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International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom
Email: CommentLetters@ifrs.org

Dear Sir/Madam

SAICA SUBMISSION ON ED/2013/10 – *EQUITY METHOD: SEPARATE FINANCIAL STATEMENTS* – PROPOSED AMENDMENTS TO IAS 27 – *SEPARATE FINANCIAL STATEMENTS*

In response to your request for comments on ED/2013/10 – *Equity Method: Separate Financial Statements* – Proposed Amendments to IAS 27 – *Separate Financial Statements,* attached is the comment letter prepared by the Accounting Practices Committee (APC) of The South African Institute of Chartered Accountants (SAICA). This comment letter results from deliberations of the APC, which comprises members from reporting organisations, regulators, auditors, IFRS specialists and academics.

We thank you for the opportunity to provide comments on this document.

Please do not hesitate to contact us should you wish to discuss any of our comments.

Yours faithfully,

Sue Ludolph
Project Director – Financial Reporting

cc: Prof Danie Coetsee (Chairman of the Accounting Practices Committee)

SAICA SUBMISSION ON ED/2013/10 – *EQUITY METHOD: SEPARATE FINANCIAL STATEMENTS* – PROPOSED AMENDMENTS TO IAS 27 – *SEPARATE FINANCIAL STATEMENTS*

GENERAL COMMENTS

We welcome the International Accounting Standard Board's (IASB) consideration to restore the use the equity method to account for investments in subsidiaries, joint ventures and associates in the entity's separate financial statements. We agree with the conclusions reached by the IASB, however, we believe that a final standard should address the following:

- The Basis for Conclusions should address the conceptual basis for permitting the use of equity accounting in separate financial statements, particularly as this method was rejected by the IASB in 2003.

- The Basis for Conclusions should not focus on local regulatory requirements as a basis for determining IFRS. We are concerned that this would set a precedent which results in future changes to IFRS being determined on local regulation, rather than accounting concepts.

- The exposure draft permits a choice of equity accounting by category of investment. Changes between categories may result in a change in accounting treatment. A final amendment should provide guidance on the carrying amount to be applied when the nature of the investment changes, and this results in a change in the measurement method.

- The application by first time adopters. This is further explained in our response to question 3 below.

SPECIFIC COMMENTS

Question 1 — Use of the equity method

The IASB proposes to permit the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.
Do you agree with the inclusion of the equity method as one of the options? If not, why?

We agree with the inclusion of the equity method as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements. One interpretation of equity accounting is that it represents a valuation methodology for investments based on the increase or decrease of the net accounting value (assets or liabilities) of the subsidiary, joint venture and associate as recorded in terms of IFRS. On this basis, using the equity method would provide useful information about the performance of these investments.

However, we believe that additional guidance is required on the treatment of changes in the measurement basis. The exposure draft permits the choice of the equity method by category of investment. If the nature of the investment changes, for example, from a subsidiary to an associate, this may result in a change in the measurement basis in the separate financial

statements. The final amendment should provide guidance on the measurement of the investment when such a change occurs.
In addition, the Basis for Conclusions should consider the conceptual basis for permitting the use of equity accounting in the separate financial statements. In its 2003 review, the IASB rejected the application of the equity method. The reason for this change in view should be articulated in the Basis for Conclusions.

It is argued in BC8 that application of the equity method provides informative reporting of the investor's net assets and profit or loss. By preparing 'group' and 'company' financial statements, all users of financial statements will be aware of information on the investor's net assets and profit or loss thus paragraph QC6 of the *Conceptual Framework for Financial Reporting* is irrelevant as information is not restricted to some users.

It is also not clear from BC4 why the equity method provides useful information to the local regulators. If such information is useful to the local regulators affected companies should consider addressing the requirements to measure an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements using the equity method with their local regulators.

There are many instances where local regulatory requirements differ from IFRS, and this amendment may create a precedent that the IASB will amend accounting standards to comply with local regulatory requirements in selected jurisdictions. We believe the domain of IFRS is to set globally applicable accounting standards and these should not be based on regulatory requirements in selected jurisdictions.

Question 2 — Transition provisions
The IASB proposes that an entity electing to change to the equity method would be required to apply that change retrospectively, and therefore would be required to apply IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.
Do you agree with the proposed transition provisions? If not, why and what alternative do you propose?

We agree with proposed transition provisions as the entities should have the information.

Question 3 — First-time adopters
The IASB does not propose to provide any special relief for first-time adopters. A first-time adopter electing to use the equity method would be required to apply the method from the date of transition to IFRSs in accordance with the general requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards.
Do you agree that a special relief is not required for a first-time adopter? If not, why and what alternative do you propose?

No, we do not agree that a special relief is not required for first-time adopters. We believe that additional guidance should be provided in IFRS 1 – *First-time Adoption of International Financial Reporting Standards* in the following areas:

- Appendix C of IFRS 1 provides optional relief for first time adopters accounting for business combinations and paragraph C5 extends this relief to acquisitions of associates and joint ventures. This has previously applied to the consolidated financial statements. However, with the application of the equity method to separate financial statements, this paragraph should be amended to clarify that this relief is also applicable to the separate financial statements if equity accounting is applied.

- Appendix D paragraph 14 provides guidance on first time adoption in separate financial statements. The proposed amendments permit the use of equity accounting for investments in subsidiaries, joint ventures and associates. It is not explicit whether this choice should be made consistently for all such investments, or whether an election should be made for each category of investment. We recommend that the amendments to Appendix D paragraph 14 should be consistent with IAS 27 paragraph 10, which states that the entity shall apply the same accounting for each category of investments.

- Appendix D paragraph 17 provides guidance on the consolidated financial statements of an entity that becomes a first time adopter later than its subsidiary, associate or joint venture. This paragraph should be amended to extend the guidance to separate financial statements.

We note that, following the amendments described above, the guidance on separate financial statements will be included in both Appendix C and Appendix D. We therefore recommend that Appendix D paragraph 14 include a cross reference to the Appendix C paragraph 5 and Appendix D paragraph 17 to ensure that users are able to identify the related guidance.

Question 4 — Consequential amendment to IAS 28 *Investments in Associates and Joint Ventures*

The IASB proposes to amend paragraph 25 of IAS 28 in order to avoid a conflict with the principles of IFRS 10 Consolidated Financial Statements in situations in which an entity loses control of a subsidiary but retains an ownership interest in the former subsidiary that gives the entity significant influence or joint control, and the entity elects to use the equity method to account for the investments in its separate financial statements.
Do you agree with the proposed consequential amendment? If not, why?

The amended paragraph 25 of IAS 28 (paragraph 25) does not address loss of control i.e. from subsidiary to associate or joint venture, but refers to changes in ownership interest in an associate or a joint venture.

The principles in BC11 are not expressed in the amended paragraph 25 thus without explicitly mentioning loss of control of a subsidiary in paragraph 25, users may apply the principles in IFRS 10.

The consequential amendment does not succinctly address the issue as discussed in BC11.

Question 5 — Other comments
Do you have any other comments on the proposals?

Refer to the General Comments section.

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