional interest. This accounting is based on the approach described in paragraph 3(b) of this paper.

Example 3: associate issues share options to a third party for an item of property, plant & equipment (PP&E)

21. We note that Example 3 has been designed to contrast with Example 4 for comparative purposes. We acknowledge that in practice the situation described in Example 3 is unusual (ie the supplier of an item of PP&E accepts a five year waiting period for obtaining the shares).

22. In Example 3, an associate enters into an equity-settled share-based payment with an unrelated third party, whereby the associate issues share options with an exercise price of zero, in order to acquire a new item of PP&E. The associate's net assets at the grant date are CU1,000. The grant date fair value of the PP&E is CU200 and the option has a fixed exercise date in five years' time. The call options cannot be net settled in exchange for goods. The PP&E is depreciated to zero over its five year useful life. Consequently, the associate recognises the depreciation expense of CU40 per year.

23. At the end of the five year period, the third party exercises its options. As a result, the investor's share decreases from 30 per cent to 25 per cent while the associate's net assets remain CU1,000 assuming there have been no other transactions. Accordingly, the investor's share of the associate's net assets decreases from CU300 (CU1,000 x 30%) to CU250 (CU1,000 x 25%).

24. In this Example, there is an increase of CU200 in the associate's net assets on day 1 when it obtains the PP&E in exchange for the share-based payment. A change in the investor's share of the associate's net assets is accounted for under the equity method of accounting. The investor therefore equity accounts its share of the change in the associate's net assets from day 1.

25. Under View 1, on day 1, the investor debits CU60 (30% of CU200) to investment account and credits CU60 to profit or loss to reflect the investor's share of the change in the associate's net assets. From year 1 to year 5, as part of regular equity accounting, the investor debits CU12 (CU40 x 30%) to profit or loss and credits CU12 to investment account each year to reflect the investor's share of the depreciation expense recognised by the associate. The cumulative impact on the investor's profit or loss would be net nil after the five year period. When the third party exercises its options, the investor debits CU50 (CU300 – CU250) to profit or loss and credits CU50 to investment account to reflect the change in the investor's share of the associate's net assets that occurs with the actual dilution. Because the effect of the transaction is recognised in profit or loss, the investor does not make a reclassification entry when it discontinues the use of the equity method.

26. Under View 2, on day 1, the investor debits CU60 (30% of CU200) to investment account and credits CU60 to OCI to reflect the investor's share of the change in the associate's net assets. From year 1 to year 5, as part of regular equity accounting, the investor debits CU12 (CU40 x 30%) to profit or loss and credits CU12 to investment account each year to reflect the investor's share of the depreciation expense recognised by the associate. When the third party exercises its options, the investor debits CU50 (CU300 – CU250) to OCI and credits CU50 to investment account to reflect the change in the investor's share of the associate's net assets that occurs with the actual dilution. This leaves a net amount of CU10 in the investor's OCI (a difference of CU60 and CU50). We note that the investor debited CU60 to investment and credited CU60 to OCI on day 1 to reflect the investor's share on day 1 (ie 30%), which is now diluted to 25%. Consequently, the investor recorded 30% share of the depreciation charge since day 1, when in fact its interest has now been diluted to 25%. Therefore, we

think that the investor should reclassify CU10 of OCI to profit or loss when the third party exercises its options to reflect the full consequence of the actual dilution effect. The net effect after the reclassification would be debit of CU50 to profit or loss and credit of CU50 to investment account, which is the same result as View 1.

27. View 3 excludes call option transactions entered into by an associate over its own equity from the scope of the accounting. This accounting is based on the approach described in paragraph 3(c) of this paper.

Example 4: associate issues share options to its employees

28. In Example 4, an associate enters into an equity-settled share-based payment with its employees in the form of options with a zero exercise price. The associate's net assets at the grant date are CU1,000. The grant date fair value of the award is CU200 and the award has a five year service condition. The associate recognises the share-based payment expense of CU40 per year. At the end of the five year vesting period, the employees exercise their options. As a result, the investor's share decreases from 30 per cent to 25 per cent while the associate's net assets remain CU1,000 assuming there have been no other transactions. If the employees exercise their options after five year, the investor's share of the associate's net assets decreases from CU300 (CU1,000 x 30%) to CU250 (CU1,000 x 25%).

29. Under View 1, the investor debits CU12 (CU40 x 30%) to investment account and credits CU12 to profit or loss each year for the five year vesting period to reflect the investor's share of the credit side of the associate's share-based payment entry. In addition, as part of regular equity accounting, the investor debits CU12 (CU40 x 30%) to profit or loss and credits CU12 to investment account each year for the five year vesting period to reflect the investor's share of the share-based payment expense recognised by the associate. This would result in a net nil impact on the investor's profit or loss for the vesting period. When the employees exercise their options, the investor debits CU50 (CU300 – CU250) to profit or loss and credits CU50 to investment account to reflect the change in the investor's share of the

associate's net assets that occurs with the actual dilution. Because the effect of the transaction is recognised in profit or loss, the investor does not make a reclassification entry when it discontinues the use of the equity method.

30. Under View 2, the investor debits CU12 (CU40 x 30%) to investment account and credits CU12 to OCI each year for the five year vesting period to reflect the investor's share of the credit side of the associate's share-based payment entry. In addition, as part of regular equity accounting, the investor debits CU12 (CU40 x 30%) to profit or loss and credits CU12 to investment account each year for the five year vesting period to reflect the investor's share of the share-based payment expense recognised by the associate. When the employees exercise their options, the investor debits CU50 (CU300 – CU250) to OCI and credits CU50 to investment account to reflect the change in the investor's share of the associate's net assets that occurs with the actual dilution. This leaves a net amount of CU10 in the investor's OCI (a difference of CU60 and CU50). This arises from the investor recognising 30% of the share-based payment expense since day 1, when in fact its interest has now been diluted to 25%. Therefore, we think that the investor should reclassify CU10 of OCI to profit or loss when the employees exercise their options to reflect the full consequence of the actual dilution effect. The net effect after the reclassification would be debit of CU50 to profit or loss and credit of CU50 to investment account, which is the same result as View 1.

31. View 3 excludes call option transactions entered into by an associate over its own equity from the scope of the accounting. This accounting is based on the approach described in paragraph 3(c) of this paper.

Staff analysis on share-based payment transactions

32. We note that a share-based payment transaction for employee services does not affect the associate's net assets at the grant date and for the vesting period. The associate debits share-based payment expense and credits the corresponding amount to equity for the vesting period.[3] We note that, although there is no

[3] The associate reclassifies the cumulative amount of equity from one component of equity to another at the date of exercise.

change in the associate's net assets from the share-based payment transaction, dilution for the investor's share over the associate occurs if the options are exercised, which will be a change in the investor's share of the associate's net assets.

33. IAS 28 states that, under the equity method, the investor should recognise the change in the investor's share of the associate's net assets. IAS 28 also states that, under the equity method, the investor's profit or loss includes its share of the investee's profit or loss. From those definitions, we think it is clear that, if the employees exercise their options, the investor should recognise the change in the share of the associate's net assets that occurs with the actual dilution. In our view, however, it is not clear whether the investor should recognise its share of the share-based payment expense recognised by the associate during the vesting period. This is because, although the associate incurs the share-based payment expense during the vesting period (which is recognised in the associate's profit or loss), the investor's share of the associate's net assets does not change for that period.

34. In its previous meetings the Interpretations Committee discussed whether and how the investor should account for the share-based payment transaction of the associate. One approach discussed was that the investor should account in profit or loss for its share of the share-based payment expense recognised by the associate and also account in profit or loss for its share of the 'credit' side of the associate's share-based payment transaction. The net result would be that the investor would recognise a nil net expense for its share of the associate's share-based payment transaction. The Interpretations Committee disagreed with this approach. It thought that the investor should recognise its share of the share-based payment expense recognised by the associate. However, the Interpretations Committee did not conclude on whether and how the investor should account for its share of the credit side of the associate's share-based payment transaction.

35. In our view, the investor's share of the debit side of the associate's share-based payment entry would represent the investor's share of the associate's expense that arise from receipt of employee services (or PP&E depreciation charge in case of

Example 3) as the economic benefits of the services and the PP&E are consumed. We think that such information is relevant to the investor's shareholders.

36. Some might view that the investor should not account for its share of the credit side of the associate's share-based payment entry because the credit side of the entry represents an option that is not exercised during the vesting period. We note, however, that the investor's share of the credit side of the associate's share-based payment entry would represent a potential dilution for the investor. Although the dilution is confirmed only at exercise, we think that accounting for the potential dilution for that period provides relevant information for the investor's shareholders.

37. Consequently, we think that the investor should account for its share of the both sides of the associate's share-based payment entry (which is the prerequisite of the analysis of the examples in this paper). Then the question is **how** to account for the investor's share of the credit side of the associate's share-based payment entry (ie its share of the other net asset changes of the associate).

Staff analysis and recommendation

38. We note that the greatest challenge in accounting for other net asset changes relates to accounting for the associate's call options, and in particular the timing of recognising these transactions.

View 1 (profit or loss approach)

39. Under View 1, in share-based payment transactions (Example 3 and 4), the investor's share of the debit side of the associate's entry is included in the investor's profit or loss as part of regular equity accounting. Recording the investor's share of the credit side of the associate's entry in the investor's profit or loss as well would result in a net nil impact on the investor's profit or loss for the vesting period (in case of Example 3, the impact would initially be a credit of CU60 to profit or loss followed by a charge of CU60 over the five year useful life, thus it would be net nil but only at the end of the five year period). In our view, as stated already, the investor's share of the debit and credit sides of the

associate's share-based payment entry should not be offset because both provide relevant information for the investor's shareholders.

View 2 (OCI approach)

40. We think that the problem with the accounting for call option transactions is timing. Under View 2, the investor recognises its share of the share-based payment expense or PP&E depreciation charge recognised by the associate, while the investor defers its share of the credit side of the associate's share-based payment entry to the investor's OCI until there is a change in the investor's share of the associate's net assets that occurs with the actual dilution.

41. In other words, View 2 would help address the problem by recognising the share-based payment expense (ie receipt of employee services) or PP&E depreciation charge as the economic benefits of the services and the PP&E are consumed. The other side (ie credit side) of the call option transactions that is causing concern would be temporarily deferred in OCI until the options are exercised, at which point the effect of the actual dilution would be reflected in the investor's investment. Consequently, the amount deferred in OCI for the vesting period would provide information about a potential dilution for the investor.

View 3 (Interpretations Committee's original proposal)

42. Under View 3, the investor would recognise the share of the other net asset changes at cost if the investor's ownership interest in the investment increases (Example 2), which results in nothing being recorded. This is consistent with the Interpretations Committee's observation that an indirect acquisition should be accounted for as an incremental purchase of the investment and thus no gains and losses should be recognised. We note, however, that in Example 2 the investor's share of the associate's net assets decreases as a result of the transaction. In our view, View 3 approach in the case of Example 2 is inconsistent with the principle of the equity accounting that an investor should recognise the change in the investor's share of the associate's net assets.

43. We note that View 3 does not provide symmetry between a reduction and an increase in the investor's ownership interest in the investment. An associate might issue additional shares or buy back its shares in one reporting period. An

investor sometimes has investments in several associates. We are concerned that the accounting under View 3 could cause complexity in practice because of the non-symmetrical approach.

44. Further, View 3 does not address call option transactions entered into by an investee over its own equity (such as share-based payments).

45. We note that the OCI approach could be integrated into the Interpretations Committee's original proposal to solve the problem for call option transactions. This would give us four views of how to account for the other net asset changes:

    (a) View 1: investor's profit or loss

    (b) View 2: investor's OCI

    (c) View 3: investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases

    (d) Modified View 3: investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases, or in investor's OCI for call option transactions

46. We note that, even under the modified View 3, our concern in the case of Example 2 still remains. That is, an investor would not recognise the change in the investor's share of the associate's net assets whereas the investor's share of the associate's net assets decreases as a result of the transaction.

47. The modified View 3 provides three different types of accounting depending on the situations. We are concerned that the modified View 3 would add further complexity, in addition to the non-symmetrical approach between a reduction and an increase in the investor's ownership interest in the investment

48. Consequently, we recommend View 2, the OCI approach, for the reasons stated in the preceding paragraphs. In our view, among the views above, the OCI approach would be the most straight-forward solution that also addresses the concerns raised under other views.

Question to the IASB
Does the IASB agree with the staff recommendation that: (1) an investor should recognise, in the investor's OCI, its share of the other net asset changes of the investee; and (2) the investor shall reclassify to profit or loss the cumulative amount of OCI that the investor had previously recognised when the investor discontinues the use of the equity method?

Appendix A—Analysis of examples

The prerequisite for this exercise is that an investor should recognise its share of other net asset changes of the investee.

Examples		**[FYI]** Investor's equity (IASB's proposal in the Exposure Draft)	**View 1:** Investor's profit or loss	**View 2:** Investor's OCI	**View 3:** Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases	**Modified View 3:** Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases, or in investor's OCI for call option transactions
(1) An investor has a 30 per cent investment in the associate and has significant influence over that associate. The associate issues additional shares to a third party for cash. As a result, the investor's share decreases from 30 per cent to 25 per cent, while the associate's net assets increase from CU1,000 to CU1,500. The investor maintains significant influence over the associate. **The investor's share of the associate's net assets increases** from CU300 (CU1,000 x 30%) to CU375 (CU1,500 x 25%).	When the associate issues additional shares:	Dr Investment in associate 75 Cr Equity 75	Dr Investment in associate 75 Cr Profit or loss 75	Dr Investment in associate 75 Cr OCI 75	Dr Investment in associate 75 Cr Profit or loss 75	Dr Investment in associate 75 Cr Profit or loss 75
	When the investor discontinues the use of the equity method for the associate:	Dr Equity 75 Cr Profit or loss 75	No entry	Dr OCI 75 Cr Profit or loss 75	No entry	No entry

Examples		**[FYI]** Investor's equity (IASB's proposal in the Exposure Draft)	**View 1**: Investor's profit or loss	**View 2**: Investor's OCI	**View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases	**Modified View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases, or in investor's OCI for call option transactions
(2) An investor has a 30 per cent investment in the associate and has significant influence over that associate. The associate buys back its issues from a third party by cash. As a result, the investor's share increases from 30 per cent to 35 per cent, while the associate's net assets decreases from CU1,000 to CU700. The investor maintains significant influence over the associate. **The investor's share of the associate's net assets decreases** from CU300 (CU1,000 x 30%) to CU245 (CU700 x 35%).	When the associate buys back its shares:	Dr Equity 55 Cr Investment in associate 55	Dr Profit or loss 55 Cr Investment in associate 55	Dr OCI 55 Cr Investment in associate 55	No entry	No entry
	When the investor discontinues the use of the equity method for the associate:	Dr Profit or loss 55 Cr Equity 55	No entry	Dr Profit or loss 55 Cr OCI 55	No entry	No entry

Examples		[FYI] Investor's equity (IASB's proposal in the Exposure Draft)	**View 1**: Investor's profit or loss	**View 2**: Investor's OCI	**View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases	**Modified View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases, or in investor's OCI for call option transactions
(3) An investor has a 30 per cent investment in the associate and has significant influence over that associate. The associate's net assets at the grant date are CU1,000. The associate enters into an equity-settled share-based payment with an unrelated third party, whereby the associate issues share options with a zero exercise price, in order to acquire a new item of property, plant and equipment (PP&E). The grant date fair value of the PP&E is CU200 and the option has a fixed exercise date in five years' time. The call options cannot be net settled in exchange for goods. The PP&E is depreciated to zero over its five year useful life. The	When granted (day 1)	Dr Investment in associate 60 Cr Equity 60 (30% of CU200)	Dr Investment in associate 60 Cr Profit or loss 60 (30% of CU200)	Dr Investment in associate 60 Cr OCI 60 (30% of CU200)	Out of scope	Dr Investment in associate 60 Cr OCI 60 (30% of CU200)
	During vesting period (as part of regular equity accounting)[4]	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)		Dr Profit or loss 12 Cr Investment in associate 12 (for five years)
	When exercised	Dr Equity 50 Cr Investment in associate 50 (CU300 – CU250)	Dr Profit or loss 50 Cr Investment in associate 50 (CU300 – CU250)	Dr OCI 50 Cr Investment in associate 50 (CU300 – CU250)		Dr OCI 50 Cr Investment in associate 50 (CU300 – CU250)

[4] The associate's entry is Dr Depreciation expense 40 / Cr Accumulated depreciation 40 for five years.

associate recognises the depreciation expense of CU40 per year. At the end of the five year vesting period, the third party exercises its options. As a result, the investor's share decreases from 30 per cent to 25 per cent while the associate's net assets remain CU1,000 assuming there have been no other transactions. Accordingly, **the investor's share of the associate's net assets decreases** from CU300 (CU1,000 x 30%) to CU250 (CU1,000 x 25%). The investor still maintains significant influence over the associate.		Dr Equity 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50		Dr OCI 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50		Dr OCI 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50

Examples		**[FYI]** Investor's equity (IASB's proposal in the Exposure Draft)	**View 1**: Investor's profit or loss	**View 2**: Investor's OCI	**View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases	**Modified View 3**: Investor's profit or loss if the ownership interest in the investment is reduced, or at cost if the ownership interest in the investment increases, or in investor's OCI for call option transactions
(4) An investor has a 30 per cent investment in the associate and has significant influence over that associate. The associate's net assets at the grant date are CU1,000. The associate enters into an equity-settled share-based payment with its employees in the form of options with a zero exercise price. The grant date fair value of the award is CU200 and the award has a five year service condition. The associate recognises the share-based payment expense of CU40 per year. At the end of the five year vesting period, the employees exercise their options. As a result, the investor's share	When granted (day 1)	No entry	No entry	No entry	Out of scope	No entry
	During vesting period (as part of regular equity accounting)[5]	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)	Dr Profit or loss 12 Cr Investment in associate 12 (for five years)		Dr Profit or loss 12 Cr Investment in associate 12 (for five years)
	During vesting period[6]	Dr Investment in associate 12 Cr Equity 12 (for five years)	Dr Investment in associate 12 Cr Profit or loss 12 (for five years)	Dr Investment in associate 12 Cr OCI 12 (for five years)		Dr Investment in associate 12 Cr OCI 12 (for five years)

[5] The associate's entry is Dr Share-based payment expense 40 / Cr Equity 40 for five years.

[6] This represents the investor's share of the 'credit' side of the associate's share-based payment entry (ie Cr Equity 40) during the vesting period.

decreases from 30 per cent to 25 per cent while the associate's net assets remain CU1,000 assuming there have been no other transactions. Accordingly, **the investor's share of the associate's net assets decreases** from CU300 (CU1,000 x 30%) to CU250 (CU1,000 x 25%). The investor still maintains significant influence over the associate.	When exercised	Dr Equity 50 Cr Investment in associate 50 (CU300 – CU250) Dr Equity 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50	Dr Profit or loss 50 Cr Investment in associate 50 (CU300 – CU250)	Dr OCI 50 Cr Investment in associate 50 (CU300 – CU250) Dr OCI 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50		Dr OCI 50 Cr Investment in associate 50 (CU300 – CU250) Dr OCI 10 Cr Profit or loss 10 *The net effect would be* Dr Profit or loss 50 Cr Investment in associate 50