BUSINESSEUROPE

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

16 January 2015

Dear Board Member,

Re: ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

BUSINESSEUROPE is pleased to respond to the exposure draft "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value" (the ED). You will find our responses in the appendix to this letter.

We agree that the relevant unit of account for quoted investments in Subsidiaries, Joint Ventures and Associates is the investment as a whole. In our view, this means that the valuation method should be one that is appropriate for such an investment, and therefore should be either the quoted value adjusted to reflect the degree of influence or control appropriate to the nature of the holding, or another appropriate valuation technique. We recognise that the proposal provides a simple method for arriving at a valuation, but we believe that such a valuation is less relevant than one which takes into account the specific nature of the holding.

Please do not hesitate to contact us should you wish to discuss these issues any further.

Yours sincerely,

Jérôme P. Chauvin
Deputy Director General

AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279

BUSINESSEUROPE a.i.s.b.l.

WWW.BUSINESSEUROPE.EU

TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL MAIN@BUSINESSEUROPE.EU
EU Transparency register 3978240953-79

APPENDIX

Question 1 - 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?

We agree that the degree of control or influence in the investee is the relevant characteristic for these investments to be included in the scope of IFRS 10, IAS 27 and IAS 28. This characteristic implies that it is the investment as a whole which should be regarded as the unit of account.

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 × 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

We do not agree with the proposal that quoted investments in subsidiaries, joint ventures or associates should be valued in all cases as the product of the quoted price multiplied by the number of financial instruments held.

We note that IFRS 13.11 requires that the fair value measurement take into account the characteristics of the asset that a market would take into account when pricing the asset. We would expect a participant in the market for an investment of a size representing a subsidiary, a joint venture or an associate would take into account the degree of control or influence that such a block of instruments would represent. This conclusion is consistent with the Board's decision about the unit of account referred to above.

[IFRS 13.11 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

(a) the condition and location of the asset; and

(b) restrictions, if any, on the sale or use of the asset.[1]]

Moreover, our reading of paragraph 69 of IFRS 13 is that, although premiums or discounts that represent a blocking factor because of the market's capacity or incapacity for absorbing the block of shares is not permitted to be an adjusting factor, a control premium is a factor to be taken into account to adjust a fair value.

[IFRS 13.69 An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 11 and 12). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (e.g. a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IFRS that requires or permits the fair value measurement (see paragraphs 13 and 14). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 80) rather than as a characteristic of the asset or liability (e.g. a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (i.e. a *Level 1 input*) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 79.[2]]

The use of an adjustment factor in conjunction with the Q x P or another appropriate valuation technique is consistent with the proposed unit of account and is the most relevant measurement. This should be the starting-point for the requirements of the standard. In some cases it will be impractical or very costly to arrive at a reliable adjustment factor, and in those cases or Q x P could be allowed as an expedient. In other words, precedence should be given to finding a fair value appropriate to the unit of account, i.e. for the whole holding including an adjustment for the control premium. If that cannot be arrived at then one should have recourse to a fair value for the individual assets, which you will then multiply by the number of assets in the holding. Although the quoted price for an individual instrument is a level-one value for an individual instrument, it should be subordinate to the fair value of the relevant unit of account.

Moreover, the use of Q x P in the case of the type of investment contemplated by the ED will in most circumstances result in an impairment or write-off of the premium at the first reporting date after the acquisition. This is inconsistent with the business purpose of the investment, which will often be as a medium-/long-term holding and is counter-intuitive.

---

[1] Extracted from IFRS 13, Fair Value Measurement. © IFRS Foundation.
[2] Extracted from IFRS 13, Fair Value Measurement. © IFRS Foundation.

Finally, although we recognise that the proposals have been intended for the context of investments held by an investment entity, the ED itself extends these principles to for use in IAS 36. We note that there are other areas of IFRS where fair-value measurement of investments is required, for example, in residual holdings in former subsidiaries, in step-acquisitions and even as part of the valuation approach of disposal groups, and we wonder whether the proposals will lead to unintended consequences in these areas.

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 × 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?

We disagree as we think that it is a specific case where the unit of account is the whole investment to which IFR13 should be applied accordingly, i.e. using an appropriate valuation technique.

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?

Although this proposal can be seen as loosely related to the primary issue which is the object of the ED, it is really a separate matter, and its presence in the ED should have been flagged in the title of the ED to avoid any misunderstanding about the contents of the ED.

It is unclear to us whether the example is setting a requirement that all net positions of financial instruments must be valued at the most representative bid price or whether the principle is to use the mid price adjusted by a bid-offer reserve, which in this example happens to give the same result. It would be helpful for the example to make this clear.

Finally, the last paragraph of the example states that the net amount of the portfolio should be allocated to the financial assets and liabilities on a reasonable basis. It would be helpful if examples of what constitutes a reasonable basis were provided.

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?

As stated above, we do not agree with the approach to the valuation of the investments, but if the proposals were retained, this approach to transition would be reasonable. It may be helpful to permit application to the opening balance sheet of the earliest period presented.

* * *