Financial Reporting Council

Françoise Flores
Chairman
EFRAG
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Belgium

Email: commentletters@efrag.org

24 January 2013

Dear Françoise

EFRAG Draft Comment Letter: ED *Equity Method: Share of Other Net Asset Changes*

I am writing on behalf of the Financial Reporting Council (FRC), in response to the EFRAG Draft Comment Letter (DCL) on the IASB Exposure Draft *Equity Method: Share of Other Net Asset Changes* (ED).

Enclosed with this letter is the FRC's response letter to the IASB concerning the ED. In summary, the FRC considers that an investor in an associate or joint venture should recognise its share of 'other net asset changes' in equity; it supports the proposals in the ED and thus 'View 1' of the EFRAG DCL in this regard. It considers that the ED puts forward a pragmatic solution to the diversity that has arisen in practice. The FRC agrees with the reasoning that the IASB has set out in the Basis for Conclusions of the ED. In relation to the reclassification of the amounts in equity when the investor discontinues the use of the equity method, however, the FRC considers that the stray amounts may be sensibly reclassified within equity, not via recycling from equity to the P&L. The FRC does not favour recycling from equity because it sets a new precedent (recycling has previously been from OCI) and because it would entail recycling amounts that comprise an ad hoc mix of accounting entries (e.g. it may entail recycling the share-based payment expense).

Specific responses to the questions posed by EFRAG in its DCL are included in the appendix of this letter.

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail g.chatterton@frc-asb.org.uk, or me.

Yours sincerely

Roger Marshall
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Appendix – Responses to the questions posed by EFRAG in its DCL

Question a
Which of the views do you support? Please explain why.

Response:
The FRC considers that an investor in an associate or joint venture should recognise its share of 'other net asset changes' in equity; it supports the proposals in the ED and thus 'View 1' of the EFRAG DCL. It considers that the ED puts forward a pragmatic solution to the diversity that has arisen in practice. The FRC agrees with the reasoning that the IASB has set out in the Basis for Conclusions of the ED.

Question b
Are there any additional arguments that have not been identified above?

Response:
EFRAG may, in considering whether it views equity accounting as a one-line consolidation or as a method of valuation, wish to consider whether the amount recorded in the balance sheet when equity accounting is the same as that obtained when applying full consolidation if the goodwill, assets, liabilities and non-controlling interest of the acquiree were to be added.

Question c
What are your views on the IASB's proposal on recycling (reclassification)?

Response:
The FRC considers that the IASB should reassess the desirability, in general, of recycling profits from equity to the P&L. It may be preferable to reclassify within equity when the investor discontinues the use of the equity method. This would enable any stray amounts left in equity following the loss of significant influence to be sensibly reclassified without requiring recycling from equity. The FRC does not favour recycling from equity because it sets a new precedent (recycling has previously been from OCI) and because it would entail recycling amounts that comprise an ad hoc mix of accounting entries (e.g. it may entail recycling the share-based payment expense).

Question d
Are there any additional arguments that have not been identified above?

Response:
No additional arguments are noted.

Financial Reporting Council

Hans Hoogervorst
Chairman
IASB
30 Cannon Street
London
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24 January 2013

Dear Hans

IASB Exposure Draft *Equity Method: Share of Other Net Asset Changes*

I am writing on behalf of the Financial Reporting Council (FRC), in response to the above Exposure Draft (ED).

The FRC supports the proposal that an investor in an associate or joint venture should recognise its share of 'other net asset changes' in equity, but it considers that those amounts should be reclassified within equity (not recycled through the P&L) when the investor discontinues the use of the equity method.

The Appendix to this letter includes the FRC's responses to the questions set out in the Invitation to Comment in the ED.

If you would like to discuss these comments, please contact Grant Chatterton on 020 7492 2426, e-mail g.chatterton@frc-asb.org.uk, or me.

Yours sincerely

Roger Marshall

Roger Marshall
Chair of the Accounting Council
DDI: 020 7492 2434
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Appendix: Responses to 'Questions for respondents' in the IASB Exposure Draft *Equity Method: Share of Other Net Asset Changes*

Question 1

The IASB proposes to amend IAS 28 so that an investor should recognise in the investor's equity its share of the changes in the net assets of the investee that are not recognised in profit or loss or OCI of the investee, and that are not distributions received. Do you agree? Why or why not?

Response:

Agree – The proposals are a pragmatic solution that confirm the continuing application of the accounting treatment that existed prior to (and which was not intended to be changed as a result of) the consequential amendments arising from the 2007 revision to IAS 1 *Presentation of Financial Statements*.[1]

Question 2

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?

Response:

Disagree – The FRC considers that the IASB should reassess the desirability, in general, of recycling profits from equity to the P&L. It would be preferable to reclassify within equity when the investor discontinues the use of the equity method. This would enable any stray amounts left in equity following the loss of significant influence to be sensibly reclassified without requiring recycling from equity. The FRC does not favour recycling from equity because it sets a new precedent (recycling has previously been from OCI) and because it would entail recycling amounts that comprise an ad hoc mix of accounting entries (e.g. it may entail recycling the share-based payment expense).

Question 3

Do you have any other comments on the proposals?

Response:

No other comments.

[1] The IASB may wish to address the debate concerning whether equity accounting is a one-line consolidation or a method of valuation (e.g. see paragraph AV9) when it reviews equity accounting in accordance with its agenda following the 2012 consultation thereon.