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Dear Hans,

IASB Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value – Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value – Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13* (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

We support the amendments proposed in the ED only to some extent. We fully agree with the unit of account of quoted investments or quoted cash-generating units (CGUs) being the investment as a whole. However, we think that the IASB's conclusion regarding the unit of account should not be limited to the Standards included in the ED. In our view, the unit of account of smaller investments, such as a 10% investment, should also be the investment as a whole rather than the individual instruments. In our view, consequential amendments for IAS 39/IFRS 9, IFRS 5 and others are needed as well.

Further, we do not agree with the proposal of always measuring a quoted investment or a quoted CGU by $P \times Q$. We are aware of many circumstances where this measurement might result in a reliable outcome but does not depict reality. This is due to the fact that premiums or discounts that might be included in the price paid are not considered in this measurement proposal; therefore, the outcome might lack relevance in those cases. This is the case for investments included within the ED as well as for investments within the scope of IAS 39/IFRS 9 and IFRS 5. In general, we are of the opinion that the unit of account and the unit of measurement should be the same. We think that measuring the fair value of a quoted investment by $P \times Q$ is only decision-useful and relevant when the price paid does not include significant premiums or discounts. In those cases where the price paid equals approximately $P \times Q$, this might be a good measure. However, in cases in which $P \times Q$ deviates significantly from



P x Q because of premiums or discounts, P x Q is not a relevant outcome. In those cases, an entity should use the price paid to measure the fair value of the investment. Therefore, we propose to the IASB to reconsider the measurement approach.

The attached appendix includes our responses to the questions raised by the IASB. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President



Appendix – Answers to the questions of the Exposure Draft

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?

- 1 We support 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 that investment as this depicts the economic reality of such investments.
- 2 However, we think that smaller investments should also be included in this amendment. From our point of view, limiting the proposal to investments in subsidiaries, joint ventures and associates does not go far enough. We think that investments that are smaller than a 20 percent investment but sold as a package as well should be treated similarly. In particular, the unit of account for e.g. a 10 percent investment sold as a package should also be the investment as a whole rather than the individual financial instruments making up the investment. Therefore, we think that IAS 39 and IFRS 9 need to be amended as well so that the unit of account for packages within those Standards is the investment as a whole, too. In addition, we are of the opinion that IFRS 5 should also be included within the scope of the ED as we fail to see why the unit of account would change when the investment as a whole was put on the block. Conversely, if an entity decided to sell a larger investment share by share, we would agree that the unit of account should be the individual instrument, making $P \times Q$ an appropriate measure.
- 3 In addition, we believe that the clarification of the unit of account of those investments being the investment as a whole rather than the individual financial instruments should be included in the respective Standards and not only in the Basis for Conclusions of those Standards.

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.



- 4 We do not agree with the proposal that the fair value of quoted investments in subsidiaries, joint ventures and associates or as mentioned above also smaller packages of investments should always be the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q) and without any adjustments, as this will not faithfully represent the economic reality in a significant number of cases we are aware of. Prices for investments in subsidiaries, joint ventures and associates usually include premiums or discounts. Moreover, a blockage factor might also be included in the price of smaller investments, such as investments that are in the scope of IAS 39/IFRS 9, IFRS 5 or others. In those cases, the mathematical result measured as the product of $P \times Q$ does not faithfully depict the price paid and is therefore not decision-useful. The rationale $P \times Q$ would work only under the assumption of a perfect market without any information asymmetries. In economic reality, however, information asymmetries usually exist. Acknowledging that without a clarification diversity might exist in practice, we still believe that having meaningful results is more important than having a reliable result. We do not see any additional benefit when the measurement outcome is reliable but not relevant. Further, we think that, from a conceptual point of view, the unit of account and the unit of measurement should be the same. Therefore, we are of the opinion that the IASB should not prescribe such a strict requirement. In our view, $P \times Q$ might be a reasonable estimation for the fair value of a quoted investment only when premiums or discounts are negligible. In these cases the price paid might approximately be the same as $P \times Q$. However, if the price paid includes (larger) premiums or discounts and differs significantly from $P \times Q$, which is the case for many quoted investments, the entity should use the price paid to measure the fair value of those investments. Due to the reasons mentioned above, we do not support the proposed primary measure and propose to the IASB to reconsider the measurement approach.

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?

- 5 We do not agree with the proposed amendments for the same reasoning as mentioned above in our answer to Question 2.



Question 4 – Portfolios

The IASB proposes to include an illustrative example to IFRS 13 to illustrate the application of paragraph 48 of the 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?

- 6 We think that the proposed additional illustrative example for IFRS 13 supports the application of paragraph 48 of IFRS 13, and we agree with the inclusion of the 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?

- 7 As noted in our responses to Questions 2 and 3 we do not agree with the proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 – in particular with measuring the fair value as the product of $P \times Q$.
- 8 However, if the IASB is going to pursue this approach, we agree with the transition requirements proposed. In our view, there are no difficulties in applying all amendments as proposed. We think that neither the retrospective application of IFRS 10, IAS 27 and IAS 28 nor the prospective application of IFRS 12 and IAS 36 should lead to problems.