Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Our Ref.: C/FRSC

Sent electronically through the IASB website (www.ifrs.org)

22 March 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

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

The Hong Kong Institute of Certified Public Accountants is the only body authorised by law to promulgate financial reporting, auditing and ethical standards for professional accountants in Hong Kong. We welcome the opportunity to provide you with our comments on this Exposure Draft (ED). Our responses to the questions raised in your Invitation to Comment are set out in the Appendix for your consideration.

We agree that diversity in practice exists on how investors recognise their share of the changes in the net assets of an investee that are not recognised in profit or loss or other comprehensive income of the investee, and are not distributions received ("other net asset changes"). However, we do not believe that a short-term solution should be introduced without having a thorough debate about the conceptual issues related to the equity method of accounting. We are concerned that the proposed approach to require an investor to recognize directly in equity its ownership interest of the investee's other net asset changes would create inconsistencies with existing IFRS.

As mentioned in our previous comment letter dated 30 November 2011 on the IASB Agenda Consultation, we recommended that higher priority should be placed on reviewing whether the equity method of accounting continues to be an appropriate method for investments in associates or whether a simpler method would achieve the measurement objective equally and/or more effectively. We consider that there are both conceptual concerns and practical difficulties in the application of equity accounting particularly to investments in associates. As noted in paragraph BC6 of the ED, some believe that the equity method is a one-line consolidation, while others believe that it is simply a basis of measurement for an investment in an associate. We consider that current diversity in practice should be addressed by the Board through its comprehensive review of IAS 28.

If you have any questions regarding the matters raised in our submission, please contact Winnie Chan, our Manager of Standard Setting at winniechan@hkicpa.org.hk.

Yours faithfully,

Simon Riley
Director, Standard Setting

SR/WC
Encl.

APPENDIX

Hong Kong Institute of CPAs

Comment on IASB Exposure Draft of 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?

We do not support the proposal to require an investor to recognize directly in equity its ownership interest of the investee's other net asset changes. We concur with the alternative views expressed in the ED by Mr. Takatsugu Ochi that the proposed approach is inconsistent with concepts and principles elsewhere in existing IFRS.

The approach proposed by the IASB would present equity transactions between an investee and third parties as if they were transactions with the investor's owners (e.g. share-based payments). There is a concern that this proposed approach would lead to an inconsistency with the presentation requirements in IAS 1 *Presentation of Financial Statements*, which requires an entity to present all owner changes in equity within a statement of changes in equity. Non-owner changes are presented in the statement of comprehensive income. The proposal would mix transactions with owners together with transactions with non-owners. Furthermore, the equity transactions of indirect associates and joint ventures held through an investee would be "rolled-up" into the investor's equity.

In addition, we also disagree with the accounting treatment as proposed in the illustrative example for paragraph 10(d) where the investee issues additional shares to a third party for cash which results in an indirect decrease in the investor's ownership interest. We consider such a transaction is economically a deemed disposal in nature and should be accounted for in the same way as an actual disposal under IAS 28 such that the investor is required to recognize in profit or loss gains or losses arising from disposal of an investee. There is no conceptual basis why other net asset changes, which result in a decrease in the investor's ownership interest in the investee, should be accounted for differently from the actual decrease of an ownership interest in an investee.

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?

Consistent with our response to question 1, we believe that an investor should account for an investee's other net asset changes as deemed acquisitions and disposals when such changes result in an effective increase or decrease in the investor's ownership interest. Therefore, recycling would not be needed as any gains or losses would be recognized in profit or loss in the period in which the net asset change occurs.

Moreover, we consider the proposal is inconsistent with the principles in IAS 1. The proposal to require the cumulative amount of equity to be "recycled" to profit or loss when the equity method is discontinued will result in treating equity like other comprehensive income. IAS 1 paragraph 82A only describes the reclassification from other comprehensive income to profit or loss, but not from equity to profit or loss. We concur with the alternative view presented in the ED that the proposal risks causing confusion about the distinction between OCI and equity.

Question 3

Do you have any other comments on the proposals?

If the IASB proceeds with the proposed amendments, we consider that the amendments should be applied prospectively. The amendments will require the restatement of many transactions undertaken by investees over a number of years in the past. Reflecting the effects of these past transactions in equity would provide very limited benefit to existing users of the financial statements who are more concerned with the current and future performance of an entity.

~ End ~