Norsk RegnskapsStiftelse

IFRS Foundation
30 Cannon Street
London EC4M 6XH
UK

Cc: EFRAG

Oslo, Friday, 22 March 2013

Dear Sir/Madam

Exposure Draft, ED/2012/3 Equity Method: Share of Other Net Asset Changes

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board) welcomes the opportunity to submit its views on the exposure draft *Equity Method: Share of Other Net Asset Changes*.

We support the IASBs efforts to address the diversity in practise on how investors recognise their share of "other net asset changes" of an investee (changes in net assets of the investee other than those recognised in profit or loss or other comprehensive income, and are not distributions received by the investor). However, we do not support the approach taken by the IASB. Rather than recognising "other net asset changes" in equity of the investor, with subsequent reclassification to profit or loss, the investor should account for changes in "other net asset changes" that result in an indirect increase (deemed acquisition) or decrease (deemed disposal) in the investors ownership interest, in the same way as an actual acquisition or disposal of an interest in the investee. Thus, we believe dilution gains and losses should be recognised in profit or loss as they occur.

Our conclusion is based on the view that indirect increase or decrease in ownership interest is economically equivalent to a direct acquisition or disposal of a portion of the investee, and should therefore be accounted for similarly. Furthermore, we believe the proposed approach is inconsistent with current IFRS guidance, is changing the nature of equity as described in IAS 1, and is introducing a totally new conceptual approach which is likely to increase complexity and confusion about the distinction between profit or loss, OCI and equity. Furthermore, we do not believe the IASB should introduce a conceptually new approach without a more thorough debate about its merits.

Rather than dealing with the equity method on a piecemeal basis, we urge the IASB to confront the more fundamental and conceptual issue of whether the model should be regarded as a one line consolidation or a measurement model. Divergence in practice on how to apply the equity method is likely to remain as long as this basic principle remains outstanding.

Our comments to the detailed questions are laid out in the appendix to this letter. Please do not hesitate to contact us if you would like to discuss any specific issues addressed in our response, or related issues, further.

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Yours faithfully,

Erlend Kvaal
Chairman of the Technical Committee on IFRS of Norsk RegnskapsStiftelse

Appendix

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?

No, we do not agree, for the reasons laid out below.

We believe an indirect increase or decrease (deemed disposals) in ownership interest is economically equivalent to a direct (actual) acquisition or disposal of a portion of the investee, and should therefore be accounted for similarly. Hence, dilution gains and losses should be recognised in profit or loss as they occur. Thus, do not agree with the proposed change, as we believe that transactions which are substantially similar will be accounted for differently under the proposed approach.

We do not agree that an investor should present transactions between an investee and third parties, as if they were transactions with the investor's owners. This would be inconsistent with presentation requirements in IAS 1 Presentation of Financial Statements.

Presenting non-owner transaction within a statement of changes in equity would change the nature of equity as described in IAS 1.

The proposed approach would require recycling of an item previously recognised directly within the investor's equity. This type of recycling has not been required by IFRS literature before, and adds yet another dimension to the present complexity and likely confusion about which elements to recognise in OCI, which elements to recycle from OCI to profit or loss, which elements not to recycle from OCI to profit or loss, and now; which elements to recycle from equity.

Introducing a category of elements to be recycled from equity would introduce a totally new conceptual approach. We do not agree that a conceptually new approach should be introduced without a more thorough debate about its merits.

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?

No.

Recycling would not be needed under the approach described under question 1, as all gains and losses would be reported in profit or loss in the period in which the net asset change occurs or at the investee level.

Question 3

Do you have any other comments on the proposals?

Rather than dealing with the equity method on a piecemeal basis, we urge the IASB to confront the more fundamental and conceptual issue of whether the model should be regarded as a one line consolidation or a measurement model. Divergence in practice on how to apply the equity method is likely to remain as long as this basic principle remains outstanding.