STAFF PAPER

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IASB Meeting

Project	**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)**
Paper topic	Comment letter analysis and feedback received from users

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Purpose of paper

1. This paper summarises the comments received from respondents in response to the Exposure Draft ('ED'), *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).* This paper also includes the feedback received from users of financial statements ('users') during the comment period of the ED.

2. This paper does not provide a quantitative analysis of the comments received, nor does it capture a complete record of all issues and recommendations raised in the comment letters. The paper is provided for information only, and no decisions are requested from the IASB. The staff will present a more detailed analysis of each issue when it asks the IASB for decisions.

3. This paper has been set out as follows:

   (a) Feedback received from users (paragraphs 5–11);

   (b) Summary of the comment letters received (paragraphs 12–52); and

   (c) Next steps (paragraphs 53–55)

4. Appendix 1 to this paper provides a summary of the comment letters received by type of respondent and geographical region.

Feedback received from users

5. During the comment period of the ED, the staff held meetings and conference calls with different users and user groups to discuss the proposed amendments. The staff held about five meetings, both in person or by telephone call. One of these meetings was a public meeting with the Capital Markets Advisory Group[1] and another was a user panel event organised by EFRAG.

6. In discussing the proposed amendments, users were requested to provide their views on which methodology would provide investors with the most useful information for measuring investments in subsidiaries, joint ventures and associates that are quoted in an active market at fair value. More specifically, users were asked to consider whether 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, or whether other valuation techniques, such as a discounted cash flow method or adjusted Level 1 inputs, would be most appropriate for measuring quoted investments at fair value.

7. In considering these measurement techniques, the majority of users with whom we conducted outreach noted that the resulting measurement of quoted investments should provide objective, verifiable and reliable information. In this regard, the majority of users indicated a strong preference for P × Q, because they thought that it was less judgemental as compared to other measurement techniques.

8. Some users indicated that they did envisage in limited circumstances the use of adjusted Level 1 inputs where, for example, there has been a significant decrease in the volume or level of activity for the financial instruments and, consequently, the quoted price no longer represented fair value.

9. Users also observed that in some instances the acquisition price paid by an investor for a controlling interest includes a premium or discount. The fair value measurement of such a controlling interest, if measured on the basis of unadjusted

1 http://www.ifrs.org/Meetings/MeetingDocs/Other%20Meeting/2014/October/CMAC-AP-2-Measuring-quoted-investments-at-fair-value.pdf

http://media.ifrs.org/2014/CMAC/October/FairValue_AP2_AM.mp3

http://media.ifrs.org/2014/CMAC/October/BreakoutSessionReportBack_AM.mp3

Level 1 inputs, could lead to Day 1 gains or losses. The users with whom we conducted outreach considered that the recognition of such gains or losses subsequent to the acquisition of a controlling interest is appropriate, because they reflect the investor's risk of doing business. In addition, these users noted that appropriate disclosures of those gains or losses would also be useful.

10. Some users commented that it would be difficult to justify the use of another measurement technique when there was a Level 1 price available. This was because a Level 1 price was the most objective indicator of the price that market participants would transact at.

11. Some users also expressed a preference for retrospective application of the proposed amendments because, in their view; this would provide comparability and allow them to assess the effect of the amendments on prior years' results.

Summary of the comment letters received

12. The ED was published in September 2014 with a 120-day comment period ending on 16 January 2015. To date, the IASB has received 81 comment letters.

13. The comment letters are mainly from national standard-setters, professional bodies, preparers and groups of preparers (see Appendix 1). The IASB has not received comment letters from users, but their feedback has been obtained from separate outreach activities during the comment period of the ED (see paragraphs 5–11).

14. We have summarised in paragraphs 15–52 of this paper the main feedback received from the comment letters in relation to the five questions that were included in the ED.

Question 1—Unit of account

15. Question 1 of the ED is as follows:

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?

16. The majority of respondents supported the view that the unit of account for investments within the scope of IFRS 10 *Consolidated Financial Statements*, IAS27 *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 included within that investment. Most of these respondents justified their answer by stating that they agreed with the rationale provided in paragraph BC6 of the ED, which stated that the nature of an investor's relationship with an investee is based on the level of control or influence in that investee. That criterion is the key characteristic that would highlight that the appropriate unit of account in IFRS 10, IAS 27 and IAS 28 is the investment as a whole to which that key characteristic applies.

17. Many respondents, while expressing support for the unit of account being the investment as a whole, also asserted that for the clarification to be authoritative and enforceable the proposed clarifications should be included in the body of the relevant Standards rather than in the Basis for Conclusions.

18. Some other respondents expressed their disagreement with the IASB's conclusion on the unit of account or raised concerns for the IASB's consideration. Their main comments were as follows:

    (a) the unit of account depends on the business model within which the investment is held. For instance, quoted investments held for strategic and for capital appreciation reasons may have a different unit of account than a similar quoted investment;

    (b) the unit of account should depend on how market participants transact. For example, if an entity holds investments in both debt and equity instruments in the same portfolio and market participants would purchase or sell a debt position independently from an equity position, then the debt investment and the equity investment have different units of account and their fair value should also be measured separately. Conversely, if market participants would transact on a combined basis, the combined investment (ie equity instruments and debt) should be considered as a single unit of account;

(c) the appropriate unit of account should be addressed as part of the IASB's review of the *Conceptual Framework*, because such an approach would provide the appropriate conceptual underpinnings to guide decisions at a standards level;

(d) concluding on what is the unit of account for investments within the scope of IAS 28 may not always be straightforward because:

   (i) the conclusion that the unit of account is the investment as a whole may be inconsistent with paragraph 19 of IAS 28, which permits an entity to apply different measurements to different portions of the same associate. In this regard, one respondent thought that a clarification is required regarding this inconsistency before the proposed amendments are finalised;

   (ii) the unit of account for an investment in an associate may also depend on the interpretation of 'significant influence' (ie if significant influence is deemed to exist solely through the aggregation of voting rights, then it could be interpreted as being consistent with the view that the unit of account is the individual shares, but if significant influence is deemed to exist through rights such as board representation, then it could be interpreted that the unit of account is the investment as a whole);

(e) the question on the unit of account is difficult to answer when the investment comprises different instruments, which are both quoted and unquoted; and

(f) the unit of account for investments within the scope of IFRS 9 *Financial Instruments* should also be the investment as a whole if such investments are sold as a package.

Question 2—The proposed measurement for quoted investments

19. Question 2 of the ED is as follows:

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.

20. The majority of respondents disagreed 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), ie P × Q.

21. These respondents were of the view that the fair value of quoted investments within the scope of the ED should instead be measured by either applying a valuation technique or by adjusting Level 1 inputs to reflect any differences between the investment as a whole and the individual financial instruments that are contained within the investment. From their point of view, applying these measurement techniques would result in more relevant information.

22. The main reasons that these respondents provided to support their disagreement with the fair value measurement resulting from P × Q are as follows:

(a) Lack of alignment between the proposed measurement with the unit of account being the investment as a whole

Many respondents were of the view that the measurement should be aligned with the unit of account, because this is a fundamental principle embedded in IFRS 13. Measuring quoted investments at fair value using P × Q would be a significant departure from this principle, because P represents the quoted price for an individual financial instrument and not for the investment as a whole. For these respondents, P × Q is perceived as a rule that contradicts a principle-based approach. If the IASB wished to proceed with these amendments, some respondents recommended presenting these amendments as a departure from the principles in IFRS 13 rather than as a clarification on how to measure fair value for quoted investments.

(b) There is no Level 1 input for the unit of account to be measured at fair value (ie the investment as a whole)

Many respondents support the dissenting opinion in the ED, because they consider that there is no Level 1 input for the investment as a whole. They think that the principle in IFRS 13 of maximising the use of relevant Level 1 inputs is not applicable in this case, because the quoted price that is available is for an individual financial instrument, which is not the asset being measured at fair value.

For many respondents, the fact that an investment comprises individual financial instruments does not, in their view, override the conclusion in the ED that the unit of account is the investment as a whole. In addition, some respondents stated that there are no active markets that trade in investments in subsidiaries, joint ventures or associates and, consequently, they are not priced with direct reference to the quoted price of an individual share. For these respondents, all fair value measurements of investments in subsidiaries, joint ventures and associates would need to be categorised (in their entirety) within Level 2 or Level 3 of the fair value hierarchy. These respondents also commented that IFRS 13 has guidance on how to measure investments that are categorised within Level 2 and Level 3 of the fair value hierarchy and, consequently, no additional guidance would be necessary.

(c) P × Q does not consider key characteristics of the asset being measured, does not reflect fair value and does not result in relevant information

Many respondents stated that when investors acquire an interest in a subsidiary, joint venture or associate, the acquisition price may include a premium that is associated with the level of control, joint control or significant influence over the investee (which is a key characteristic of the asset being measured at fair value). In other instances, large shareholdings may have liquidity restrictions that would result in a realised price lower than P × Q. Consequently, these respondents were concerned that P × Q would not take into account key characteristics of the asset being measured at fair value in the way that is required by IFRS 13 and would, consequently, result in a measurement that would not reflect fair value (ie the price that market participants will receive to sell such assets).[2]

Many respondents also commented that measuring investments in a manner that reflects an investor's level of control or influence results in more relevant information and is in line with predominant practice at present (at least for unquoted investments). For many respondents, P × Q will not always result in relevant information, because there may be reasons why a market participant may be willing to pay more or less than this simple mathematical product.

For these respondents the use of unadjusted Level 1 inputs in order to obtain measurements that are objective and verifiable comes at the expense of not accurately reflecting marketplace realities. In addition, one respondent commented that, compared to the measurement resulting from P × Q, a measurement that, for example, took into account a control premium could be viewed as being more susceptible to error. However, this respondent referred to paragraphs QC15 and QC26 of the *Conceptual Framework* to state that in balancing the qualitative characteristics, it is not necessary to have absolute accuracy and that 'quantitative information need not be a single point estimate to be verifiable'.

(d) P may not be the appropriate input to measure the fair value of a quoted investment

Some respondents observed that P × Q may result in earnings volatility, which is more closely related to returns from a passive investment rather than a controlling investment. This is because the market price of a share may be affected by factors unrelated to the specific investment, such as market sentiment and speculative trading, among others, at the measurement date. One respondent commented that quoted prices are also influenced by investment supply and demand, which may represent a realisable value only at a point of time, whereas an investor in a subsidiary, joint venture or associate is likely to anticipate a long-term investment with a planned

[2] Fair value is defined in IFRS 13 as 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.

realisation at the end of the period of investment. For that respondent, the quoted price at the end of the accounting period is unlikely to have any relevance to the amount expected to be ultimately realised.

Some respondents also commented that a quoted price is arguably not representative of fair value when minority shareholdings are thinly traded or if the quoted price does not reflect a disposal of a strategic stake. Consequently, for these respondents, the market price of an individual equity instrument would only be appropriate to be used as one of many factors to be considered when measuring the fair value of the investment as a whole.

A few respondents also stated that there may be constraints linked to the nature of the investment (for example, tag along/drag along rights) that would mean that its fair value is not the sum of its parts.

(e) Inconsistencies between the measurement of quoted and unquoted investments at fair value

Some respondents expressed concern that the proposed amendments may create inconsistencies in how quoted and unquoted investments are measured at fair value. This is because, when measuring unquoted investments at fair value, an entity would be allowed to reflect adjustments such as control premiums, while for quoted investments comprising financial instruments with Level 1 prices, no adjustments will be permitted.

One respondent commented that the proposals could also be introducing an inconsistency between the fair value of an investment that is quoted in an active market and another that is quoted in a market that is not active. This respondent thought that the fair value of the quoted investment in a market that is not active could potentially also include adjustments for premiums relating to control, joint control or significant influence, hence putting unnecessary additional pressure on the definition of an *active market*, because this will be key to determining which measurement requirements are applied, and when such premiums could be considered.

(f) P × Q results in Day 1 gains or losses when the acquisition price includes a premium or a discount

Many respondents were of the view that P × Q may result in outcomes that are counterintuitive in circumstances in which the acquisition price paid for a quoted investment differs from the fair value as determined by the product of P and Q. This would be the case when, for example, the acquisition price includes a premium for control or significant influence over the investee. In such instances, the difference between the acquisition price and fair value as determined by the product of P and Q may result in what is often referred to as a ‘Day 1’ gain or loss. These respondents thought that such a gain or loss does not reflect management performance (ie it may distort reported investment performance) or economic reality and that, consequently, it does not provide information that is relevant.

(g) P × Q is inconsistent with related guidance in other Standards

A few respondents highlighted that in their view the proposals were inconsistent with paragraph B45 of IFRS 3 *Business Combinations*, which notes that the fair values of the acquirer’s interest in the acquiree and the non-controlling interest on a per-share basis might differ. The difference is likely to be due to the inclusion of a control premium in the per-share fair value of the acquirer’s interest in the acquiree. Conversely, differences could also be due to the inclusion of a discount for lack of control in the per-share fair value of the non-controlling interest.

(h) In some specific circumstances the measurements resulting from P × Q are potentially misleading

One respondent commented that there are some circumstances in which the measurements resulting from P × Q are potentially misleading (for example, when investments in subsidiaries, joint ventures or associates are under a takeover bid or when those investments have been recently acquired through a takeover bid). This respondent suggested having a rebuttable presumption that P × Q represents fair value, while permitting adjustments if they would lead to a more relevant measurement. Another respondent commented that it should also be possible to deviate from P × Q if the entity would expect to exit the investment in a single transaction.

23. A few respondents commented that if the IASB were to proceed with the proposed amendments, then:
    (a) P × Q should be presumed to be the measurement that best represents the fair value of quoted investments (ie present P × Q as a rebuttable presumption of fair value) unless an entity can identify a measurement that more faithfully represents fair value (for example, an entity is able to identify and explain in a reasonable and auditable way a premium or discount on the value of the investment as a whole).
    (b) these should be characterised as an exception to the principle in IFRS 13 that the fair value measurement of an asset or liability should be consistent with its unit of account. In addition, the reason for deviating from that principle should be clearly explained in the Basis for Conclusions.

24. Some respondents suggested that transparency could be enhanced by requiring disclosures whereby entities would disclose both the recognised fair value of the investment (determined using either a valuation technique or adjusted Level 1 inputs) and the measurement resulting from P × Q. These respondents also recommended that those entities should provide a reconciliation to explain the difference between the two measurements. These respondents think that this will provide relevant stewardship information to investors, as well as transparency, and foster comparability for analysis.

25. Some respondents acknowledged that P × Q may be a more objective and verifiable measure, which could be operationally simpler. They thought that applying such a measurement method may be suitable in the absence of an acceptable alternative measure that would provide at least the same degree of objectivity and reliability. Nevertheless, these respondents strongly encouraged the IASB to explore alternative methodologies and assess current valuation practices prior to finalising the amendments proposed in the ED.

26. Some respondents fully agreed with P × Q. The reasons provided by the majority of these respondents were mainly related to the higher objectivity and verifiability of the resulting measurements. Other reasons provided to substantiate their support were as follows:

(a) Using another valuation technique or adjusting Level 1 inputs does not enhance the reliability of the measurement and it introduces additional costs

A few respondents stated that the measurements resulting from using another valuation technique or by adjusting the Level 1 inputs entail the use of various internal data and assumptions. The greater degree of subjectivity associated with such internal data and assumptions may result in a less reliable measurement as compared to P × Q. In addition, they thought that the benefits of such a requirement would not outweigh the costs associated with the measurements obtained from using valuation techniques (for example, the use of valuation experts).

(b) A few respondents noted that P × Q is aligned to practice in US GAAP and that it would, consequently, maintain convergence with such practice and enhance comparability.

Question 3—The recoverable amount of a CGU measured on the basis of fair value less costs of disposal

27. Question 3 of the ED is as follows:

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?

28. The majority of respondents agreed that the fair value measurement of a CGU that corresponds to an entity that is quoted in an active market (‘a quoted CGU’) should be aligned to the fair value measurement of that quoted investment but stated that, for similar reasons outlined in their responses to Question 2 of the ED (see paragraphs 15–26), they *did not* think that P × Q would provide the most

appropriate measurement when measuring the recoverable amount of quoted CGUs on the basis of fair value less costs of disposal.

29. In particular, many of the respondents commented that the proposed measurement would not be aligned to the unit of account (ie the CGU). For many respondents there is a disconnection between the quoted price (P) and the recoverable amount of a quoted CGU on the basis of fair value less costs of disposal. In this respect, some respondents did not think that it was appropriate to recognise an impairment loss based on the value of an asset (the individual financial instruments) that is qualitatively different from the collective assets of the CGU or group of CGUs being assessed for impairment.

30. For some respondents, while the Level 1 price is a helpful external source of impairment indicator, measuring the recoverable amount based on, for example, the discounted cash flow method provides a better reflection of the way management intends to recover value for all shareholders. It would also be more consistent with the measurement techniques applied to CGUs that are not quoted.

31. In addition, these respondents provided other reasons to support their disagreement for measuring quoted CGUs at P × Q. The main reasons are as follows:

(a) CGUs do not correspond exactly or are rarely identical to a quoted entity These respondents noted that the ED makes references to a *'CGU that corresponds to a quoted entity'* and thought that further clarification on this term was necessary to understand the application of the proposals in more complex situations. For example:

(i) would the requirements only apply to those situations in which a CGU is identical to a quoted entity or only when it is similar but not necessarily identical to a quoted entity?;

(ii) would the requirements also apply to a group of CGUs that forms part of a quoted entity and, if so, how?; and

(iii) would the requirements apply to a CGU consisting of both quoted and unquoted subsidiaries?

A few respondents commented that the cases in which a CGU exactly corresponds to an entity (quoted or unquoted) are very limited. This is because a CGU generally excludes financial instruments, tax balances, other working capital items and liabilities. In contrast, the fair value of an entity would reflect all of the entity's assets and liabilities, including items that would not normally be included in a CGU. These respondents commented that if the fair value of a quoted entity is to be used as an input for the fair value of a CGU, then adjustments would be required to eliminate assets and liabilities that are not part of the related CGU.

(b) P × Q could be different from value in use

A respondent commented that value in use could be different from P × Q and stated that such a difference would not be justified by a distinction in the assumptions used by market participants and the investor, as it would normally be the case when the recoverable amount for an asset is measured on the basis of fair value less costs of disposal in accordance with IAS 36 *Impairment of Assets*. This respondent expressed concern that a recoverable amount based on fair value less costs of disposal measured using a valuation technique took into account the assumptions of market participants and that these assumptions may no longer be included if the calculation is based on P x Q.

(c) The proposals could raise inconsistencies in the recoverable amount of CGUs measured on the basis of fair value less costs of disposal

One respondent stated that groups that own a quoted entity with a single CGU, and groups that own a quoted entity with more than one CGU, will be subject to different valuation methodologies. For this respondent, comparability and transparency between these entities will not be maintained.

(d) The proposals raise some uncertainties about their interaction with some paragraphs of IAS 36 and with the goodwill impairment test

One respondent stated that it is not clear how the interaction is determined between P × Q and the criteria in paragraphs 75–79 of IAS 36, which state that the carrying amount of a CGU shall be determined on a basis consistent with the way in which the recoverable amount of the CGU is determined. Another respondent commented that the proposals raise uncertainties in the case an entity that needs to test goodwill for impairment across a group of

CGUs that is identical to a quoted entity. In this case the respondent wondered whether the entity would be restricted to applying P × Q only for testing goodwill for impairment or would the entity also need to consider P × Q for the individual CGUs that comprise the group of CGUs. The same respondent also asked whether the fair value less costs of disposal of a CGU that is part of a quoted entity would be affected by the fair value of the quoted entity when goodwill is monitored below the level of that quoted entity.

(e) The proposals would cause inconsistency in how entities determine the recoverable amount on the basis of fair value less costs of disposal for quoted and unquoted CGUs
A few respondents have highlighted that the proposals would introduce a lack of alignment between the recoverable amount on the basis of fair value less costs of disposals for quoted and unquoted CGUs, because an entity measuring the fair value of an unquoted CGU would most probably use a valuation technique that incorporates management assumptions. These respondents consider this methodology to be appropriate regardless of whether the CGU is quoted or not.

(f) The proposed amendments to apply P × Q to CGUs that correspond to a quoted entity are not aligned with existing guidance under US GAAP
These respondents were concerned that the proposed amendments were inconsistent with ASC 350-I*ntangibles, Goodwill and Other* (section 350-20-35) under US GAAP and would result in an unmerited difference in the fair value measurement of a CGU. In particular, ASC Section 350-20-35-22[3] outlines that quoted market prices in active markets of an individual equity security may not necessarily represent the fair value of the reporting unit as a whole and, therefore, need not be the sole measurement

[3] **35-22** The fair value of a reporting unit refers to the price that would be received to sell the unit as a whole in an orderly transaction between market participants at the measurement date. Quoted market prices in active markets are the best evidence of fair value and shall be used as the basis for the measurement, if available. However, the market price of an individual equity security (and thus the market capitalization of a reporting unit with publicly traded equity securities) may not be representative of the fair value of the reporting unit as a whole.

basis for the fair value of the reporting unit. In addition, ASC Section 350-20-35-23[4] recognises that control premiums may be considered in the fair value measurement of a reporting unit.

(g) P × Q measurement for a quoted entity with multiple CGUs implies that the market capitalisation of the listed entity would need to be allocated to its CGUs

These respondents were concerned that the fair value measurement of a quoted CGU could imply that for a quoted entity with multiple CGUs, the sum of the value of their CGUs could not be more than the market capitalisation of the quoted entity. For these respondents, the proposals seem to indicate that the market capitalisation of the quoted entity needs to be allocated to its CGUs which, in their view, is contrary to the determination of recoverable amount under IAS 36. This is because that Standard refers to market capitalisation only as an indicator (ie market capitalisation does not determine on its own the recoverable amount).

(h) Disclosing the difference between P × Q and fair value less costs of disposal

A few respondents who disagreed with the measurement resulting from P × Q recommended disclosing the differences between the recognised fair value less costs of disposal and the measurement resulting from P × Q. They also recommended requiring a qualitative and quantitative explanation of why fair value deviates from P × Q.

32. A few respondents agreed that P × Q would provide the most appropriate measurement when measuring the recoverable amount of quoted CGUs and provided the following reasons to support their view:

(a) P × Q maximises the use of Level 1 inputs and results in a fair value measurement that is verifiable and objective; and

[4] **35-23** Substantial value may arise from the ability to take advantage of synergies and other benefits that flow from control over another entity. Consequently, measuring the fair value of a collection of assets and liabilities that operate together in a controlled entity is different from measuring the fair value of that entity's individual equity securities. An acquiring entity often is willing to pay more for equity securities that give it a controlling interest than an investor would pay for a number of equity securities representing less than a controlling interest. That control premium may cause the fair value of a reporting unit to exceed its market capitalization. The quoted market price of an individual equity security, therefore, need not be the sole measurement basis of the fair value of a reporting unit.

(b) the proposed amendments are consistent with the principles in IFRS 13.

Question 4—Illustrative Example for IFRS 13

33. Question 4 of the ED is as follows:

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 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?

34. The majority of the respondents agreed that the proposed additional illustrative example for IFRS 13 appropriately illustrates the application of paragraph 48 of IFRS 13. Only a few respondents did not agree with the illustrative example, and did so because they thought that the fair value of the net risk exposure arising from a group of financial assets and financial liabilities whose market risks are substantially the same should be measured by applying a valuation technique that considers the characteristics of the net risk exposure (ie the net risk exposure should be adjusted for premiums or discounts if those represent its features).

35. In addition, a few respondents thought that the illustrative example describes a very narrow setting and does not illustrate a common application of paragraph 48 of IFRS 13. Some respondents recommended that the example should include guidance on additional matters or that other examples tackling additional circumstances should be provided. The areas for which additional guidance was recommended are as follows:

(a) examples with portfolios consisting of:

(i) financial instruments that have different Level 1 prices;

(ii) financial instruments categorised within Level 1 and Level 2 of the fair value hierarchy; and

(iii) financial instruments categorised within Level 2 and Level 3 of the fair value hierarchy.

(b) allocation of the resulting measurement to the individual financial assets and financial liabilities for presentation and disclosure purposes;

(c) interaction between the portfolio exception and the use of mid-market pricing as a practical expedient in accordance with paragraph 71 of IFRS 13. In addition, a few respondents thought that the term 'bid-offer reserve' adjustment in paragraph IE47F of the illustrative example was confusing and recommended further clarification to explain what the term attempted to reflect.

36. Some respondents recommended that the example should be part of the application guidance of IFRS 13 to ensure the clarification is made as part of mandatory IFRS 13 requirements for the purposes of promoting consistent application in practice.

37. Some respondents thought that the example is unrelated to the fair value measurement of quoted investments within the scope of IFRS 10, IAS 27 and IAS 28. A few of these respondents think that the IASB should make clearer in the title of the amendments that the illustrative example addresses a different issue than measurement of quoted investments in subsidiaries, joint ventures and associates at fair value.

Question 5—Transitional provisions for the amendments to IFRS 10, IAS 27 and IAS (Question 5)

38. Question 5 of the ED is as follows:

Question 5—Transitional 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?

39. For the purposes of presenting a summary of the comments received for this question of the invitation, we have split this section as follows:

    (a) summary of the comments received for the transition provisions relating to IFRS 10, IAS 27 and IAS 28;

    (b) summary of the comments received for the transition provisions relating to IFRS 12 and IAS 36; and

    (c) summary of the comments received relating to the proposal of allowing earlier application and the proposed disclosures on transition.

Comments received for the transition provisions relating to IFRS 10, IAS 27 and IAS 28

40. Respondents had mixed views on the proposed transition provisions for the proposed amendments to IFRS 10, IFRS 12, IAS 27 and IAS 28.

41. The respondents who agreed with the proposed transition provisions justified their support on the basis that an adjustment to opening retained earnings (or other component of equity as appropriate) would not imply the use of hindsight to measuring fair value and would provide, in their view, an appropriate balance between compliance and practicability.

42. Some respondents were, however, of the view that the proposed transition provisions for IFRS 10, IAS 27 and IAS 28 should go further and result in full retrospective application of the amendments. To support their view, these respondents noted the following:

    (a) the fair value measurements would be based on readily available quoted prices, and hence applying the proposed amendments retrospectively would not be operationally burdensome and/or costly;

    (b) retrospective application enhances the comparability of information for the reporting periods presented; and

    (c) P × Q is perceived as a distinct change in how fair value is measured and, in their view, should be treated as a change in accounting policy in accordance with IAS 8 *Accounting Policies, Change in Accounting Estimates and Errors*, thus resulting in full retrospective application.

43. In contrast, a few other respondents viewed the proposed amendments as a change in *how* the fair value measurements are determined rather than as a change in the measurement basis itself. Consequently, they thought that this would constitute a change in accounting estimate in accordance with IAS 8 and that, as a result, the amendments should be applied prospectively.

Comments received on the transition provisions for IFRS 12 and IAS 36

44. Most respondents supported the proposals that the transition provisions for IFRS 12 and IAS 36 should be applied prospectively. In particular, for IAS 36, these respondents mainly supported prospective application on the grounds that it would avoid the reversal of any previous goodwill impairment.

45. Some respondents indicated that the transition provisions for the proposed amendments to IFRS 12 and IAS 36 should be applied consistently with those proposed for IFRS 10, IAS 27 and IAS 28. They thought that the underlying proposed amendments in the ED have analogous principles and hence the transition provisions should be similarly aligned.

Comments received on the proposed earlier application of the amendments and proposed disclosures on transition

46. Only a few respondents commented on the proposed requirement to allow applying the proposed amendments earlier. A respondent that was against allowing earlier application of the proposed amendments stated that it might decrease comparability among entities, while no detailed reasons were provided by respondents who were in favour of earlier application of the amendments.

47. No specific comments were received relating to the proposed disclosures on transition.

Other comments

48. Many respondents commented that the IASB should consider whether the proposals in the ED should be expanded to also include:

    (a) investment that are within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;

    (b) transactions that result in the loss of control over a subsidiary (for example, paragraph 25(b) of IFRS 10);

    (c) previously-held equity interests in acquirees in business combinations achieved in stages and non-controlling interests in accordance with IFRS 3 *Business Combinations*. These respondents acknowledged the point in BC 14 of the ED that such transactions could be dealt with as part of the Post-implementation Review of IFRS 3, but nevertheless recommended that they should be considered under the proposed amendments of the ED to avoid piecemeal changes to Standards; and

    (d) investments to be distributed to owners in accordance with paragraph 11 of IFRIC 17 *Distributions of Non-cash Assets to Owners*.

49. A few respondents did not agree with the rationale in paragraph BC11 of the ED for not including control premium adjustments to the fair value measurement of investments in subsidiaries held by investment entities, which referred to paragraphs B85I and BC242 of IFRS 10. Those paragraphs stated that 'an investment entity, or other members of the group containing the entity, should not obtain benefits from its investees that would be unavailable to other investors in the investee.' These respondents did not view a control premium as a benefit obtained from the investee along the lines of the examples in paragraph B85I of IFRS 10. They either think that a control premium is merely part of the price that market participants would pay to acquire an investee, or that the benefits outlined in paragraph B85I of IFRS 10 are consistent with acting in some operating or strategic capacity rather than being related to control over an investee.

50. A few respondents disagreed with the proposals to amend IFRS 10, IFRS 12, IAS 27 and IAS 28 and were of the view that IFRS 13 should be amended directly. This was because the issues addressed in the proposed amendments emanated from different interpretations of paragraphs 69 and 80 of IFRS 13.

51. Respondents expressed mixed views regarding the assertion in BC12 of the ED that the proposed amendments would have limited effects. The respondents who agreed with this assertion stated that the proposed amendments would have a limited effect in practice since the majority of the investments within the scope of the ED are unquoted. However, this was not perceived to be a compelling argument to deviate from the unit of account principle.

52. In contrast, the respondents who thought that the proposals would not have a limited effect backed up this view by stating that the financial effect of the proposals was likely to be significant, especially for entities such as pension funds, private equity and hedge funds.

Next steps

53. The table below illustrates the main forthcoming steps leading to the publication of the final amendments.

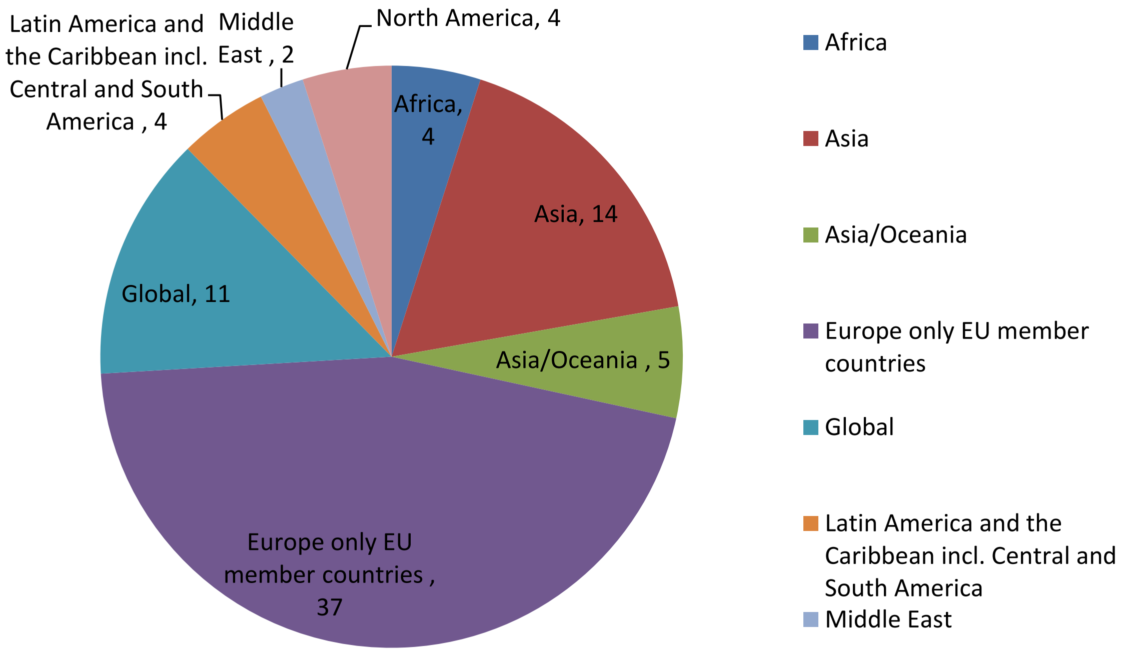
54. We think that the measurement of quoted investments at fair value, and the measurement of the recoverable amount of quoted CGUs on the basis of fair value less costs of disposal using P × Q, will require the staff to perform some research before starting the redeliberations with the IASB. We aim to undertake this research during the second quarter of 2015.

55. In the case of the Illustrative Example to IFRS 13, we aim to start redeliberations with the IASB in April 2015.

Forthcoming steps	**Expected date**
Discussions on the example to illustrate the application of paragraph 48 of IFRS 13	**April 2015**
Further research on the use of P × Q	**Q2 2015**
Redeliberations with the IASB relating to the measurement of quoted investments at fair value and the recoverable amount of quoted CGUs on the basis of fair value less costs of disposal and any transition requirements	**Q2–Q3 2015**

Appendix 1—Comment letter demographic information

A1. This pie chart illustrates the breakdown of comment letters by geographical region:



A2. This pie chart illustrates the breakdown of comment letters by respondent type: