

STAFF PAPER

May 2014

IASB Meeting

| Project | Equity Method: Share of Other Net Asset Changes | | |
|-------------|---|--|---------------------|
| Paper topic | Due process considerations | | |
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Purpose

1. In March 2014, the IASB tentatively decided to finalise the proposed amendments *Equity Method: Share of Other Net Asset Changes* (proposed amendments to IAS 28 *Investments in Associates and Joint Ventures*). Two members of the IASB communicated their intention to dissent from the final amendments. Subsequently, one more member of the IASB communicated his intention to dissent from the final amendment and another two have indicated to us that they are also thinking of dissenting. This increase in the number of IASB Members planning to dissent, or considering it, has prompted us to bring this paper to you.

Background

2. 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 The proposed amendment aimed to respond to diversity in practice that had arisen because of a lack of guidance on how to apply the equity method to certain transactions entered into by an equity-accounted investee. This lack of guidance had arisen as an unintended consequence from a consequential amendment made to IAS 1 *Presentation of Financial Statements* was revised in 2007.

¹ <http://www.ifrs.org/Current-Projects/IASB-Projects/equity-accounting/Exposure-Draft-November-2012/Documents/ED-Equity-Method-Nov-2012-Web.pdf>

3. Paragraph 3 of IAS 28 defines the equity method as “a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor’s share of the investee’s net assets”.
4. As a result of the consequential amendment to IAS 28 referred to above, paragraph 10 of IAS 28 is unclear on the accounting for changes in the investor’s share of the investee’s net assets other than the investor’s share of the investee’s comprehensive income or distributions received (‘other changes in the investor’s share of the investee’s net assets’).
5. Consequently, the IASB proposed to require an investor to:
 - (a) recognise, in the investor’s equity, the other changes in the investor’s share of the investee’s net assets; and
 - (b) reclassify to profit or loss the cumulative amount of those other changes previously recognised in equity, when the investor discontinues the use of the equity method.
6. During the redeliberations, the IASB requested some additional analysis to check for any unintended consequences. The staff presented its analysis and the IASB was satisfied that the staff’s analysis of the proposed amendments did not reveal any unintended consequences. Based on the staff’s analysis, the IASB tentatively decided to proceed with the finalisation of the amendment, with two minor changes from the Exposure Draft.

Due process considerations

7. In its meeting in March 2014, the IASB discussed the following due process considerations:
 - (a) *Finalisation or re-exposure.* The IASB concluded that re-exposure was not needed.
 - (b) *Confirmation of due process steps and compliance so far.* The IASB confirmed that they are satisfied that the IASB has completed all of the necessary due process steps on the project to date and therefore instructed the staff to commence the ballot process of the amendments to IAS 28.

8. Two members of the IASB communicated their intention to dissent from the final amendment during the meeting.
9. Subsequently,
 - (a) one more member of the IASB communicated his intention to dissent from the final amendment;
 - (b) two other members have indicated to us that they are also thinking of dissenting;
 - (c) another member indicated his preference to discontinue the project.
10. Based on the conversations that we have had with Board members and the likelihood of more dissents, we are not clear whether there is sufficient support to complete these amendments. Consequently, we ask the following questions.

Questions for the IASB

1. Which IASB members intend to dissent from the final amendment?
2. In the light of paragraphs 8 and 9, should we proceed with finalising the project?
3. If we are to finalise the project, should we proceed with the ballot of the final amendments to IAS 28?