AASB 11 February 2015
Agenda paper A2 (M143) - tabled

Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204
Collins Street West VIC 8007

via email: standard@aasb.gov.au

4 February 2015

Dear Kris

Re: Exposure draft 254 and Invitation to Comment 32

I am enclosing copies of PricewaterhouseCooopers' response to the following International Accounting Standards Board's documents:

- ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (ED 254)
- DP/2014/2 *Reporting the Financial Effects of Rate Regulation* (ITC 32).

The letters reflect the views of the PricewaterhouseCoopers (PwC) network of firms and as such include our own comments on the matters raised in the requests for comment. PwC refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

AASB specific matters for comment – ED 254
We are not aware of any regulatory or other issues that could affect the implementation of the proposals for not-for-profit and public sector entities.

Should the proposed amendments be approved by the IASB, we are not aware of anything that would indicate that the proposals are not in the best interests of the Australian economy.

We generally agree with the AASB's reasoning regarding the retention of the new disclosures for tier 2 entities, as similar information would be required under the general principles of AASB 108. However, as explained in our response to question 5 in the attached submission, we do not agree with the proposed requirement to require the calculation and disclosure of comparative information in relation to impairment losses. If the IASB should decide to retain this disclosure, then it should at least be excluded for tier 2 entities.

I would welcome the opportunity to discuss our firm's views at your convenience. Please contact me on (02) 8266 4664 if you would like to discuss our comments further.

Yours sincerely,

Paul Brunner
Partner, PricewaterhouseCoopers

15 January 2015

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

Exposure Draft –ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

We are pleased to respond to the invitation by the IASB (the 'Board') to comment on behalf of PricewaterhouseCoopers on the Exposure Draft ('ED'), *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value.* Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of those member firms who commented on the exposure draft. 'PricewaterhouseCoopers' refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall, we agree that the unit of account for an investment in a subsidiary, joint venture and associate is the investment as a whole rather than the individual financial instruments included within the investment. The level of influence or control is the key characteristic of those investments and therefore should be reflected in the unit of account.

We do not agree 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), (P × Q) without adjustments. The principle in IFRS 13 is to determine the fair value based on the unit of account. As the unit of account is the investment as a whole, the fair value measurement should be determined at this level. There will not be a quoted share price for the total investment, and as such, the fair value measurement will be a level 2 or 3 valuation following the principles in IFRS 13.

The exposure draft covers those investments in the scope of IFRS 10, IAS 27 and IAS 28. However to ensure fair value is applied consistently across all such shareholdings, we propose the following should be included in the scope of the amendment:

- IFRS 3 – Previously held equity interest and NCI
- IFRS 5 – Subsidiary's held for sale
- IFRS 10 – Disposals where the retained interest is in the scope of IAS 28

Our responses to the Board's questions are included in Appendix 1 to this letter.

If you have any questions, please contact Paul Fitzsimon PwC Global Chief Accountant (+1 416 869 2322), or Jessica Taurae (+44 (0)20 7212 5700).

Yours faithfully

PricewaterhouseCoopers

Appendix 1

Question 1: 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 unit of account for an investment in a subsidiary, joint venture and associate is the investment as a whole rather than the individual financial instruments included within the investment. IFRS 13, paragraph 14, states "the unit of account for an asset shall be determined in accordance with the IFRS that requires or permits the fair value measurement." Following this principle, the level of influence or control is the key characteristic of these investments which drives the accounting, and therefore should be reflected in the unit of account.

The exposure draft covers those investments in the scope of IFRS 10, IAS 27 and IAS 28. However to ensure fair value is applied consistently across all shareholdings, we propose the following should be included in the scope of the amendment:

- IFRS 3 – Previously held equity interest and NCI
- IFRS 5 – Subsidiary's held for sale
- IFRS 10 – Disposals where the retaining interest in the scope of IAS 28

Question 2: 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 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), (P × Q) without adjustments. The principle in IFRS 13 is to determine fair value based on the unit of account. Given the unit of account is the investment as a whole, the fair value measurement should be determined at this level. There will not be a quoted price for the total investment, and as such, it will be a level 2 or 3 valuation.

If the Board agrees with our approach we would propose this is clarified in a new sub section of paragraph 79 of IFRS 13.

Following paragraph 67 of IFRS 13, the quoted price would be a relevant observable input and should be used when determining the fair value. IFRS 13 has guidance on how to value investments which are level 2 and 3 and therefore no additional guidance is proposed.

Fair value is the "price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." A market participant would not typically offer to buy (or the current shareholder offer to sell) an investment in the scope of IFRS 10, IAS 27 and IAS 28 at P x Q. This reflects the fact that a market participant would generally be willing to pay more for a controlling stake in an entity.

Where the investment is a block big enough to ensure significant influence it may be appropriate to adjust for a premium or a discount to P x Q to get to fair value. This would depend on the individual facts and circumstances of the transaction.

We are aware of significant debate over the size of the premia that should be applied. We believe adjusting the level 1 price, even if some judgment is involved, is preferable to using an objectively determined valuation for the investment (i.e., P x Q) that we know is not reflective of the exit price for the investment's unit of account. Any perceived risks associated with the adjustment to the level 1 price will be ameliorated through the disclosures and is no greater than the risks inherent in any other investment when there is no level 1 price information available.

Question 3: 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 do not agree that the fair value less cost of disposal of a quoted CGU should be the product of the quoted price multiplied by the quantity of financial instruments held with no adjustment. Please refer to our answer to question 2 for an explanation of our view.

Question 4 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?

We agree with the proposed additional illustrative example for IFRS 13. However we believe the example should clarify why using bid is the most representative of fair value in the circumstances. Entities are not required to use bid or ask as noted in IFRS 13 paragraph 70: "The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required."

Question 5: 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?

If the Board subsequently agrees with our proposal that P x Q is not the appropriate fair value for investments in subsidiaries, joint ventures and associates, then we do not agree with the proposed transition provisions. Fair value is in essence an estimate. If there is a change in fair value it should be treated prospectively following the principles in IAS 8. This is also consistent with the transition provisions when IFRS 13 first became effective.

If the Board support the changes proposed in the exposure draft and if an impairment were to arise, we do not agree that a comparative figure should be calculated and disclosed. The cost and time of doing this calculation is not justified by the benefit it may provide users of financial statements.