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STAFF PAPER

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Project	Exposure Draft *Equity Method: Share of Other Net Asset Changes*
Paper topic	Comment letter analysis

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Introduction

1. In November 2012, the IASB published the Exposure Draft *Equity Method: Share of Other Net Asset Changes* (proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*).[1] The objective of the proposed amendments is to provide additional guidance to IAS 28 on the application of the equity method.

2. Specifically, 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. The proposed amendments were a short-term solution to address diversity in practice in the accounting of the investee's other net asset changes under the equity method. The comment period ended on 22 March 2013.

[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

Structure of this paper

4. This paper is organised as follows:

   (a) Background of the issue

   (b) Summary of the discussions in developing the Exposure Draft

   (c) Feedback summary

   (d) Analysis of comments received on recognising other net asset changes of an investee in the investor's equity (Question 1 of the Exposure Draft)

   (e) Analysis of comments received on reclassifying to profit or loss the cumulative amount of equity previously recognised when the investor discontinues the use of the equity method (Question 2 of the Exposure Draft)

   (f) Analysis of other comments received (Question 3 of the Exposure Draft)

   (g) Due process consideration

   (h) Next steps

   (i) Appendix A—Summary of characteristics of respondents

Background of the issue

5. In September 2007, the IASB issued IAS 1 *Presentation of Financial Statements* with the main objective being to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity.

6. Paragraphs IN2 and IN 6 of IAS 1 set out this objective as one of the main features of the revised version of IAS 1:

   > IN 2 The main objective of the International Accounting Standards Board in revising IAS 1 was to aggregate information in the financial statements on the basis of shared characteristics. With

this in mind, the Board considered it useful to separate changes in equity (net assets) of an entity during a period arising from transactions with owners in their capacity as owners from other changes in equity. Consequently, the Board decided that all owner changes in equity should be presented in the statement of changes in equity, separately from non-owner changes in equity.

IN 6 IAS 1 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (ie comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

7. As a consequence of separating changes in equity (net assets) with owners in their capacity as owners from other changes in equity, the IASB also introduced definitions of total comprehensive income and OCI in paragraph 7 of IAS 1 as follows:

> Total comprehensive income is the change in equity during a period resulting from transactions and other events, other than those changes resulting from transactions with owners in their capacity as owners.
>
> Other comprehensive income comprises items of income and expense (including reclassification adjustments) that are not recognised in profit or loss as required or permitted by other IFRSs.

8. As a result of the 2007 revision to IAS 1, the consequential amendments were made to paragraph 11 of IAS 28 (equivalent to paragraph 10 of the current IAS 28) as shown below. Amendments have been struck through and underlined for ease of reference (emphasis added):

> Under the equity method, the investment in an associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment.

> **Adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's ~~equity~~ other comprehensive income.** Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. **The investor's share of those changes is recognised in ~~equity~~ other comprehensive income of the investor** (see IAS 1 Presentation of Financial Statements (as revised in 2007).

9. As a result of the consequential amendments above, paragraph 10 of IAS 28 no longer states whether, and if so, where, the investor should account for other net asset changes of the investee. On the other hand, paragraph 3 of IAS 28 defines the equity method to be "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. As a result, some view paragraphs 3 and 10 as being inconsistent with each other, or at least unclear.

Summary of the discussions in developing the Exposure Draft

10. Below is a summary of the discussions in developing the Exposure Draft for the purpose of presenting this paper. For completeness, please refer to the Basis for Conclusions and Alternative View set out in the Exposure Draft.

Recognition in equity

11. This issue was brought to the attention of the IFRS Interpretations Committee (the Interpretations Committee) in March 2011 because there was diversity in practice. In March 2012, the Interpretations Committee decided to recommend to the IASB that the IASB should amend IAS 28 in the following manner:

    (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; and

(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.

The Interpretations Committee also decided to recommend to the IASB that call option transactions entered into by an investee over its own equity (such as share-based payments) would be excluded from the amendment.

12. The IASB discussed, but disagreed with, the proposed amendment because:

(a) it would not address all types of other net asset changes that might occur in practice—in particular, share-based payment transactions in an investee.

(b) the proposed accounting did not provide symmetry between a reduction and an increase in the investor's ownership interest in the investment and would cause complexity as a result.

13. The IASB noted that 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, because such equity transactions do not reflect performance. In addition, the IASB observed that recognising these other net asset changes in profit or loss can cause anomalous results (for example, with regard to a share-based payments transaction).

14. Furthermore, some IASB members noted that the application of the equity method is consistent with the view that equity method accounting is a one-line consolidation and that paragraph 26 of IAS 28 states that many of the procedures that are appropriate for the application of the equity method are similar to the consolidation procedures described in IFRS 10 *Consolidated Financial Statements*.

15. The IASB noted that IAS 28 requires that an investor's share of an investee's profit or loss is recognised in the investor's profit or loss. It also requires that the investor's share of the investee's OCI is recognised in the investor's OCI. Other

net asset changes of the investee result from transactions that are neither profit or loss nor OCI but, rather, are the investee's equity transactions. Accordingly, the IASB concluded that it is appropriate that such changes are recognised in the investor's equity.

16. The IASB acknowledged that an investee is not part of the consolidated group as defined in Appendix A of IFRS 10 and thus the investee's other net asset changes are excluded from 'owner's transactions' that are presented within equity under IAS 1. However, the IASB noted that, before the revision in 2007, IAS 28 required these types of changes to be recognised in the investor's equity. Because of its desire to address diversity in practice, the IASB concluded that returning to the previous requirements would be the most reasonable and expeditious approach as a short-term solution.

Presentation and disclosure

17. The IASB made the observation in these proposed amendments to IAS 28 that the cumulative amount of equity that an investor had previously recognised in relation to the investee's other net asset changes will remain in the investor's shareholder's equity even after the investor loses significant influence over the investee, unless the investor reclassifies the amount recognised in equity to profit or loss. The IASB does not regard this as a fair presentation of loss of significant influence.

18. The IASB noted that paragraph 22 of IAS 28 requires that, when an investor discontinues the use of the equity method, the investor shall account for all amounts previously recognised in OCI in relation to that investment on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities. Accordingly, the IASB proposed that, when an investor discontinues the use of the equity method, it shall reclassify to profit or loss the cumulative amount of equity that it had previously recognised, in relation to the investee's other net asset changes.

19. The IASB also considered whether it should require disclosure of the amount recognised in equity by an investor resulting from an investee's equity

transactions, but decided that it should not do so. It noted that paragraph 106 of IAS 1 already requires that an entity should provide a reconciliation of components of equity separately if they are material and also noted that the amount recognised in equity by an investor in respect of its share of the investee's other net asset changes would form part of such a disclosure.

Effective date and transition

20. The IASB decided that the amendments should apply retrospectively (which is the general approach to transition set out in IAS 8) and that no additional amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards* should be required. This is because, as set out in C5 of IFRS 1, the exemption for business combinations already applies to investments in associates and joint ventures at the date of transition.

Alternative view

21. One IASB member voted against the publication of the Exposure Draft because that member believes that the amendment would cause serious conceptual confusion due to inconsistency with other IFRSs. That IASB member prefers that other net asset changes of an investee should be recognised in the investor's profit or loss. In the IASB member's view:

    (a) the proposal would mix transactions with owners together with transactions with non-owners and this is contrary to the objective of the revision of IAS 1 made in 2007.

    (b) the proposal would be inconsistent with paragraph 25 of IFRS 10, which requires that if a parent loses control of a subsidiary, the parent recognises the gain or loss associated with the loss of control attributable to the former controlling interest.

    (c) the proposal would change the nature of equity. The proposal to require the cumulative amount of equity to be 'recycled' to profit or loss when

the equity method is discontinued will result in treating equity like OCI, which may introduce additional complexity.

(d) the equity method of accounting does not represent a one-line consolidation at the time of acquisition or disposal of the investment. In addition, recognising an associate's equity transactions in profit or loss does not mislead outside investors. Further, recognising a nil impact for a share-based payment transaction is a better depiction of the transaction.

Feedback summary

22. 78 comment letters were received from 6 continents and from global organisations including global accounting firms. A summary of the characteristics of the respondents is provided in Appendix A of this paper. All comment letters are posted and can be found on the IASB's website. [2]

23. The IASB invited comments on the following specific questions:

Q1: The IASB proposes to amend IAS 28 so that an investor should recognise its share of other net asset changes of the investee in the investor's equity. Do you agree? Why or why not?

Q2: 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?

Q3: Do you have any other comments on the proposals?

24. We note that no respondents questioned whether the investor should recognise other net asset changes of the investee. Consequently, the question is how the investor should account for such changes in its financial statements.

[2] http://www.ifrs.org/Current-Projects/IASB-Projects/equity-accounting/Exposure-Draft-November-2012/Comment-letters/Pages/Comment-letters.aspx

25. About one quarter of the respondents agreed with the proposed accounting set out in Q1.[3] Although some of them acknowledge that the proposed accounting is inconsistent with the current IFRS literature, they generally think that:

    (a) the proposed accounting, which is to return to the previous requirements before the 2007 revision to IAS 1, is an expeditious and pragmatic solution to address diversity in practice.

    (b) other net asset changes of an investee result from the investee's equity transactions, which do not represent a performance of the investee.

    (c) equity method of accounting can be viewed a one-line consolidation.

26. More than half of the respondents who agreed with Q1 agreed with the proposed reclassification set out in Q2. Some of those who agreed with Q1 but disagreed with Q2 suggested reclassifying the cumulative amount of equity within equity.[4] Some respondents who disagreed with Q1 suggested reclassifying the cumulative amount of equity within equity if the IASB proceed with the proposed accounting in Q1.[5]

27. About three quarters of the respondents disagreed with Q1 for a variety of reasons. The major comments are as follows:

    (a) the proposed accounting is inconsistent with the current IFRS literature such as IFRS 10 and IAS 1.

    (b) the equity method of accounting should not be regarded as a one-line consolidation because not all consolidation procedures are applied for the purpose of the equity method.

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[3] California Society of Certified Public Accountants, Chris Barnard, Hydro Quebec, Financial Reporting Council, Accounting Standards Committee of Germany (ASCG), Association of German Banks, The Hong Kong Association of Banks, The Malaysian Institute of Certified Public Accountants, ESMA, The Linde Group, The Institute of Chartered Accountants of Nigeria, Pitcher Partners, Malaysian Accounting Standards Board (MASB), China Accounting Standards Committee, Alstom, Denise Silva Ferreira Juvenal, The School of Accountancy of the University of the Witwatersrand, The Brazilian Accounting Pronouncements Committee (CPC), Volkswagen AG, The Institute of Certified Public Accountants of Kenya (ICPAK), a *minority* of The Corporate Reporting Users' Forum Japan (CRUF J)

[4] Financial Reporting Council, The Hong Kong Association of Banks, The Malaysian Institute of Certified Public Accountants

[5] Manisha Jajodia, BDO

(c) the accounting should be consistent between indirect increases or decreases in the investor's share of the investment (deemed acquisition or disposal) and the purchase or disposal of the investment, because they are economically similar.

(d) the IASB should first arrive at a clear set of principles for the use of equity accounting before proceeding with the proposed amendments.

28. Some respondents explicitly supported the Alternative View set out in the Exposure Draft or suggested recognising other net asset changes of the investee in the investor's profit or loss. [6]

29. Some respondents suggested recognising other net asset changes of the investee in the investor's OCI.[7] Some respondents suggested recognising other net asset changes of the investee in the investor's OCI, if the IASB concludes that those changes should not be recognised in profit or loss[8] and if the IASB proceeds with the revision of IAS 28[9].

30. All respondents who disagreed with Q1 disagreed with Q2. Some respondents were neutral to both Q1 and Q2. Some respondents did not answer Q2.

31. We note that there was no dominant view of how the investor should account for the investee's other net asset changes in its financial statements.

Analysis of comments received on recognising other net asset changes of an investee in the investor's equity (Question 1 of the Exposure Draft)

Inconsistency with current IFRS literature

32. Many respondents advocated that the proposed accounting is inconsistent with the current IFRS literature. Their major comments are:

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[6] Roche, Orange, The Association of Chartered Certified Accountants, RSM International, Financial Executives International, Accounting Standards Board of Japan, etc

[7] Korea Accounting Standards Board (KASB), Petrobras, ACTEO/Afep/MEDEF, the *majority* of The Corporate Reporting Users' Forum Japan (CRUF J)

[8] Kenichi Akiba, FAR (the Institute for the Accountancy Profession in Sweden)

[9] Singapore Accounting Standards Council

(a) the fundamental principle in IFRS 10 (and IFRS 3) is that a group is composed of a parent and its subsidiaries and that changes in a parent's ownership interest that do not result in a loss of control are accounted for as equity transactions. An investee is not part of the consolidated group as defined in IFRS 10 and, therefore, the investee's other net asset changes are not accounted for equity transactions.

(b) in addition, IAS 1 requires an entity to present all owner changes in equity within a statement of changes in equity. All non-owner changes in equity are required to be presented in the statement of comprehensive income. Accordingly, the investee's other net asset changes are excluded from 'owner's transactions' that are presented within equity under IAS 1.

(c) the proposed amendment is inconsistent with paragraph 4.25 of the *Conceptual Framework*.[10] **KPMG IFRG Limited** commented that:

> A credit meets the definition of income because it does not arise from contributions from equity participants; similarly, a debit meets the definition of expenses because it does not arise from distributions to equity participants. Such income or expenses are part of the performance of the investor (the results of its investing activities).

(d) there is a cross-cutting issue with paragraphs 48C and 48D of IAS 21 *The Effects of Changes in Foreign Exchange Rates,* which requires reclassification of exchange differences previously recognised in OCI when there is any reduction in ownership interest

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[10] Paragraph 4.25 of the *Conceptual Framework* states:

The elements of income and expenses are defined as follows:

(a) Income is increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

(b) Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

33. We note that the IASB acknowledged that an investee is not part of the consolidated group and thus the investee's other net asset changes are excluded from 'owner's transactions' (BC8 of the Exposure Draft). However, because of its desire to address diversity in practice as quickly as possible, the IASB concluded that returning to the previous requirements would be the most reasonable and expeditious approach as a short-term solution. In other words, the IASB gave precedence to the achievement of comparability. Having said that, we acknowledge that many constituents are concerned with the inconsistencies caused by the proposed amendment.

34. We agree that, from an investor's perspective, other net asset changes of the investee meet the definition of income and expenses as set out in the *Conceptual Framework*. This will be discussed later in this paper (see staff analysis and recommendation).

35. **Singapore Accounting Standards Council** made the following comment on the IAS 21 issue:

> Cross-cutting issue with IAS 21 *The Effects of Changes in Foreign Exchange Rates* - IAS 21 requires an investor to reclassify to profit or loss, a proportionate share of exchange differences previously recognised in OCI, when there is any reduction in ownership interest in a foreign operation other than a subsidiary. Accordingly, when an investee issues new shares to other shareholders, the investor would recognise a portion of previously recognised exchange differences in profit or loss as prescribed by IAS 21, and the gain or loss on reduction of interest in equity as proposed under the ED. This means that elements of gain or loss on a single transaction would be recognised in profit or loss in different periods, which is conceptually difficult to appreciate.

36. We do not agree with this argument. We acknowledge the requirement of IAS 21 that, if an investor's ownership interest in the foreign investee is reduced, the investor is required to reclassify to profit or loss the proportion of the cumulative amount of the exchange differences that had previously been recognised in OCI. We also acknowledge that such reclassification is triggered by the investee's other net asset changes when the other net asset changes reflect a reduction in

ownership interest. However, translation of the investment and other net asset changes of the investee are different transactions. We do not think that application of separate accounting to these different transactions is incompatible with each other. In addition, we think that the effect of other net asset changes should be recognised in the investor's profit or loss when the investor discontinues the use of the equity method, not in the period in which such changes arise (see further analysis in the staff analysis and recommendation for Question 2 of the Exposure Draft).

One-line consolidation

37. Some respondents stated that the equity method of accounting should not be regarded as a one-line consolidation because not all consolidation procedures are applied for the purpose of the equity method. **Ernst & Young Global Limited** made the following comment:

> We note that, whilst paragraph 26 of IAS 28 (2011) appears to support the view that equity accounting is a one-line consolidation, the IASB and the Committee have made a number of decisions recently that indicate that equity accounting is a valuation methodology for an investment, namely:
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> - ► The May 2008 Annual Amendment to IAS 28 by the IASB, which is explained by paragraph BC 27 of IAS 28 as follows: *"The Board decided that an investor should not allocate an impairment loss to any asset that forms part of the carrying amount of* ***the investment in the associate because the investment is the only asset that the investor controls and recognises"*** (emphasis added);
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> - ► The April 2009 Annual Amendment to IAS 39 by the IASB, which is explained by paragraph BC 24D of IAS 39 as follows: ***"the acquisition of an interest in an associate represents the acquisition of a financial instrument."*** (emphasis added). Paragraph BC 24D also contradicts paragraph 26 of IAS 28 by stating that *"the acquisition of an interest in an associate does not represent an acquisition of a business with subsequent consolidation of the constituent net assets"*
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> - ► The July 2009 Agenda Decisions of the Committee with respect to potential effects of IFRS 3 on IAS 28 where the Committee noted that *"paragraph 19A of IAS 28 applies to all reductions in the investor's ownership interest, no matter the cause".*

38. We note that the Exposure Draft does not provide a definitive view of whether the equity method accounting is a one-line consolidation or the basis of measurement of a financial asset investment. BC6 of the Exposure Draft states that "**some** IASB members noted that the application of the equity method is consistent with the view held by some interested parties that equity method accounting is a one-line consolidation…" In other words, those are not the views agreed by all IASB members.

39. The proposed amendments are a short-term solution to address diversity in practice and do not intend to change the principles of the equity method. In May 2012 the IASB added a project on the equity method of accounting as one of the research activities to its future agenda, which we think will include the discussions on the principles of the equity method.

Deemed acquisition and disposal

40. Some respondents stated that accounting should be consistent between indirect increases or decreases in the investor's share of the investment (deemed acquisition or disposal) and the purchase or disposal of the investment, because they are economically similar. Some respondents stated that any gain or loss on the dilution should be recognised in the same way as if the dilution were a result of a direct disposal of an interest in the investee but remained silent about deemed acquisitions.

41. **Deloitte Touche Tohmatsu Limited** made the following comment:

> … we believe that current practice is, to a large extent, consistent with the approach tentatively agreed upon by the IFRS Interpretations Committee of accounting for any decrease in ownership interest in profit or loss as a partial disposal and any increase in ownership interest as an incremental purchase resulting in an increase in the cost of the investment. This approach reflects that an indirect increase in ownership interest is substantially the same as a direct increase in ownership interest and economically different from a direct or indirect decrease in ownership interest and, therefore, that it should be accounted for consistently with the former and differently from the latter.

42. **Credit Suisse Group** made the following comment:

> The Emerging Issues Task force Issue Number 08-6, *Equity Method Investment Accounting Considerations* ("the EITF") states that an equity method investor accounts for a share issuance by an investee as if the investor had sold a proportionate share of its investment and that any gain or loss to the investor resulting from an investee's share issuance is recognised in earnings. For the situation where the EITF provides guidance as noted above, the ED results in a GAAP difference.

43. **PricewaterhouseCoopers** made the following comment:

> Other types of other net asset changes need to be analyzed to determine the most appropriate accounting treatment as each tends to have unique elements of complexity. Examples include the issuance and potential exercise of equity settled share options by the investee to its employees or an investee's transactions with a non-controlling interest holder in its subsidiary. Given the challenges of these and other types of other net asset changes, **our preference would be for the Board to analyze each separately to determine the accounting that best reflects the transaction economics, is consistent with deemed disposals and acquisitions guidance referred to above and conforms to the IASB's conceptual framework.** However, if the Board believes that a practical solution is needed, we would prefer that these items are recognized in the investor's profit and loss.

44. **KPMG IFRG Limited** suggested an alternative model. The model takes the proposal of the Interpretations Committee (as described in BC2 of the Exposure Draft) and adds a further test that asks whether there has been a change in other net assets of the investee (see detail for Appendix 2 of their comment letter).

45. We note that, when developing the Exposure Draft, the IASB disagreed with the Interpretations Committee’s proposal because it does not provide symmetry between a reduction and an increase in the investor’s ownership interest in the investment and would cause complexity as a result. In our view, the IASB did not prefer complexity because the proposed amendments were intended to be a short-term solution.

46. We understand the argument that deemed acquisitions or disposals are economically similar to direct acquisitions or disposals of investments. They do bring a similar economic effect to the investor as a result. However, the triggers for those transactions are different. Deemed acquisitions or disposals are triggered by an action of an investee that the investor does not control (but has a significant influence). On the other hand, direct acquisitions or disposals of investments are triggered by the investor itself. In other words, transactions are under control of the investor. In our view, there should be a distinction between deemed transactions and direct transactions, because treating those transactions similarly would lead to mixing the concepts of control and significant influence.

47. Further, we think that any dilutive effect as a result of an investee's other net asset changes is an indicator of impairment of the investment and, therefore, should not be mixed with the discussion of where the other net asset changes should be recognised in the investor's financial statements. **BDO IFR Advisory Limited** (they disagreed with the IASB's proposal) made the following comment (emphasis added):

> (…) we do not agree with the approach suggested in paragraph AV10 of the Alternative View, that nothing should be recognised in all cases. Instead, **in the event that an associate issued any potentially dilutive instruments during a reporting period (whether in the form of an equity settled share-based payment, the issue of warrants to third party investors, or otherwise) this should be treated as an indicator of impairment for the purposes of paragraph 9 of IAS 36** ***Impairment of Assets***. This would be before, and in addition to, the requirement in IAS 28.40 - 41 to apply IAS 39 for an investor to determine whether any additional impairment loss needs to be recognised in respect of its net investment in an associate or joint venture. This again demonstrates that equity accounting is, in certain respects, a form of valuation rather than a one line consolidation.

Principles on equity method

48. Some respondents stated that the IASB should first arrive at a clear set of principles for the use of the equity method of accounting before proceeding with the proposed amendments.

49. As stated already in this paper, in May 2012 the IASB added a project on the equity method of accounting as one of the research activities to its future agenda.[11] We note that the IASB is currently working on the Conceptual Framework project and some priority projects such as agriculture, rate-regulated activities and the equity method for separate financial statements. According to the decisions made in May 2012, the IASB will also work on the priority research projects such as emission trading scheme and business combinations under common control, as well as the research activities that include the project on the equity method of accounting.

50. Finalisation of a Standard usually takes a while because it involves several steps such as public discussions, publication of an Exposure Draft, comment letter analysis and balloting. We note that the existence of diversity in practice in the accounting of the other net asset changes is broadly acknowledged by the respondents. Inaction would not address the diversity in practice and the diversity in practice will continue to exist until the IASB finalises the project on the equity method of accounting.

51. The proposed amendment is a narrow-scope amendment. The objective of the narrow-scope amendment is to address diversity in practice as quickly as possible. Considering the objective, we think that an appropriate accounting on this issue should be discussed now rather than allowing diversity in practice to develop further.

Other comments

52. **Ernst & Young Global Limited** suggested an approach that consolidation principles are applied except where there is a clear conflict between those

[11] IASB Update May 2012: http://media.ifrs.org/IASBupdateMay2012.html#7

principles and investment asset accounting, in which case asset accounting principles would be applied. Their suggested approach is as follows:

> As discussed in the cover letter, we believe the guiding principle when accounting for equity method re-measurements ought to be that consolidation principles are applied except where there is a clear conflict between those principles and investment asset accounting, in which case asset accounting principles would be applied. The following points elaborate on this view:
>
> (1) The 'trigger' for a re-measurement of the investor's share of net assets ought to be the same as the consolidation triggers for the re-measurement of the parent and non-controlling interests (NCI).
>
> For a subsidiary this would occur when there is a change in present ownership interests. It does not occur when the subsidiary enters a share-based payment (SBP) arrangement or issues an option or convertible note. Instead, the amount would be recorded in NCI and would remain there until the SBP or option lapses or until it is exercised to become a present ownership interest.
>
> For an equity method investment, only the investor's interest is recognised. The equity relating to a SBP or option issued by the investee is equivalent to a subsidiary's NCI. Therefore, these transactions should not result in a re-measurement of the investor's share of net assets until the SBP or option lapses or is exercised, at which point it becomes a present ownership interest.
>
> (2) A change in ownership interest is a trigger for re-measurement. However, we believe consolidation principles cannot be applied to this change in ownership interest. Rather, for an equity method investment, since the investor does not have a controlling financial interest, these transactions are deemed purchases and sales.
>
> For a subsidiary, a change in ownership that does not result in a change in control is accounted for as an equity transaction. This is appropriate as both the parent and the non-controlling equity interests are recognised in the consolidated accounts.
>
> For an equity method investment, since the ownership interests not owned by the investor are not recognised, changes in ownership interests should not be accounted for as an equity transaction. Rather such transactions are, in substance, purchases and sales of part of the investment and they should be accounted for as such.

(3) Consolidation principles are not appropriate for transactions between an associate and the associate's NCI.

For a subsidiary such transactions would be accounted for as an equity transaction.

For an equity method investment, since the non-investor equity interests are not recognised, any changes in the measurement of the investment cannot be equity transactions and are rather in the nature of income or expense.

53. Although we see some valid arguments in the suggested approach, we note that there is no such guidance in IAS 28 that consolidation principles are applied unless there is a conflict between those principles and investment asset accounting. In our view, the existence of the concepts of both consolidation and investment asset accounting in IAS 28 is the root cause of the problem. We think that trying to combine the two approaches could make the guidance less clear.

Staff analysis and recommendation

54. In summary, we do not agree with most of the disagreements because:

(a) the IASB acknowledged the inconsistency within IFRS caused by the proposed amendment but gave precedence to the achievement of comparability.

(b) the IASB did not intend to provide a definitive view about the principles of the equity method of accounting. The proposed amendment was a short-term solution until the longer-term project is completed.

(c) deemed transactions and direct transactions should be distinguished.

(d) the accounting for other net asset changes of an investee should be addressed as quickly as possible.

55. However, we acknowledge that many respondents expressed the concerns about the IASB's proposal that other net asset changes of an investee should be recognised in the investor's equity. Specifically, we note the comment that the proposed amendment is inconsistent with the *Conceptual Framework*.

56. We agree that, from an investor's perspective, other net asset changes of an investee meet the definition of income and expenses as set out in the *Conceptual Framework* (see footnote 10 of this paper for the definitions of income and expenses). Under the equity method, the investor accounts for the share of the other net asset changes in its investment account if such changes arise, regardless of whether the corresponding entry is accounted for in its equity, profit or loss or OCI. Movement in the investment account is an increase or decrease in the investor's assets and is not related to contributions from equity participants.

57. The *Conceptual Framework* implies that all items of income and expenses are the result of an entity's financial performance and are included in total comprehensive income. It does not distinguish items recognised in profit or loss and items recognised in OCI, although IAS 1 requires entities to separate total comprehensive income into profit or loss and OCI in presenting the financial statements. Paragraph 4.24 of the *Conceptual Framework* states (emphasis added):

> **Profit is frequently used as a measure of performance or as the basis for other measures, such as return on investment or earnings per share. The elements directly related to the measurement of profit are income and expenses.** The recognition and measurement of income and expenses, and hence profit, depends in part on the concepts of capital and capital maintenance used by the entity in preparing its financial statements. (…)

58. Having said that, it is true that, as a summary performance measure, profit or loss is more frequently used than total comprehensive income. Paragraph OB16 of the *Conceptual Framework* states that "information about a reporting entity's financial performance helps users to understand the return that the entity has produced on its economic resources".

59. In our view, recognising and presenting other net asset changes of an investee in the investor's profit or loss in the period in which such changes arise would mislead users of financial statements, rather than helping them assess the return from the entity.

60. We note that, although the investor has a significant influence over the investee, it does not control the investee. In addition, the other net asset changes, from the investee's perspective, do not meet the definition of income and expenses because those changes are equity transactions of the investee and does not involve recognition of income and expenses. We do not think that income and expenses arising from the investee's equity transactions and outside the control of the investor should be considered as the investor's performance.

61. If other net asset changes of an investee meet the definition of income and expenses but should not be recognised in profit or loss, they would be recognised in the investor's OCI. We note that some respondents suggested recognising other net asset changes of the investee in the investor's OCI.

62. The **majority** of the **Corporate Reporting Users' Forum Japan**[12] thinks that:

> Meanwhile, the alternative view -- that an investor should recognise its share of other net asset changes in the investor's profit or loss rather than in equity -- looks unreasonable. The reason is, as explained in paragraph BC4, that this risks giving a misleading representation of the investee's performance.
>
> (…)
>
> Thus, we propose the view that other net asset changes that are not equity transactions should be recognised in the investor's OCI. In just such a case, as pointed out in paragraph AV8, we think it appropriate to use OCI as a temporary "home" for such other net asset changes in a way to adjust accumulated OCI.

63. **The Korea Accounting Standards Board (KASB)** thinks that:

> First, the KASB would like to suggest categorizing the investor's share in the other net asset changes of an associate into other comprehensive income of the investor. Considering the problems that would arise when other net asset changes are recognised as equity and the fact that this revision has been pushed ahead to improve comparability in practice prior

[12] A **minority** of the Corporate Reporting Users' Forum Japan supports the IASB's proposal that the other net asset changes should be recognised in the investor's equity.

to revising the equity method in a fundamental manner, we believe that it is better to present other net asset changes in OCI or profit or loss.

However, presenting other net asset changes of an associate in profit or loss would go against the concept of equity method which requires only the investment asset based on the performance of the investee to be recognized as revenue, as shown in IAS 28 paragraph 11*. This may cause confusion among the information users and therefore we believe that other net asset changes of an associate should be recognised as OCI.

* IAS 28.11 ... Because the investor has joint control of, or significant influence over, the investee, the investor has an interest in the associate's or joint ventures's performance and, as a result, the return on its investment....

64. We note that some respondents suggested recognising the other net asset changes in the investor's OCI, **if** the IASB concludes that those changes should not be recognised in profit or loss and **if** the IASB proceeds with the revision of IAS 28. FAR (the Institute for the Accountancy Profession in Sweden) commented (emphasis added):

> FAR does not agree with the proposed amendment. FAR believes that transactions recognised in equity should only be transactions with owners in their capacity as owners, such as dividend paid, share issue and NCI transactions. However, to recognise the transactions proposed in the ED is inconsistent with concepts and principles in the existing IFRSs. FAR believes that the outcome of a transaction like the one described in connection with paragraph 10 d represents a performance and should therefore be presented in profit or loss.
>
> However, **if the IASB comes to the conclusion that these categories of transactions should not be recognised in profit or loss, FAR believes that the transactions should be recognised in Other Comprehensive Income (OCI)**, even if FAR strongly prefers recognition in profit or loss. As mentioned above, FAR believes that recognition of this type of transactions in equity is inconsistent with concepts and principles of the existing IFRSs.

65. We note that the IASB is currently working on the Conceptual Framework project that includes the presentation in the statement of comprehensive income (profit or loss and OCI). The IASB's latest discussion on this topic was in April 2013[13], when the IASB tentatively agreed that the coming Discussion Paper will review two broad approaches to presentation of profit or loss and OCI. Because the project is still at an early stage, we do not think it relevant to conduct an analysis of whether the other net asset changes in the scope of this paper would be eligible for OCI treatment in the coming Discussion Paper.

66. Consequently, we think that the IASB's proposed amendment should be revised so that an investor should recognise other net asset changes of the investee in the investor's OCI.

67. In our view, recognising the other net asset changes in the investor's OCI would address the constituents' comments that:

    (a) the proposed amendment should be consistent with the current IFRS literature to avoid confusion (which is one of the major comments from those who disagreed with the IASB's proposal); and

    (b) the other net asset changes should not be recognised in the investor's profit or loss because such changes do not represent performance of the investee (and thus the investor) (which is one of the major comments from those who agreed with the IASB's proposal) .

Question 1

Does the Interpretations Committee agree that it should propose to the IASB that the IASB's proposed amendment should be revised so that an investor should recognise other net asset changes of the investee in the investor's OCI?

If the Interpretations Committee does not agree with the above, what would be the alternative approach to propose to the IASB?

[13] IASB Update for April 2013: http://media.ifrs.org/2013/IASB/April/IASB-Update-April-2013.html#Conceptual-Framework

Analysis of comments received on reclassifying to profit or loss the cumulative amount of equity previously recognised when the investor discontinues the use of the equity method (Question 2 of the Exposure Draft)

Summary of comments received

68. Some respondents agreed with the proposed accounting set out in Q2 for the reasons stated in the Basis for Conclusions of the Exposure Draft. Overall, however, there were few supports on Q2. The major comments for disagreements are as follows:

    (a) recognition of other net asset changes of an investee in the investor's equity is not appropriate in the first place.

    (b) reclassifying the cumulative amount of equity to profit or loss contradicts the concept in IAS 1 that only reclassifications between OCI and profit or loss are permitted.

    (c) reclassifying the cumulative amount of equity to profit or loss is a new concept in IFRS and would cause confusion about the distinction between OCI and equity. **FEE (Federation of European Accountants)** made the following comment:

    > The proposed treatment also creates a new type of reclassification ('equity recycled to profit or loss'). The conceptual basis for such reclassification is not established and the proposed treatment could introduce undue complexity in IFRSs. It is also likely to add confusion on the nature of items initially recognised outside of P&L that are subject to subsequent reclassification and the timing of such reclassification. This is undesirable and, consequently, we do not support the proposed amendments.

Staff analysis and recommendation

69. Because the proposed amendment that the cumulative amount of equity should be reclassified to profit or loss has limited support, we think that an alternative model should be considered.

70. In the previous section of this paper, we proposed that an investor should recognise other net asset changes of the investee in the investor's OCI. We have analysed the reclassification issue below on that basis. The question is whether the amount of OCI that the investor recognises as a result of the investee's other net asset changes should be reclassified to profit or loss, and if so, when the amount should be reclassified.

71. We note that paragraph 22 of IAS 28 states (emphasis added):

> An entity shall discontinue the use of the equity method from the date when its investment ceases to be an associate or a joint venture as follows:
>
> (a) If the investment becomes a subsidiary, the entity shall account for its investment in accordance with IFRS 3 *Business Combinations* and IFRS 10.
>
> (b) If the retained interest in the former associate or joint venture is a financial asset, the entity shall measure the retained interest at fair value. The fair value of the retained interest shall be regarded as its fair value on initial recognition as a financial asset in accordance with IFRS 9. The entity shall recognise in profit or loss any difference between:
>
> (i) the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture; and
>
> (ii) the carrying amount of the investment at the date the equity method was discontinued.
>
> (c) **When an entity discontinues the use of the equity method, the entity shall account for all amounts previously recognised in other comprehensive income in relation to that investment** on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities.

72. We also note that paragraph 25 of IAS 28 states:

> If an entity's ownership interest in an associate or a joint venture is reduced, but the entity continues to apply the equity method, the entity

shall reclassify to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be required to be reclassified to profit or loss on the disposal of the related assets or liabilities.

73. These paragraphs require an investor to reclassify to profit or loss the amount of OCI that the investor had previously recognised under the equity method, when the investor discontinues the use of the equity method and when the investor's ownership interest in the investee is reduced but the investor continues to apply the equity method. Specifically, the amount of OCI that those requirements apply is in relation to the investor's share of **the investee's OCI** recognised in accordance with the requirement in paragraph 10 of IAS 28, which states that "adjustments to the carrying amount may also be necessary for changes in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income".

74. On the other hand, the amount of OCI that arises as a result of the investee's other net asset changes in accordance with our proposal is in relation to the investor's share of **the investee's equity transactions**. In other words, they are different types of OCI and different approaches on reclassification could apply.

75. Under our proposal, if the investor's ownership interest in the investee was reduced by the investee's other net asset changes, the effect in that period would be recognised in the investor's OCI, not in the investor's profit or loss. This is because, as stated already, we think that recognising and presenting such changes in the investor's profit or loss in the period in which such changes arise would mislead users of financial statements. In other words, it is not relevant to argue whether the investor should reclassify to profit or loss the amount of OCI that arises as a result of the other net asset changes when the investor's ownership interest in the investee was reduced by the investee's other net asset changes.

76. The investee's other net asset changes are accounted for under the equity method. The investor discontinues the use of the equity method if the investor loses a significant influence over the investee and the investment becomes either a subsidiary or a financial asset. We note that, unless the investor reclassifies the

amount recognised in OCI to profit or loss, the cumulative amount of OCI that the investor had previously recognised in relation to the investee's other net asset changes will remain in the investor's OCI even after the investor discontinues the use of the equity method. We do not think that this is regarded as a fair presentation of discontinuing the use of the equity method.

77. Consequently, we think that the amount of OCI that an investor recognises as a result of the investee's other net asset changes should be reclassified to profit or loss, when the investor discontinues the use of the equity method.

78. We note that paragraph 25 of IAS 28 should be made clear that the requirement in that paragraph only applies to the amount of OCI that is in relation to the investor's share of the investee's OCI to avoid confusion.

79. We further note that in July 2009 the Interpretations Committee made an agenda decision about paragraph 25 of IAS 28:

> The IFRIC noted that paragraph 19A[14] of IAS 28 provides guidance on the accounting for amounts recognised in other comprehensive income when the investor's ownership interest is reduced, but the entity retains significant influence. The IFRIC noted that there is no specific guidance on the recognition of a gain or loss resulting from a reduction in the investor's ownership interest resulting from the issue of shares by the associate. However, the IFRIC also noted that reclassification of amounts to profit or loss from other comprehensive income is generally required as part of determining the gain or loss on a disposal. Paragraph 19A of IAS 28 applies to all reductions in the investor's ownership interest, no matter the cause.

80. We interpret this agenda decision as the guidance on reclassification of the amount of OCI that is in relation to the investor's share of the investee's OCI because that is what paragraph 25 of IAS 28 states. However, we acknowledge that some constituents interpret the decision as the guidance that also addresses how to account for a reduction in the investor's ownership interest (ie dilution as a result of the other net asset changes). We note that the latter interpretation would

[14] Paragraph 19A was deleted as part of the 2011 revision to IAS 28. However, the same requirements were carried forward in paragraph 25 of IAS 28 (revised 2011).

not be relevant if the Interpretations Committee agrees with our proposal that the other net asset changes should be recognised in the investor's OCI and not be reclassified until the investor discontinues the use of the equity method.

Question 2

Does the Interpretations Committee agree that:

(1) the amount of OCI that an investor recognises as a result of the investee's other net asset changes should be reclassified to profit or loss, when the investor discontinues the use of the equity method; and

(2) paragraph 25 of IAS 28 should be made clear that the requirement in that paragraph only applies to the amount of OCI that is in relation to the investor's share of the investee's OCI?

If the Interpretations Committee does not agree with the above, what would be the alternative approach to propose to the IASB?

Analysis of other comments received (Question 3 of the Exposure Draft)

Retrospective application

81. Many respondents were concerned that the proposed amendments should be applied retrospectively. The **Hong Kong Association of Banks** supports the IASB's proposal that the other net asset changes should be recognised in the investor's equity but has concerns about the transition (emphasis added):

> We do not agree that the amendment proposed should be applied retrospectively. We hold the view that the amendments should be applied prospectively. The Board explains in BC12 that since the exemption for business combinations already applies to investments in associates and joint ventures at the date of transition (paragraph C5 of IFRS 1), a further amendment to IFRS 1 would not be required. However, this only addresses first time adopters of IFRS and does not take into consideration that **existing appliers of IFRS may have been applying IFRS since a number of years by the time this amendment becomes**

> **effective, and the amendment will require them to restate many transactions undertaken by investees over a number of years in the past.** Reflecting the effects of these past transactions in equity today (since most adjustments would be reflected only in opening equity and the opening balance sheet carrying value of the associate) would provide very limited benefit to existing users of the financial statements who are more concerned with the current and future performance of an entity.

82. We agree with this statement. The proposed amendments to IAS 28, regardless of where an investor should recognise other net asset changes of the investee (equity, profit or loss or OCI), should be a short-term solution to address diversity in practice until the IASB initiates the discussion on the equity method of accounting. We therefore think that benefits should outweigh costs.

83. We also note the comment from **KPMG IFRG Limited** (emphasis added):

> If the Board proceeds with the amendment in its current form, then we recommend prospective application (with early adoption permitted). **Retrospective application would result in double counting**. For example, for an investor who previously recognised its share of other net assets changes in profit or loss, that amount would be reclassified to equity on adoption of the ED and then would be reclassified to profit or loss again when equity accounting ceases. We believe that such double counting would not be appropriate.
>
> In addition, **prospective application would be consistent with the Board's other proposed limited scope amendments** in ED/2012/6 *Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* and ED/2012/7 *Acquisition of an Interest in a Joint Operation.*

84. We agree with this statement. Under our proposal in this paper, the other net asset changes would be recognised in the investor's OCI and reclassified to profit or loss when the investor discontinues the use of the equity method. If an entity has recognised such changes in its profit or loss in the past and restates the effect of the changes to OCI when the amendments become effective, the amount restated in OCI would be eventually reclassified to profit or loss and it would result in

double counting of profit or loss for the same transactions. We also agree that the way of application should be consistent between this amendment and other narrow-scope amendments dealing with the similar Standards to avoid confusion.

Disclosure requirement

85. **Deloitte Touche Tohmatsu Limited** expressed the following concern about the disclosure requirement:

> We disagree with the decision noted in paragraph BC11 of the Basis for Conclusions of the exposure draft that an amendment to paragraph 106 of IAS 1 is not necessary. The exposure draft proposes the introduction of a qualitatively different class of equity transaction which should be separately presented in the statement of changes in equity, not specifying that separate presentation in IAS 1 could lead to unintended diversity in practice.

86. Assuming that other net asset changes of an investee is recognised in the investor’s OCI in accordance with our proposal in this paper, if the amount of OCI recognised is material, it would be presented separately in the relevant financial statements of the investor in accordance with the requirements in IAS 1. Consequently, we do not think that a new disclosure requirement is necessary under our proposal.

Scope of the amendments

87. We note that some respondents asked that the scope of the amendments should be defined more clearly.

Volkswagen AG commented:

> Furthermore we would recommend to verify the proposed treatment with respect to the following cases:
>
> - changes in the investee's equity because of IAS 8.14 and IAS 8.42
> - changes because of IAS 32 (compound instruments, transaction costs).

Porsche Automobil Holding SE commented:

(…)

- Changes not already mentioned in IAS 28.10d), but stated in other IFRS:
  - Movements in other components of equity arising from compound instruments (IAS 32.28)
  - Sale, issuance or cancellation of treasury shares (IAS 32.35)
  - Transaction costs of an equity transaction (net of any related income tax benefit; IAS 32.35)
  - Considerations paid for a purchased call option or other similar contract (IAS 32.AG14)
  - Changes in the proportion held by non-controlling interests (IAS 27.30, IFRS 10.B96)
  - Movements in other components of equity arising from the application of IAS 8 on the investee's level:
    - Changes required by an IFRS (IAS 8.14a))
    - Voluntary changes in accounting policies (IAS 8.14b))
    - Correction of errors (IAS 8.42)

- Changes not already mentioned in IAS 28.10d) resulting from the application of standards in the past that were replaced or superseded in the meantime:
  - Revaluation reserves that resulted from business combinations achieved in stages (IFRS 3 (Example 6) (2004))

One might argue, for example, that changes resulting from the application of IAS 8 on the associate's level do not fall in scope of IAS 28.10d) (revised), as IAS 1.110 states that retrospective adjustments and retrospective restatements are not changes in equity but they are adjustments to the opening balance. However, the following arguments could be raised against that:

- there is no exemption set forth in ED/2012/3;
- adjustments to the opening balance might also lead to movements in other components of the investee's equity as set forth in IAS 28.10d) (revised); and

- The question arises why the Board uses the term "net asset changes" in IAS 28.10d) (revised), whereas the term "changes in equity" is used in IAS 1.110.

88. We note that the scope of the amendments for the accounting of other net asset changes of an investee should include all types of other net asset changes for completeness, unless otherwise stated in other Standards. We think that such approaches are an assumption set out in IFRSs, which we do not think should be explicitly stated in this specific amendment. In addition, under our proposal that the amendments should be applied prospectively, the concern about retrospective application would not be relevant.

Question 3
Does the Interpretations Committee agree that: (1) the proposed amendments should be applied prospectively: and (2) no additional disclosure requirement is necessary if other net asset changes of an investee is recognised in the investor's OCI? If the Interpretations Committee does not agree with the above, what would be the alternative to propose to the IASB?

Due process consideration

Re-exposure

89. Paragraph 6.25 of the IASB and IFRS Interpretations Committee *Due Process Handbook (*the *Due Process Handbook)* sets out the following guidance on determining whether re-exposure is necessary:

> In considering whether there is a need for re-exposure, the IASB:
>
> (a) identifies substantial issues that emerged during the comment period on the Exposure Draft and that it had not previously considered;
>
> (b) assesses the evidence that it has considered;

(c) determines whether it has sufficiently understood the issues, implications and likely effects of the new requirements and actively sought the views of interested parties; and

(d) considers whether the various viewpoints were appropriately aired in the Exposure Draft and adequately discussed and reviewed in the Basis for Conclusions.

90. We note that the significant issues that respondents raised on the Exposure Draft are related to where an investor should recognise other net asset changes of an investee and how the amount should be reclassified if necessary. We also note that these issues were considered by the IASB during the deliberation for publishing the Exposure Draft that included the specific questions to invite comments. Our analysis of the comments received is set out in this paper. In our view, re-exposure is not necessary based on the re-exposure criteria.

Effective date

91. The IASB's due process requirement states that "the mandatory effective date is set so that jurisdictions have sufficient time to incorporate the new requirements into their legal systems and those applying IFRS have sufficient time to prepare for the new requirements".[15]

92. The proposed amendment is a narrow-scope amendment. The objective of the narrow-scope amendment is to address diversity in practice as quickly as possible. Accordingly, we think that the mandatory effective date should be set as early as possible, while considering the fact that jurisdictions have sufficient time to prepare for the new requirements.

93. According to the IASB's work plan as at 21 June 2013[16], the proposed amendments to IAS 28 *Equity Method: Share of Other Net Asset Changes* is targeted to be finalised in Q4 2013. In this respect, we recommend that the mandatory effective date is set at 1 January 2015, subject to the discussions at a

[15] Paragraph 6.35 of IASB and IFRS Interpretations Committee *Due Process Handbook*

[16] http://www.ifrs.org/Current-Projects/IASB-Projects/Pages/IASB-Work-Plan.aspx

future IASB meeting about the Interpretations Committee's proposal about the amendments.

Question 4
Does the Interpretations Committee agree that it should propose to the IASB that: (1) re-exposure is not necessary based on the re-exposure criteria: and (2) the mandatory effective date is set at 1 January 2015, subject to the discussions at a future IASB meeting? If the Interpretations Committee does not agree with the above, what would be the alternative to propose to the IASB?

Next steps

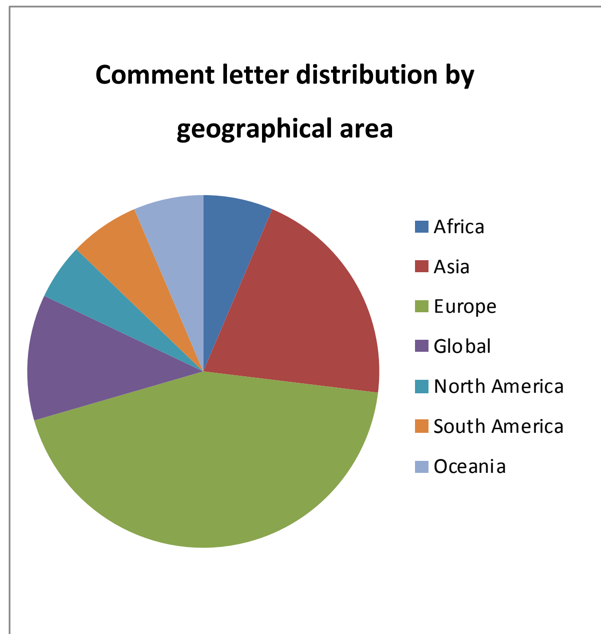
94. Our proposal in this paper will lead to adding another item to the list of OCI set out in IAS 1. We acknowledge that the Interpretations Committee universally rejected the argument that the list of OCI in paragraph 7 of IAS 1 is not considered to be exhaustive, when we first presented this issue in May 2011.

95. However, this narrow-scope amendment is intended to be a stopgap measure until the IASB determines the principles of the equity method of accounting. We note that there is diversity in practice in the accounting of the other net asset changes under the equity method. In our view, recognition of such changes in the investor's OCI is a solution to address diversity in practice, without creating inconsistency with the current IFRS literature and without recognising such changes as performance of the investee and the investor.

96. If the Interpretations Committee agrees with our proposal in this paper, we will bring a revised wording of the amendments to a future IASB meeting toward the final amendments.

Appendix A—Summary of characteristics of respondents

Comment letter distribution by geographical area		
Africa	5	6%
Asia	16	21%
Europe	34	44%
Global	9	12%
North America	4	5%
South America	5	6%
Oceania	5	6%
	78	**100%**



Comment letter distribution by type of respondent		
Academia or Think tank	1	1%
Accountancy body	17	22%
Accounting firm	10	13%
Individual	5	6%
Preparer / Industry	13	17%
Preparer / Representative body	8	10%
Regulator / Securities	2	3%
Standard-setting body	21	27%
User / representative body	1	1%
	78	**100%**