



International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

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

Our Reference: 2015/JE/C1/IASB/3

RE: Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft entitled *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (the 'Exposure Document' or 'ED').

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards, including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Our responses to the questions provided in the ED are provided below.

Question 1—The unit of account for investments in subsidiaries, joint ventures and associates

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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?

We agree with the conclusion that the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole, rather than the individual financial instruments within that investment. However, we suggest adding the proposed clarification regarding the unit of account directly in the body of the respective Standard in order to be authoritative and enforceable.

Question 2—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.

When there is a Level 1 input for the individual financial instruments that make up the unit of account, some Committee 1 members agree with the decision to require the fair value measurement to be based on $P \times Q$, without adjustment. These members support this conclusion, because they do not believe it is appropriate for the fair value measurement to include any premiums or discounts that may be considered if the fair value measurement reflects the price that would be received for the position as a whole. Further, these members believe that a fair value measurement based on $P \times Q$, without adjustment, is more objective and verifiable, because when there is an available active market price, using that market price as the sole determiner of fair value is most reflective of the market view of fair value. Any adjustment to that measurement would be subjective and difficult to estimate.

Other members agree with Mr. Edelmann’s dissenting opinion. These members believe that if the unit of account that is being measured is the position as a whole, $P \times Q$ will not always faithfully represent the definition of fair value provided in IFRS 13 because the fair value measurement may not consider characteristics that a market participant would take into account when pricing the position as a whole. These members do not believe that there should be a requirement to determine the fair value based on a quoted price for an individual financial instrument, without adjustment, if the unit of account being measured is the position as a whole. These members believe that users of financial statements benefit from a consistent application of the definition of fair value in IFRS 13. Whether Level 1, 2 or 3 inputs are available for an individual financial instrument, if the unit of account is the position as a whole, the fair value measurement should reflect all of the characteristics that would be considered by market

participants in pricing the position as a whole. These members also wonder why $P \times Q$ without adjustment makes sense for financial instruments with Level 1 inputs when those measurements are in the context IFRS 10, IFRS 12, IAS 27 and IAS 28, but that guidance is not being considered in the context of IFRS 3 and IFRS 5.

Question 3—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?

The Committee 1 members that agreed with the amendments described in Question 2 also agree with the proposed amendment to IAS 36. These members do not believe that users of financial statements benefit by including a controlling interest premium in the fair value measurement of a CGU that has a Level 1 input for the individual financial instruments held in the CGU.

The members that disagreed with the amendments described in Question 2 also disagreed with requiring $P \times Q$ without adjustment for a CGU when the price that a market participant would pay for the CGU as a whole would include a premium associated with purchasing a controlling interest. These members support requiring the CGU fair value measurement to include all of the characteristics that would be considered by market participants in pricing the position as a whole. One concern raised by these members is that an entity could purchase a CGU for an amount greater than $P \times Q$ due to a market based control premium, yet on that same date the fair value measurement of the CGU would not include the control premium that was evidenced by the entity's purchase price.

Question 4—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?

Because the illustrative example proposed is only applicable to a narrow sub-set of groups of financial assets and financial liabilities to which the guidance in paragraph 48 can be applied (i.e., portfolios of instruments with substantially the same market risks for which the net position

has Level 1 inputs, as opposed to portfolios with offsetting, but potentially different market risks that include instruments that do not have Level 1 inputs), we believe that the example does not illustrate a common application of this guidance. Additionally, for those portfolios within the scope of this illustrative example, we are unclear of what this example is meant to demonstrate. We note that paragraph IE47F states that the same measurement would be achieved by using the mid-price for the net long position adjusted by a bid-offer reserve, and we are not sure whether this fact is important to what the example is attempting to reflect.

Question 5—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?

We agree with the transition methods proposed regarding the amendments to IFRS 12 and IAS 36. Most agree with the transition methods proposed for IFRS 10, IAS 27 and IAS 28. For IFRS 10, IAS 27 and IAS 28, there is a view that since the measurement is based on a Level 1 fair value measurement, hindsight is not likely, and therefore to improve clarity and comparability of information for all periods presented full retrospective application of these proposed amendments as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors should be applied.

We appreciate your thoughtful consideration of the comments provided in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact me at +1 202-551-5300.

Sincerely,



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