esma European Securities and Markets Authority

Date: 13 March 2013
ESMA/2013/298

Hans Hoogervorst
IASB
Cannon Street 30
London EC4M 6XH
United Kingdom

The IASB's Exposure Draft *Equity Method: Share of Other Net Asset Changes*

Dear Mr ~~Hoogervorst~~, BESTE HANS,

ESMA has considered the IASB's Exposure Draft (ED) *Equity Method: Share of Other Net Asset Changes*, and is pleased to provide you with the following comments aimed at improving the decision-usefulness of financial statements and the transparency and enforceability of IFRSs.

ESMA welcomes the Board's initiative to address the diversity in practice on how issuers recognise their "share of the changes in the net assets of an investee that are not recognised in profit or loss (P/L) or other comprehensive income (OCI) of the investee". As the Board is currently considering what constitutes performance reporting and the role of OCI in particular, we agree with the IASB's proposal to return to the previous IFRS requirements and accounting the share of the changes through equity as an interim solution.

ESMA however disagrees with the introduction of recycling from equity to P/L as we believe it would add complexity and confusion on the notion of recycling.

ESMA's detailed comments on the ED are set out in the appendix to this letter. Please do not hesitate to contact us should you wish to discuss any of the issues we have raised.

Yours sincerely,

Steven Maijoor
Chair

European Securities and Markets Authority

Julie Galbo
Chair
Corporate Reporting Standing Committee
European Securities and Markets Authority

APPENDIX – ESMA's detailed answers to the questions in the IASB's *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?

1. ESMA acknowledges that there is diversity in practice on how issuers recognise their "share of the changes in the net assets of an investee that are not recognised in profit or loss (P/L) or other comprehensive income (OCI) of the investee". The IASB recently decided to start a project on what constitutes performance. ESMA welcomes this decision and believes that its outcome will assist the development of new standards. ESMA however welcomes the Board's initiative and broadly concurs with the suggested clarifications. In addition, we believe that the Board should clarify whether the equity method is a consolidation method (i.e. one-line consolidation) or a measurement method.

2. We however believe that accounting for changes in equity is in contradiction with paragraph IN6 of IAS 1 - *Presentation of Financial Statements* which states that "*All non- owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income.*" This contradiction stems from the fact that IAS 27 – *Consolidated and Separate Financial Statements* states that changes recognised in equity are transactions with owners in their capacity as owners and associates are not part of the consolidated group as defined (see also paragraph BC8 of the ED).

3. For these reasons we have some sympathy for the Alternative View of Takatsugu Ochi that accounting these changes in P/L is more consistent with some IFRS standards. For instance, as detailed in paragraph AV9, "*a decrease in the investor's share over the investee's net assets (...) (is) more like the acquisition or disposal of the investment, rather than being subsequent changes in the investment after the acquisition*".

4. Having said that, ESMA encourages the Board to address the current diversity in practice on a short term basis and agrees with the rationale mentioned in paragraph BC8 that "*before the revision in 2007, IAS 28 required these types of changes to be recognised in the investor's equity. Because of its desire to address diversity in practice, the IASB concluded that returning to the previous requirements would be the most reasonable and expeditious approach as a short-term solution.*"

5. Therefore, on a short term basis, ESMA agrees with the accounting principle proposed in the ED (i.e. accounting the "share of the changes in the net assets of an investee that are not recognised in profit or loss or OCI of the investee" in equity) as it returns to the previous requirements of IAS 28 – *Investments in Associates*.

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?

6. As the Board has in the past acknowledged that the conceptual question of reclassification from OCI to P/L remains unanswered ESMA does not believe it is appropriate to introduce it as it would only create confusion. ESMA considers that the accounting of "share of the changes in the net assets of the investee that are not recognised in P/L or OCI" in equity is only acceptable as a short term solution given the previous accounting of these changes, in which there was no reference to recycling. Hence,

Question 3

Do you have any other comments on the proposals?

1. ESMA believes that the Board after having clarified (a) the notion of performance and in particular (...) the principle underlying the distinction between profit or loss and other comprehensive income, (b) the use of recycling and (c) whether equity accounting is a consolidation method, or a measurement method, it should re-address this issue.