



MEASURING QUOTED INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AT FAIR VALUE

ICAEW welcomes the opportunity to comment on the exposure draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* published by the IASB on 16 September 2014, a copy of which is available from this [link](#).

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MAJOR POINTS

A contradiction at the heart of the board's proposals

1. While we agree that the unit of account for investments within the scope of IFRS 10, IAS 27 and IAS 28 should be the investment as a whole, we do not agree that the fair value of such investments should be measured as the product of the quoted price multiplied by the quantity of instruments held. Doing so will not always result in relevant information as there are many reasons why a market participant may be willing to pay more or less than this simple mathematical product. Moreover, the proposed approach seems to contradict the board's conclusion that the unit of account is the investment as a whole rather than the individual instruments that make up the investment.

The proposals would result in meaningless 'day one' losses being recorded

2. We are concerned that the proposal would lead to the recognition of an immediate impairment whenever an entity pays a premium to acquire a controlling stake. In such circumstances the resulting financial information would not faithfully represent the substance of the transaction because it ignores the existence of the underlying economic reasons that led to the payment of a premium in the first place.

More research is needed into valuation techniques being used in practice

3. We encourage the IASB to analyse the ways in which entities are assessing the fair value of this type of investment, including how they are adjusting for premiums and discounts. While these techniques may not be as reliable as multiplying $P \times Q$, we believe that they may give more relevant information. We encourage the board to look more closely at these techniques and to consider providing guidance on their application.

Additional disclosures may help

4. If the board proceeds with their proposals, they may wish to consider requiring additional disclosure to highlight any premium or discount that has not been recognised.

RESPONSES TO SPECIFIC QUESTIONS

Q1: The unit of account for investments in subsidiaries, joint ventures and associates

The IASB concluded that the unit of account for investments within the scope of IFRS 10, IAS 27 and IAS 28 is the investment as a whole rather than the individual financial instruments included within that investment (see paragraphs BC3–BC7).

Do you agree with this conclusion? If not, why and what alternative do you propose?

5. We agree that the unit of account for investments within the scope of IFRS 10, IAS 27 and IAS 28 is the investment as a whole rather than the individual instruments included within that investment as it is only the former that gives the investor control or influence over the investee.
6. We believe that the proposed clarification should be included in the various standards affected rather than in their respective bases for conclusions as is currently proposed. The guidance will not be authoritative unless it is in the body of the standards.

Q2: Interaction between Level 1 inputs and the unit of account for investments in subsidiaries, joint ventures and associates

The IASB proposes to amend IFRS 10, IFRS 12, IAS 27 and IAS 28 to clarify that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), or $P \times Q$, without adjustments (see paragraphs BC8–BC14).

Do you agree with the proposed amendments? If not, why and what alternative do you propose? Please explain your reasons, including commenting on the usefulness of the information provided to users of financial statements.

7. We do not agree that the fair value of quoted investments in subsidiaries, joint ventures and associates should be measured as the product of the quoted price multiplied by the quantity of instruments held. Doing so will not always result in relevant information as there are many reasons why a market participant may be willing to pay more or less than this simple mathematical product. Moreover, the proposed approach seems to contradict the board's conclusion that the unit of account is the investment as a whole rather than the individual instruments that make up the investment.
8. If the unit of account is the whole investment, the fair value should be based on how much the investor would receive if it sold its entire holding to a single market participant rather than on how much they would receive if they were to sell the individual shares in a series of separate transactions. This will not always be as simple as multiplying the price by the quantity as the fair value may well include control premiums or discounts. Whether a unit has a premium or discount will depend on facts and circumstances.
9. The exposure draft argues that $P \times Q$ should be used as it provides 'more relevant, objective and verifiable' results as it is based on unadjusted level 1 inputs. This makes sense if we are talking about obtaining objective evidence of the fair value of a single share or perhaps a small block of shares. But when we are talking about a holding that gives the investor control or influence, in many cases $P \times Q$ will not represent the fair value of such an investment as a whole. In fact it seems a little odd to talk about level 1 inputs in such cases as the unit of account is the investment as a whole and there is no quoted price for the investment as a whole.
10. While it is difficult to obtain objective evidence of the fair value of the investment as a whole, there are a number of techniques that are used in practice. We encourage the IASB to analyse the ways in which entities are assessing the fair value of this type of quoted investment, including how they are adjusting for premiums and discounts. While these techniques may not be as reliable as multiplying $P \times Q$, we believe that they may give more relevant information. We encourage the board to look more closely at these techniques and to consider providing guidance on their application.

11. We are also concerned that the proposal would lead to the recognition of an immediate impairment whenever an entity pays a premium to acquire a controlling stake. In such circumstances the resulting financial information would not faithfully represent the substance of the transaction because it ignores the existence of the underlying economic reasons that led to the payment of a premium in the first place.
12. If the board proceeds with their proposals to require that the fair value of the investment as a whole is calculated at $P \times Q$, they may wish to consider requiring additional disclosure to highlight any premium or discount that has not been recognised.

Q3: Measuring the fair value of a CGU that corresponds to a quoted entity

The IASB proposes to align the fair value measurement of a quoted CGU to the fair value measurement of a quoted investment. It proposes to amend IAS 36 to clarify that the recoverable amount of a CGU that corresponds to a quoted entity measured on the basis of fair value less costs of disposal should be the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), or $P \times Q$, without adjustments (see paragraphs BC15–BC19). To determine fair value less costs of disposal, disposal costs are deducted from the fair value amount measured on this basis.

Do you agree with the proposed amendments? If not, why and what alternative do you propose?

13. We agree that the fair value measurement of a CGU that corresponds to a quoted entity should be aligned to the fair value measurement of a quoted investment. However, for same reasons outlined in our response to question 2 above, we do not believe that $P \times Q$ will always provide the most appropriate measure of fair value.

Q4: Portfolios

The IASB proposes to include an illustrative example to IFRS 13 to illustrate the application of paragraph 48 of that Standard to a group of financial assets and financial liabilities whose market risks are substantially the same and whose fair value measurement is categorised within Level 1 of the fair value hierarchy. The example illustrates that the fair value of an entity's net exposure to market risks arising from such a group of financial assets and financial liabilities is to be measured in accordance with the corresponding Level 1 prices.

Do you think that the proposed additional illustrative example for IFRS 13 illustrates the application of paragraph 48 of IFRS 13? If not, why and what alternative do you propose?

14. We support the introduction of an illustrative example that clarifies the application of paragraph 48 of IFRS 13 to a group of financial assets and financial liabilities whose market risks are substantially the same and whose fair value measurement is categorised within level 1 of the fair value hierarchy.
15. However, while we agree that the net position is the unit of account, again we do not believe that it will always be possible to calculate its fair value by simply multiplying $P \times Q$. While there is unlikely to be a control premium in this case, the quantum of the net position may still nonetheless attract a premium or discount.

Q5: Transition provisions

The IASB proposes that for the amendments to IFRS 10, IAS 27 and IAS 28, an entity should adjust its opening retained earnings, or other component of equity, as appropriate, to account for any difference between the previous carrying amount of the quoted investment(s) in subsidiaries, joint ventures or associates and the carrying amount of those quoted investment(s) at the beginning of the reporting period in which the amendments are applied. The IASB proposes that the amendments to IFRS 12 and IAS 36 should be applied prospectively.

The IASB also proposes disclosure requirements on transition (see paragraphs BC32–BC33) and to permit early application (see paragraph BC35).

Do you agree with the transition methods proposed (see paragraphs BC30–BC35)? If not, why and what alternative do you propose?

16. We agree that the proposed transition provisions.