Federation of European Accountants
Fédération des Experts comptables Européens

Ms. Françoise Flores
TEG Chair
EFRAG
Square de Meeûs 35
B-1000 BRUXELLES

E-mail: Commentletters@efrag.org

20 March 2013

Ref.: ACC/AKI/TSI/SRO

Dear Ms. Flores,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft on the Equity Method: Share of Net Asset Changes

(1) FEE is pleased to provide you with its comments on the EFRAG Draft Comment Letter regarding the IASB Exposure Draft on the Equity Method: Share of Net Asset Changes (the "ED").

(2) FEE agrees that there is diversity in practice as to how investors should recognise their share of the changes in the net assets of an investee that are not recognised in the profit or loss or other comprehensive income of the investee, and are not distributions received (investee's other net asset changes). Therefore, we support the IASB's initiative to resolve this issue.

(3) However, we do not support the proposed amendments to IAS 28 since they are inconsistent with some of the concepts of other IFRSs. For instance, IAS 1 on the Presentation of Financial Statements requires that owner changes be presented within a statement of changes in equity and non-owner changes in the statement of comprehensive income. On that basis, the investee's other net asset changes should arguably be presented in the statement of comprehensive income of the investor, rather than in equity as proposed in the ED.

Clarification of the concept around the accounting treatment of investee's other net asset changes

(4) We disagree with the Board's conclusions that the investee's other net asset movements should all be taken directly to equity. We further believe that it is inappropriate for amounts initially recognised directly to equity to subsequently be reclassified to P/L when the investor discontinues use of the equity method.

(5) We are not convinced that a single treatment should be applied to all of an investee's other net asset changes. The appropriate treatment of a change in net assets is likely to depend upon the nature of the underlying transaction. For instance for a dilution through issuance of shares by an investee to a third party, it is difficult to understand why these should not be treated as partial disposals by the investor, with the resultant gain or loss taken to the investor's P&L. Yet for other equity movements, for example granting of stock options to employees, inclusion in P&L of the credit side of the entry, may be inappropriate. Accordingly, there is a potential for complexity as well as scope for different opinions. Therefore, this issue merits further conceptual considerations before conclusion can be reached.

(6) 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.

Alternative accounting treatments proposed by EFRAG

(7) The EFRAG draft comment letter sets out three potential views to the question asked in the ED as how an investor should recognise its ownership interest of the investee's net asset changes.

(8) Some FEE Member Bodies prefer view 2, under which an investor should only recognise changes in the investee's net assets that arise from profit or loss, OCI and distributions received. Similar to EFRAG, they believe that the equity method is more akin to a valuation approach. They also share the view that the changes in the investee's other net assets are equity transactions that are unrelated to the investor. Therefore, they should not affect the investor's accounting under the equity method.

(9) Some other FEE Member Bodies prefer view 3, according to which an investor should account for the investee's other net asset changes, which result in indirect increases and decreases in the investor's ownership interest, in a similar way as actual acquisition or disposal of an interest in the investee by the investor. This approach is consistent with the IFRS Interpretations Committee's recommendation.

(10) The existence of the alternative views reflects the diversity views in what the equity method of accounting is meant to represent. It also highlights that the current proposals are not yet adequately developed to support amendments to IAS 28. Therefore, while we disagree with the Board's proposal to recognise the investee's other net asset changes in equity, we do not express our strong support for any of the views proposed by EFRAG.

(11) We think that the current ED illustrates rather than adequately addresses issues related to equity method of accounting. The Board should further consider conceptual solutions to the existing difficulties in the application of the equity method of accounting more broadly before final conclusion is reached.

For further information on this letter, please contact Tibor Siska, Project Manager at the FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

André Kilesse
President

Olivier Boutellis-Taft
Chief Executive