16 January 2015

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

Dear Hans

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

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IASB Exposure Draft (ED) *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*. In providing this feedback, the AOSSG sought inputs from its constituents within each jurisdiction.

The AOSSG currently has 26 member standard-setters from the Asia-Oceania region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective experiences of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asia-Oceania region and not to prevent the IASB from receiving the variety of inputs that individual member standard-setters may wish to submit. This submission has been circulated to all AOSSG members for their feedback after having initially been developed through the AOSSG Acquisitions and Reporting Entity Issues Working Group.

AOSSG members generally agree with the proposals of the ED in the following respects:

- The conclusion that the unit of account for investments in subsidiaries, joint ventures and associates within the scope of IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* should be the investment as a whole rather than the individual financial instruments (Question 1); and

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- The proposed illustrative example in IFRS 13 *Fair Value Measurement* which proposes to clarify that the fair value of an entity's net exposure to market risks arising from 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 should be measured in accordance with the corresponding Level 1 inputs (Question 4).

However, AOSSG members have mixed views with regards to the following proposals:

- Clarification 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 x Q, without adjustments (Question 2);
- Amendment of IAS 36 *Impairment of Assets* 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 P x Q, without adjustments (Question 3); and
- The proposed transition requirements (Question 5).

Specifically, in relation to Question 2, some members believe that fair value measurement of quoted investments in subsidiaries, joint ventures and associates should not be measured as a product of P x Q, because the measurement method should be consistent with the unit of account being the investment as a whole, and those members think that that would typically include control premiums or discounts. On the other hand, others agree with the proposals in the ED for theoretical and practical reasons. There is also a view that investments in subsidiaries, joint ventures and associates should not be permitted to be measured at fair value through profit or loss (FV-PL) in the separate financial statements in the first place, and that the requirements in IAS 27 should be amended accordingly.

The views of the AOSSG are explained in more detail in the Appendix.

If you have any questions, please feel free to contact us.

Yours sincerely,

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AOSSG Chair

Tomo Sekiguchi
AOSSG Acquisitions and Reporting Entity Issues Working Group Leader

**APPENDIX – Detailed comments in relation to ED/2014/4**

**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?**

Yes. AOSSG members agree with the IASB's conclusion 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 the investment.

**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.**

AOSSG members have mixed views on the proposed amendment to IFRS 10, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 and IAS 28 in the ED to clarify that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be the product of the P x Q, without adjustments.

Some members disagree with the proposed amendments for the following reasons:

- The proposed amendment is not consistent with paragraph 11 of IFRS 13, which requires an entity to take into account the *characteristics* of the asset or liability when measuring fair value and emphasises the views of market participants. As for the investments in subsidiaries, joint ventures and associates, the characteristics that market participants would normally consider include premiums for control, joint control or significant influence, but such premiums would not generally be reflected in the quoted price of the investments.
- If the IASB were to address the issue that gave rise to this question, it would be more appropriate to amend IFRS 13 rather than amending IFRS 10, IFRS 12, IAS 27 and IAS 28, because the primary issue giving rise to the ED relates to the different interpretations of the requirements in paragraphs 69 and 80 of IFRS 13.

Other members agree with the proposed amendments, because:

- When the proposed amendments in the ED are applied in the context of IFRS 10, an investment entity is supposed to have an exit strategy (including how to sell the investment in a public market) for respective investments.
- When an investment entity trades its investment in a public market, the transaction is

supposed to take place at a smaller unit rather than at the unit of an investment as a whole.

- Fair value measurement using another valuation technique or by adjusting the Level 1 input entails the use of various internal data and assumptions. The IASB may be aware that some jurisdictions in our region have had difficulty in ensuring a reliable fair value measurement due to high degree of subjectivity in obtaining such inputs. Furthermore, the use of other valuation techniques would most likely require the use of valuation experts, among other specialised inputs, and accordingly may not be cost-beneficial to entities.

Some members note that paragraph B2 of IFRS 13 requires, among others, an entity to determine the measurement of an asset or a liability consistent with its unit of account, and suggested that the IASB clarify the interaction between this provision and the proposed requirements before finalising the amendments.

Furthermore, there is a view that the investments in subsidiaries, associates and joint ventures should not be permitted to be measured at FV-PL in the separate financial statements in the first place, irrespective of whether they are quoted, and that the relevant requirements in IAS 27 should be amended accordingly. This is because an entity that holds such investments normally expects to have cash flow generated from the investee's ordinary course of business activities rather than cash flow resulting from price changes of the investment.

**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?**

AOSSG members have mixed views on the proposed amendments to IAS 36 in the ED 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 P x Q without adjustments.

Those members who disagreed with the proposal referred in Question 2 of the ED also disagree with the proposed amendments referred in Question 3 for the same reasons stated in the second paragraph of our response to Question 2 above.

Other members agree with the proposed amendments. These members think that the proposed measurement method is consistent with how an asset contributes to future cash inflows to an entity because, in their view, IAS 36 presumes that a rational enterprise will dispose of the asset if an asset's net selling price is higher than value in use (see BCZ22 of IAS 36).

Irrespective of the comments above, some members think it would be helpful if the IASB clarifies whether its proposals that the fair value of a CGU that 'corresponds' to an entity that is quoted in an active market should be measured as P x Q is also meant to capture CGUs that may not correspond *fully* to a quoted investment because part of its assets and liabilities (for example debt finance and tax liabilities) are excluded from that CGU.

**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?**

AOSSG members generally agree with the proposed illustrative example in the ED.

Some of these members think that the mandatory application guidance and the basis for conclusions of IFRS 13 should also be amended to reflect the rationale of the proposed clarification of the illustrative example.

**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?**

Most AOSSG members generally agree with the transition provisions proposed in the ED.

However, some members think that if the IASB were to finalise the proposed amendments to IFRS 10, IAS 27 and IAS 28 without making substantial changes to the proposals in the ED, retrospective application should be required for the related transitional provisions, while permitting early application. These members believe that unlike the situations envisaged in the initial application of IFRS 13, the effect of changing the methods of fair value measurement in a manner proposed in the ED (that is, to measure fair value by P x Q) is sufficiently separable from a change in the fair value measurement.

In addition, some other members disagree with the proposal to require the proposed transition provisions regarding IFRS 10, IAS 27 and IAS 28 (that is, to require the modified retrospective application at transition), because the proposal in the ED may be viewed as being inconsistent with paragraphs 65 and 66 of IFRS 13, which requires revisions resulting from a change in the valuation technique or its application to be accounted for as a change in accounting estimate.

**Other comments**

Some members think that it may be helpful if the IASB clarifies its view as to whether the proposals in this ED should also be applied in other instances where the fair value of an investment in a quoted subsidiary, associate or joint venture is required to be determined. This includes, for example, fair value measurement requirements relating to a business combination achieved in stages (see paragraph 41 of IFRS 3) or to the instance when part of investment in a former subsidiary is retained where a parent loses control of that subsidiary (paragraph B98 of IFRS 10).