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Mr Hans Hoogervorst
Chairman
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Email: commentletters@ifrs.org

22 March 2013

Dear Mr Hoogervorst

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

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's (the IASB's) Exposure Draft *Equity Method: Share of Other Net Asset Changes* ('the exposure draft').

We welcome the IASB's initiative in addressing this gap in the guidance on the application of the equity method of accounting, but do not agree with the solution proposed in the exposure draft. We believe that the proposed approach would result in a distortion of the investor's equity and that current practice is, to a large extent, consistent with the approach tentatively agreed upon by the IFRS Interpretations Committee. The approach tentatively agreed upon by the IFRS Interpretations Committee reflects that indirect increases in ownership interest are substantially different from indirect decreases in ownership interest and that both should be accounted for in a manner consistent with a direct change in ownership interest. For these reasons, we recommend that the Board begin with these principles and supplement them with a clear approach to other types of equity transaction, particularly equity-settled share-based payment transactions and call options over an investee's equity.

We believe that such an approach would be consistent with current practice and could be developed within a suitable timescale. However, if after due consideration the Board determines that this is not the case and that, as stated in paragraph BC8 of the Basis for Conclusions of the exposure draft, a shorter-term solution to this issue is needed, we would favour recognition of the investor's share of equity transactions in the investor's profit or loss to recognition in the investor's equity for the reasons set out in paragraph AV2 of the alternative view appended to the exposure draft.

We recognise that any solution will be, to some extent, short-term and recommend that this issue be considered in depth as part of the fundamental assessment of the equity method of accounting planned as part of the IASB's Technical Work Programme.

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Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 20 7007 0884.

Yours sincerely

Veronica Poole
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Appendix

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 agree with the proposal to recognise an investor's share of these equity transactions within the investor's equity as these transactions do not, from the point of view of the investor, meet the definition of equity in the Conceptual Framework or of any of the items required to be included in the statement of changes in equity per paragraph 106 of IAS 1 *Presentation of Financial Statements*. We believe that recognising such amounts as equity transactions within the investor's equity would result in a distortion of the investor's equity and would require a change in practice that would not enhance the quality of financial statements.

Rather, we believe that current practice is, to a large extent, consistent with the approach tentatively agreed upon by the IFRS Interpretations Committee of accounting for any decrease in ownership interest in profit or loss as a partial disposal and any increase in ownership interest as an incremental purchase resulting in an increase in the cost of the investment. This approach reflects that an indirect increase in ownership interest is substantially the same as a direct increase in ownership interest and economically different from a direct or indirect decrease in ownership interest and, therefore, that it should be accounted for consistently with the former and differently from the latter. For this reason, we do not share the concern expressed in paragraph BC3 of the Basis for Conclusions of the exposure draft over the lack of symmetry resulting from this approach.

We do share the Board's concern that the Committee's proposals were not comprehensive as they do not address equity-settled share-based payment transactions and call option transactions over an investee's own equity. We recommend that the Board consider supplementing the Committee's proposals with guidance on these transactions (including on the treatment of equity-settled share-based payment expenses included in the cost of assets of the associate or joint venture). A useful starting point for these considerations may be to focus on whether the potential dilution in ownership interest resulting from a call option is accounted for over the option's life or only upon exercise. Based on the stipulation of paragraph 12 of IAS 28(2011) that an entity's interest in an associate or joint venture be determined solely on the basis of existing ownership interests, we would favour recognition of the effect of the dilution of an equity-settled share-based payment transaction or call option on exercise of the right to receive shares.

We believe that such an approach would be consistent with current practice and could be developed within a suitable timescale. However, if after due consideration the Board determines that this is not the case and that, as stated in paragraph BC8 of the Basis for Conclusions of the exposure draft, a shorter-term solution to this issue is needed, we would favour recognition of the investor's share of equity transactions in the investor's profit or loss to recognition in the investor's equity for the reasons set out in paragraph AV2 of the alternative view appended to the exposure draft. This treatment could be adapted to address the concern over share-based payment transactions expressed in paragraph BC5 of the Basis for Conclusions of the exposure draft if the Board feels that is necessary.

We recognise that any solution will be, to some extent, short-term and recommend that this issue be considered in depth as part of the fundamental assessment of the equity method of accounting planned as part of the IASB's Technical Work Programme.

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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?

As stated in our response to Question 1, we do not agree with the approach proposed in the exposure draft. If, however, the Board decides to proceed with this approach we note that reclassifying the cumulative amount of such equity items to profit or loss would result in recycling of items initially recognised directly in equity (rather than in other comprehensive income). Recycling of such items would not occur upon direct disposal of assets or liabilities and, thus, to introduce it only in the context of equity accounting would be inconsistent with the approach to items of other comprehensive income of the investee specified by paragraph 22(c) of IAS 28(2011). We do not agree with the introduction of recycling of such items without a conceptual basis for doing so.

Question 3

Do you have any other comments on the proposal?

We disagree with the decision noted in paragraph BC11 of the Basis for Conclusions of the exposure draft that an amendment to paragraph 106 of IAS 1 is not necessary. The exposure draft proposes the introduction of a qualitatively different class of equity transaction which should be separately presented in the statement of changes in equity, not specifying that separate presentation in IAS 1 could lead to unintended diversity in practice.

Further, we believe that any amendments to IAS 28(2011) in this area should be applied prospectively (including a consequential amendment to IFRS 1 for first-time adopters) because the benefits of comparative information would not exceed the cost of providing it. In particular, retrospectively adjusting the carrying amounts of associates and joint ventures and the equity of the investor for transactions that occurred several years ago could be a difficult exercise.

In addition, if the Board wishes the proposals to be comprehensive, it may be worthwhile to rethink the use of the term ‘Other Net Asset Changes’ to make clear that the requirements encompass transactions such as equity-settled share-based payments (other than those included in the cost of an asset) that do not result in a net asset change.