fei financial executives international canada

March 22, 2013

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Via "Open to Comment" page, www.iasb.org

RE: Equity Method: Share of Other Net Asset Changes – Proposed Amendments to IAS 28

Dear Sir or Madam:

The Committee on Corporate Reporting of Financial Executives International Canada (FEI Canada) is responding to the International Accounting Standards Board's Exposure Draft on the proposed amendment to IAS 28. We appreciate the opportunity to provide comments.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and 1,800 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

The Committee on Corporate Reporting ("CCR") is one of two national advocacy committees of FEI Canada, CCR is devoted to improving the awareness and educational implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

In general, we are supportive of the IASB's effort to address inconsistencies or ambiguity in IFRSs leading to observed diversity in practice. However, we are concerned with the approach taken this time by the IASB to address in an expeditious manner the issues raised in the Exposure Draft. We believe it would be more appropriate not to make such piecemeal changes to IAS 28 but rather wait to address these and other equity accounting issues as part of the existing project on equity accounting that is already on the IASB's research agenda. We are of the opinion that the equity method of accounting as a measurement method is misunderstood by many users and preparers of financial statements, mostly because the procedures that are appropriate for the application of this method are explained in relation to the consolidation procedures described in IFRS 10. In some situations, we believe that

these two measurement methods should not necessary produce the same accounting outcome as their application is based on different fundamental principles and basis (IFRS 10 establishes control over an entity as the basis for determining when consolidation is required whereas IAS 28 establishes joint control or significance influence over an entity as a basis for determining when to use the equity method of accounting). The accounting for dilution gains or losses is one example of a situation where we believe the accounting outcome should be different between the two measurement methods. We are also aware of other situations that could lead to different outcome i.e. when an investor ceases to account for its share of the investee's losses because it exceeds its interest in the associate.

In addition, the mandatory application of the equity method of accounting for joint ventures has led to a more extensive use of this method by preparers of financial statements. Therefore we believe there is now an increased need to have this method reviewed by the IASB and we encourage the Board to take a fresh look at it.

With respect to question 1, we do not agree with the Board's proposal as we are largely supportive of the view expressed by Mr. Takatsugu Ochi. Specifically, we are of the opinion that dilution gains caused by an investee issuing additional shares to a third party for cash consideration, similar to the situation given as example under paragraph 10(d), should be recorded in profit or loss. Not recording dilution gains in profit or loss would be misleading as these gains are real and substantiated economic gains for the investor made possible due to the good performance of the investee and sound decision of the investor to invest in the investee's share capital.

With respect to question 2, if IAS 28 is amended to require changes in other net assets to be recorded in equity, we would be supportive of "recycling'' the cumulative amount previously recognized in equity to profit and loss at the time the investor discontinues the use of the equity method of accounting, since we believe this is where it should have been recorded in the first place.

With respect to question 3, we suggest that, if IAS 28 is amended, a comprehensive example illustrating the accounting requirement for an equity-settled share-based payment transaction be provided. Giving an example of a situation where the investee issues share options to its employees would be particularly useful in clarifying the accounting for dilution gains or losses, especially if the accounting for the investee and the investor are presented over (or at) the vesting period and at the time of exercise.

We think the statement in BC5 and AV10 that a share-based payment by the investee has a net nil impact on the investor is incorrect. From the perspective of the investee, the issuance

of a stock option has no impact on its total equity as the reduction in profit/retained earnings (the debit) is offset by the increase in issued share capital (the credit). The exercise of the stock option will increase the investee's equity by an amount equal to the proceeds of the exercise.

The investor shares in the reduced profit resulting from the share-based payment expense. However, it does not have an offsetting increase in its interest (i.e. it does not share in the credit part of the transaction). Indeed its interest has been reduced as a result of shares being issued to other parties. The net impact on the investor is similar to any other dilution:
a) It has a reduced interest in the investee.
b) This reduced interest is in an investee with more net assets, due to the proceeds from the exercise of the options.

The difference between these two impacts (i.e., a "dilution gain or loss") will vary, depending on the proceeds of the exercise of the stock options. It will be rare that the two impacts offset. Further, we recommend that the IASB take this opportunity to clarify the accounting for such dilution gains or losses where an investor's interest is decreased without a loss of significant influence. For example, we believe that the cumulative charges previously recognized by the investor related to share-based payments should adjust the amount of any dilution gain/loss calculated. In addition, we note that there is a lack of clarity around the treatment of "notional goodwill" when determining the amount of any dilution gain/loss.

We appreciate your consideration of the comments made in this letter and welcome the opportunity to further discuss any and all matters related to the Exposure Draft.

Thank you for allowing us the opportunity to respond to this proposal.

Yours very truly,

Gordon Heard
Chair
Committee on Corporate Reporting
FEI Canada