Federation of European Accountants
Fédération des Experts comptables Européens

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
GB – LONDON EC4M 6XH

E-mail: commentletters@ifrs.org

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Ref.: ACC/AKI/TSI/SRO

Dear Mr Hoogervorst,

**Re: FEE Comments on IASB Exposure Draft on the Equity Method: Share of Net Asset Changes**

(1) FEE is pleased to provide you with its comments on the IASB Exposure Draft on the Equity Method: Share of Net Asset Changes (the "ED").

(2) FEE agrees that there is diversity in practice as to how investors should recognise their share of the changes in the net assets of an investee that are not recognised in the profit or loss or other comprehensive income of the investee, and are not distributions received (investee's other net asset changes). Therefore, we support the IASB's initiative to resolve this issue.

(3) However, we do not support the proposed amendments to IAS 28 since they are inconsistent with some of the concepts of other IFRSs. For instance, IAS 1 on the Presentation of Financial Statements requires that owner changes be presented within a statement of changes in equity and non-owner changes in the statement of comprehensive income. On that basis, the investee's other net asset changes should arguably be presented in the statement of comprehensive income of the investor, rather than in equity as proposed in the ED.

**Clarification of the concept around the accounting treatment of investee's other net asset changes**

(4) We disagree with the Board's conclusions that the investee's other net asset movements should all be taken directly to equity. We further believe that it is inappropriate for amounts initially recognised directly to equity to subsequently be reclassified to P/L when the investor discontinues use of the equity method.

(5) We are not convinced that a single treatment should be applied to all of an investee's other net asset changes. The appropriate treatment of a change in net assets is likely to depend upon the nature of the underlying transaction. For instance, for a dilution through issuance of shares by an investee to a third party, it is difficult to understand why these should not be treated as partial disposals by the investor, with the resultant gain or loss taken to the investor's P&L. Yet for other equity movements, for example granting of stock options to employees, inclusion in P&L of the credit side of the entry, may be inappropriate. Accordingly, there is a potential for complexity as well as scope for different opinions. Therefore, this issue merits further conceptual considerations before conclusion can be reached.

(6) The proposed treatment also creates a new type of reclassification ('equity recycled to profit or loss'). The conceptual basis for such reclassification is not established and the proposed treatment could introduce undue complexity in IFRSs. It is also likely to add confusion on the nature of items initially recognised outside of P&L that are subject to subsequent reclassification and the timing of such reclassification. This is undesirable and, consequently, we do not support the proposed amendments.

(7) We think that the current ED illustrates rather than adequately addresses issues related to equity method of accounting. The Board should further consider conceptual solutions to the existing difficulties in the application of the equity method of accounting more broadly before final conclusion is reached.

For further information on this letter, please contact Tibor Siska, Project Manager at the FEE Secretariat on +32 2 285 40 74 or via email at tibor.siska@fee.be.

Yours sincerely,

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President

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Chief Executive

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