Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
IFRS-Fachausschuss

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34. Sitzung IFRS-FA am 08.01.2014
34_04a_IFRS-FA_MQI_CL_IASB

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*

1 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.

2 We are generally supportive of the amendments proposed in the ED. We fully agree with the unit of account of quoted investments or quoted cash-generating units (CGUs) being the investment as a whole. While the proposal of measuring a quoted investment or a quoted CGU by P x Q seems to result in a reliable measure and a practicable approach, we still have some concerns regarding this proposal. This is due to the fact that premiums or discounts are not considered in this measurement proposal and therefore the outcome might lack relevance in some cases. The IASB should strike a balance between relevance and reliability when making a final decision.

3 We further would like to suggest extending the amendments proposed. We think that the unit of account being the investment as a whole should also be applied to smaller investments such as 10 percent investments, which are not in the scope of the ED, and should be measured consistently. We therefore believe that other standards that deal with the measurement of quoted investments need to be amended, too.

4 We would like to refer to the attached appendix which 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 generally 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. However, we think that the proposals do not go far enough. In our opinion, the unit of account for investments that are not within the scope of the standards mentioned within the amendments should be the investment as a whole, too. In other words, the unit of account for smaller packages of investments should be the same. Therefore, other Standards that deal with quoted investments should be amended in the same way, regardless of the size of 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 x 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.

2 In general, we agree with the proposal that the fair value 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) without adjustments as this seems to be a practicable solution and results in reliable information. Nevertheless, we have doubts whether this measurement result depicts reality and therefore leads to relevant information as this proposal ignores premiums or discounts that might occur in those transactions. Therefore, the IASB needs to strike the balance between relevance and reliability.

3 As mentioned in our answer to Question 1, we think that the IASB should not limit the proposals to certain investments. Not just the unit of account but also its interaction with Level 1 inputs for quoted investments should be the same regardless of the size/extent of an investment. Thus, other Standards, which are not considered in the ED, should be amended in the same way so that the fair value of all quoted investments is measured equally. Furthermore, when a particular

Standard refers to the fair value of a quoted investment but the fair value that the Standard refers to should not be determined by P x Q, the wording must be changed. In particular, we believe that the fair value in accordance with IFRS 5 should not be P x Q and therefore needs to be amended.

4 In addition, we think that the condition of having an active market, which is already included in the proposed amendments, is an essential requirement when measuring the fair value of a quoted investment by P x Q. When there is no active market in a particularly difficult situation the fair value needs to be determined differently.

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 x 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 Provided that the fair value of a quoted investment is best measured by P x Q we also agree with measuring the fair value of a quoted CGU in the same manner.

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 We agree with the transition requirements proposed. In our view there are no difficulties when applying all amendments retrospectively. We think 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.