Australian Government

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Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

AASB comments on IASB ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on IASB ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*. In formulating its comments, the AASB sought and considered the views of Australian constituents through comment letters and other consultation. The comment letters received are published on the AASB's website.

The AASB supports the IASB's efforts to address the diversity in practice in this regard arising from the implementation of IFRS 13 *Fair Value Measurement*. However, overall, the AASB is not supportive of the proposals in ED/2014/4. The AASB is particularly concerned with the proposal to require the fair value measurement of quoted investments in subsidiaries, joint ventures and associates within the scope of IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* to be the product of the quoted price multiplied by the quantity of financial instruments held, without adjustments.

The AASB's responses to the specific matters for comment in ED/2014/4 are included in the Appendix to this letter.

If you have queries regarding any matters in this submission, please contact Evelyn Ling (evelynl@aasb.gov.au).

Yours sincerely,

K. E. Peach

Kris Peach
Chair and CEO

APPENDIX

AASB comments on IASB ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

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?

The AASB agrees that the unit of account for investments within the scope of IFRS 10, IAS 27 and IAS 28 is the investment as a whole. The AASB notes that the IASB's conclusions in this regard are presently captured only within the Basis for Conclusions on ED/2014/4, and that it is unclear whether this Basis for Conclusions will also ultimately be compiled within a principal IFRS (e.g. IFRS 13). The AASB considers that it is important that the IASB's conclusions in this regard are reflected within IFRSs.

However, as noted in our submissions on the IASB's Discussion Paper DP/2013/1 *A Review of the IASB's Conceptual Framework for Financial Reporting*,[1] the AASB is of the view that 'unit of account' is an issue that should not be addressed only at a standards level without conceptual underpinnings to guide those standards-level decisions. Addressing unit of account only at a standards level may lead to inconsistent conclusions. For example, we note that while the proposal in this ED is that the appropriate unit of account is the investment in an associate as a whole, paragraph 19 of IAS 28 permits an entity to apply different measurement methods to different portions of the investment in an associate, with the related rationale described in paragraphs BC20-BC22 of IAS 28 suggestive of the unit of account of the investment in the associate not then being the investment as a whole. The AASB thinks that the IASB should, at a minimum, clarify the consistency between its proposal in this ED and these paragraphs of IAS 28 before finalising its amendments in this regard.

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.

1 The AASB submissions are available at:
http://www.aasb.gov.au/admin/file/content106/c2/AASB_submission_IASB_Conceptual_Framework_DP_2013_1.pdf and
http://www.aasb.gov.au/admin/file/content106/c2/AASB_letter_to_IASB_CF_DP_2013_1_AASB_Supplementary_Paper.pdf

The AASB strongly disagrees with the proposed amendments to amend IFRS 10, IFRS 12, IAS 27 and IAS 28 to require the fair value measurement of quoted investments in subsidiaries, joint ventures and associates to be determined as P x Q, without adjustments, in all instances. Having concluded that the unit of account is the investment as a whole, the AASB is concerned as to the relevance of a measurement method that does not take into account the characteristics that market participants would consider in pricing an investment that provides control or significant influence, and which could create differences in the fair value measurement of listed and unlisted investments in this regard. Further, the AASB notes that a quoted price is arguably not representative of fair value where minority shareholdings are thinly traded, or if the quoted price does not reflect disposal of a strategic stake.

The AASB also disagrees with the proposal to amend IFRS 10, IFRS 12, IAS 27 and IAS 28 in place of amending IFRS 13 directly. The AASB considers that it would be appropriate to amend IFRS 13 consistent with an objective of IFRS 13 being to "set out in a single IFRS a framework for measuring fair value" (IFRS 13.1(b)), and as the issue giving rise to ED/2014/4 results from the different interpretations of the requirements in paragraphs 69 and 80 of IFRS 13.

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?

The AASB thinks the amendments should clarify whether a CGU that corresponds to an entity that is quoted in an active market is also meant to include CGUs that may not correspond fully to a quoted investment in a subsidiary, joint venture or associate where, for example, debt finance and tax liabilities are excluded from that cash-generating unit.

The AASB disagrees with the proposal 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 P × Q without adjustments for the reasons noted in our response to Question 2 above. The AASB also thinks that the nature of a cash-generating unit is different to that of an 'investment asset', and accordingly, consistency with the IASB's proposal in Question 2 is not necessarily appropriate.

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?

The AASB agrees with the proposed additional illustrative example to IFRS 13. However, the AASB thinks that the Application Guidance to IFRS 13 should also be amended to ensure clarification is made as part of mandatory IFRS 13 material.

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?

The AASB disagrees with the proposed transitional provisions to IFRS 10, IAS 27 and IAS 28 on the basis that the proposals are inconsistent with paragraphs 65-66 of IFRS 13, which require revisions to valuation techniques or its application to be accounted for as a change in accounting estimate. The AASB also notes that the IASB has drawn a similarity between these fair value measurement proposals and the changes arising on implementation of IFRS 13 (see paragraph BC30 of the ED), but that the transitional provisions of IFRS 13 do not permit adjustment to be made to opening retained earnings on initial adoption of the Standard.

The AASB also disagrees with the proposed transitional provisions to IFRS 12, as the AASB thinks the transitional provisions that apply to the proposed amendments to IFRS 12 should be consistent with those that apply to the proposals relating to investments within the scope of IFRS 10, IAS 27 and IAS 28. Otherwise, the financial report for the comparative period may reflect different methods of determining the fair value for quoted investments in associates and joint ventures depending on whether the entity measures such investments at fair value or using the equity method. Further, the AASB disagrees with the proposed transitional provisions to IFRS 12 as the AASB does not consider that the amendments to IFRS 12 to be necessary given the existing disclosures specified by paragraph 97 of IFRS 13 that apply to a change in valuation technique.

The AASB agrees with the proposed transitional provisions to IAS 36.

Other Comments

The AASB thinks paragraph BC14 is unclear as to whether the IASB intends for its conclusions in this ED to also apply to the fair value measurement of non-controlling interests or previously held equity investments quoted in an active market, or to investments in subsidiaries, joint ventures or associates classified as held for sale and measured at fair value less costs to sell. The AASB thinks that it would be inappropriate to permit a different fair value measurement method for investments in quoted subsidiaries, associates and joint ventures where the requirement to determine the fair value of the investment (or non-controlling interest) is specified by an IFRS other than IFRS 10, IFRS 12, IAS 27 or IAS 28.