RAAMATUPIDAMISE TOIMKOND

EFRAG
35 Square de Meeûs
1000 Brussels
Belgium

28 January 2013

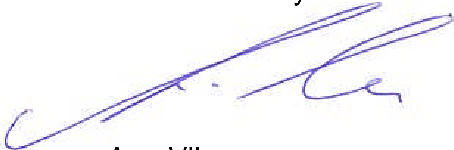
EFRAG Draft Comment Letter: ED/2012/3 Equity Method: Share of Other Net Asset Changes

Dear Sir/Madam

I am pleased to submit the comments on behalf of the Estonian Accounting Standards Board.

Enclosed with this letter are our answers to your specific questions. In summary, the Estonian Accounting Standards Board supports View 3 of the EFRAG Draft Comment Letter. In our view, the approach suggested by the IASB in its proposed amendment to IAS 28 is inconsistent with the basic concepts and specific requirements of other IFRSs and may lead to intuitively unreasonable results.

Yours sincerely



Ago Vilu
Chairman of the Estonian Accounting Standards Board

Raamatupidamise Toimkond
Suur-Ameerika 1
TALLINN 15006

www.easb.ee
easb@fin.ee

Tel +372 6113929
Fax +372 6966810

Questions 38-39. Which of the views do you support? Please explain why. Are there any additional arguments that have not been identified above?

We strongly support View 3 of the EFRAG Draft Comment Letter and fully agree with the rationale provided in paragraphs 14-37 of the letter.

'Other net asset changes' are not transactions with the owners of the group and therefore their recognition in equity is not in line with IAS 1.106.

We agree with View 3 that those changes in other net assets of the investee that, in substance, represent incremental purchases or disposals, should be accounted for similarly to actual purchases or disposals.

We would specifically refer to IAS 28.19A that requires that if an investor's ownership interest in an associate is reduced, but the investment continues to be an associate, the investor shall reclassify to profit or loss only a proportionate amount of the gain or loss previously recognized in OCI. IAS 28.19A seems to apply to any reduction of investor's interest, including deemed disposals. Therefore, according to the principle already set in IAS 28.19A, any gains or losses resulting from the reduction of investor's interest shall be recorded in profit or loss rather than equity.

We would also like to comment on the debate whether the equity method is a one-line consolidation or more akin to a valuation approach. In our view, in most scenarios there would be no significant difference between these two approaches, if any other owners in an associate would be treated as third parties rather than owners of the group. In other words, if we would use for the one-line consolidation 'parent company model' (that treats other owners of the entity as third parties as opposed to 'economic entity model' that treats them as equity holders of the group), it would likely produce similar results as a valuation approach. Under 'parent company model', any transactions that increase the ownership in an associate (whether directly or indirectly) would not generate any gains or losses (but could result in a new 'notional' goodwill) and any transactions that decrease the ownership (whether directly or indirectly) could result in gain or loss in PL. Under 'parent company model', no transactions with other owners would be recorded directly in investor's equity and that would be consistent with the valuation approach.

As associates are not part of the group, the one-line consolidation should follow 'parent company model' rather than 'economic entity model'.

Questions 47-48. What are your views on the IASB's proposal on recycling (reclassification)? Are there any additional arguments that have not been identified above?

We strongly support the view presented in paragraphs 44-46, i.e. no recycling would be needed. In addition to arguments in paragraphs 44-46, we would also like to point out that the proposal by IASB to recycle cumulative amount in equity to profit or loss when equity accounting is discontinued, would be precedent setting, since so far only items of other comprehensive income have been recycled to profit or loss.

Raamatupidamise Toimkond www.easb.ee *Tel +372 6113929*
Suur-Ameerika 1 easb@fin.ee *Fax +372 6966810*
TALLINN 15006