Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

March 22, 2013

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

RE: ED/2012/3 Equity Method: Share of Other Net Asset Changes – Proposed amendments to IAS 28

Dear Board Members,

The "Group of Latin American Accounting Standard Setters" – GLASS[1] welcomes the opportunity to comment on the Exposure Draft ED/2012/3 "Equity Method: Share of Other Net Asset Changes" – Proposed amendments to IAS 28 (the ED). This response summarizes the views of our country-members, in accordance with the following due process.

Due-process

The discussions in regard to the ED were held within a specified Technical Working Group (TWG). All country-members had the opportunity to appoint at least one member to form this TWG, and the following countries did so: Argentina (coordinator of this TWG), Brazil, Colombia, Ecuador, Mexico, Dominican Republic and Uruguay.

The working steps in developing the present response were as follows:

1. ***Conformation of the TWG.***
2. ***Agreement of all the TWG members in advance for requesting information in their own jurisdictions:*** each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. discussion forums, surveys, internal working groups).
3. ***Summarization of all points of view gathered:*** All the results of the work stated in 2 were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several virtual meetings. In those virtual meetings the TWG developed a final document on the basis of the agreed-upon responses and the technical point of view of its members. Finally, the TWG document was submitted to the GLASS Board for its approval.

[1] The general objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions in respect of all documents issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is formed by: Brazil (Chair), Argentina (Vice Chair), Colombia (Board), Mexico (Board), Uruguay (Board), Venezuela (Board), Bolivia, Chile, Ecuador, Panama, Paraguay, Peru and the Dominican Republic (observer).

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Overall comments

Whilst we support the efforts of the International Accounting Standards Board (IASB) to address the current diversity in practice in accounting for "other net asset changes" in an investee, we disagree that: a) all types of other net asset changes be recognized in the investor's shareholders' equity; b) the amount that the ED proposes to allocate to equity be reclassified to profit or loss when the investor discontinues the equity method; and c) the standard be applied retrospectively. We believe that the proposal is not a solution to address the current diversity in practice, but it would instead generate inconsistencies regarding basic notions and specific requirements included in other IFRS, and in certain cases it would not reflect the substance of the transaction. Given that the current diversity in practice has arisen in accounting for other net asset changes due to the conceptual difficulties faced upon applying equity accounting, we propose that this issue form part of the longer-term comprehensive project that will allow these issues to be resolved. Unfortunately, the ED, far from resolving these issues, would create serious conceptual confusion that we explain in the attached exhibit answering the questions included in the ED.

Additionally, given that we agree with the Interpretations Committee conclusions dated March 2011 that are mentioned in paragraph B2 of the ED, and which we address in the accompanying exhibit, we also propose that those conclusions form part of a comprehensive project on the equity method of accounting.

If you have any questions about our comments, please contact glenif@glenif.org.

Yours sincerely,

Juarez Domingues Carneiro
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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Exposure Draft ED/2012/3 Equity Method:
Share of Other Net Asset Changes (Proposed amendments to IAS 28)

Responses to the Exposure draft (ED)

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 recognized 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 proposal to recognize **all types** of other net asset changes in the investor's equity because we believe that it is not a solution to address the current diversity in practice, but it would instead generate inconsistencies regarding the basic notions and specific requirements included in other IFRS, and in certain cases it would not reflect the substance of the transaction. Given that the current diversity in practice has arisen in accounting for other net asset changes due to the conceptual difficulties faced upon applying equity accounting, we propose that this issue form part of the longer-term comprehensive project that will allow these issues to be resolved. Unfortunately, the ED, far from resolving these issues, would create a serious conceptual confusion.

The conceptual difficulties arise because there are two different views concerning the application of the equity method. The first one considers that the equity method is nothing more than a consolidation in one line (and therefore, interest changes not altering the nature of the relationship are recognized in equity), while the second considers that it is a valuation method (and thus such changes are recognized in profit or loss or other comprehensive income). Therefore, until this is resolved through a longer-term project, it will be difficult to resolve the current inconsistencies regarding equity accounting.

A change in ownership interest triggers remeasurement. However, we believe the consolidation principles cannot be applied to a change in interest. Rather, for an investment asset, these transactions are deemed purchases and sales.

For a subsidiary, a change in ownership interest would be accounted for as an equity transaction. This is appropriate since both the parent and the non-controlling equity interests are recognized in the consolidated financial statements.

Under the equity method, as the non-controlling interest is not recognized, these changes should not be booked as equity transactions but deemed purchases and sales of part of the investment.

We mainly disagree with the proposed changes to IAS 28 because we consider that recognizing the permanent investment's equity changes in a subsequent period is inconsistent with the booking at acquisition cost required for the initial recognition of the investment in the associate or joint venture.

That is, in the initial recognition, it would be unlikely that the acquisition cost of the investment be equal to the proportional portion in the investee's equity.

On the other hand, we agree with the Interpretations Committee conclusions dated March 2011 that are mentioned in paragraph B2 of the ED. The Committee tentatively agreed on the following principles:

(a) Where an investor's ownership interest in the investment is reduced, whether directly or indirectly, the impact of the change should be accounted for as a partial disposal and recognised in profit or loss of the investor; and

(b) Where an investor's ownership interest in the investment increases, whether directly or indirectly, the impact of the change should be accounted for as incremental purchase of the investment and recognized at cost.

In addition, the "other net asset changes" do not arise from transactions with the group's owners and, therefore, its recognition in equity is not in keeping with IAS 1.106 (d) and IAS 1.109. Under IAS 1.109, all equity changes, except those resulting from transactions with owners in their capacity as such, represent the total amount of income and expenses generated by the entity's activities in a certain period. Therefore, all changes not due to such transactions should be disclosed in the statement of comprehensive income.

Although most of the other changes in the investee's net assets arise from transactions with owners, there may be transactions not involving the owners from the investor's point of view. For instance, some of these transactions may be considered interest sales or purchases, while others would show the entity's performance.

Those changes in the investment's net assets that essentially represent deemed purchases or sales should be booked as purchases or sales. That is, any diluting effect in an investor's interest due to the issue of such investment's shares to third parties is equal to such investment's partial divestiture and should be booked accordingly as any other income or loss impacting the statement of comprehensive income.

Other types of changes in net assets should be analyzed to determine the best accounting treatment for each of them. The transactions that are ultimately likened to divestitures or acquisitions should be booked similar to actual acquisitions or divestitures when the economic impact occurs from the investor's perspective.

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 answer to question 1, we disagree with the proposal to recognize all types of other changes in an investee's net assets in equity. However, if that proposal is approved, we believe this proposal would come into conflict with the notion introduced by IAS 1, which determines that only reclassifications between other comprehensive income and profit or loss are allowed. Therefore, the reclassification model would not be applicable. Moreover, reclassifying these items to profit or loss could set a new precedent since, as mentioned above, only items recognized in other comprehensive income may be reclassified to profit or loss.

Question 3

Do you have any other comments on the proposals?

As already mentioned, we disagree with the proposal that: a) all kinds of other net asset changes be disclosed in the investor's equity; and b) the amount that the ED proposes to allocate to equity be reclassified to profit or loss when the investor discontinues the equity method; however, if the proposals are approved, we want to comment the following:

The ED proposes that an investor apply the full standard retroactively. Although this is conceptually understandable, we believe that it may be too expensive for the issuing entities, and the benefits of fully applying the standard retroactively may not be justified in view of the cost of undertaking such task.