THE SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS

develop.influence.lead.

22 March 2013

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

Dear Sir/Madam

SAICA SUBMISSION ON THE EXPOSURE DRAFT ON *EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES:* PROPOSED AMENDMENTS TO IAS 28 – *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

In response to your request for comments on the IASB's exposure draft on *Equity Method: Share of Other Net Asset Changes:* Proposed Amendments to IAS 28 – *Investments in Associates and Joint Ventures,* attached is the comment letter prepared by 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 sincerely

Sue Ludolph
Project Director – Financial Reporting

cc: Paul O'Flaherty (Chairman of the Accounting Practices Committee)

Integritas, 7 Zulberg Close, Bruma Lake, 2198 POSTAL ADDRESS PO Box 59875, Kengray, 2100, Johannesburg
TEL +27 11 621 6600 FAX +27 11 621 3321 CALL CENTRE 08610 SAICA (72422) EMAIL saica@saica.co.za WEB saica.co.za | accountancysa.org.za

SAICA SUBMISSION ON THE EXPOSURE DRAFT ON *EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES* – PROPOSED AMENDMENTS TO IAS 28 – *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

GENERAL COMMENTS

We appreciate that the IASB is trying to address an issue which has created diversity in practice, however, we are not in agreement with the proposed amendments as there is inconsistency in the principles advocated. We recommend to the IASB that either the principle of look through, similar to the consolidation process, or that of fair valuing used for financial instrument accounting, be applied consistently in regard to equity accounted associates and joint ventures. Our constituency is divided over which principle should be applied.

We have included our specific responses to the questions in the exposure draft below.

SPECIFIC COMMENTS

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 disagree with the proposed amendment. In our discussions we identified situations where the proposed amendment would not produce a conceptually correct answer. These include transactions involving business combinations and share-based payments. In these examples, it was believed that recognising the share of changes in the net assets of the investee in profit or loss was considered more appropriate.

<u>Example 1:</u>
A business combination in the underlying entity occurs and the entity issues shares at fair value that is less than the carrying amount resulting in a decreased holding for the reporting entity from 40% to 25%. The debit that will be recognised on the decreased shareholding will be required to be recognised in equity according to the proposed amendment and not as a possible impairment.

<u>Example 2:</u>
An entity entered into an associate agreement at inception. The associate enters into an equity-settled share-based payment with its employees. This will be recorded as a debit to the associate's profit and a credit to other comprehensive income, but there is no increase at that date of equity-settled instruments. The reporting entity will recognise its portion of these movements in its other comprehensive income and share of profits. If the shares are not exercised, this is not reversed and the decrease in the share of associate will remain in the reporting entity. If the shares, or even part of the shares are taken up, the associate will not recognise anything more, except to move the share-based payment reserve amount to share capital. The reporting entity will, however, recognise a further decrease in its holdings through equity, essentially recognising a double decrease for one transaction.

SAICA SUBMISSION ON THE EXPOSURE DRAFT ON *EQUITY METHOD: SHARE OF OTHER NET ASSET CHANGES* – PROPOSED AMENDMENTS TO IAS 28 – *INVESTMENTS IN ASSOCIATES AND JOINT VENTURES*

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?

We disagree with the recommendation, our view is more in line with the dissenting view which suggests that the cumulative amount of equity that was previously recognised when the investor discontinues the use of the equity method should remain in equity and only the difference between the proceeds and the carrying value on sale of the associate should be recognised in profit or loss.

Question 3

Do you have any other comments on the proposals?

Participants have expressed a desire for more clarification as to what is meant by the term significant influence in the context of IAS 28, in particular given the new definitions contained in IFRS 10 – *Consolidated Financial Statements* and IFRS 11 – *Joint Arrangements*. Some audit firms have been applying the new definitions in IFRS 10 and IFRS 11, in their analysis of significant influence and it is unclear whether this was the intention.

#423765