acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

afep

Mouvement des Entreprises de France MEDEF

IASB
30 Cannon Street
London EC4M 6XH
UK

Paris, 15 January 2015

Dear Mr Hoogervorst,

Re: ED 2014 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

We are pleased to respond to the exposure draft ED/2014/4 "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value" (the ED).

We regret that the Board has decided to focus only on investment entities, without considering the possible impacts for all other situations in IFRS 10 which use fair value for an investment (residual value or investment already owned). We believe that the ED should not be finalised without examining the whole issue as different conclusions may be drawn in different cases, depending on the business purpose of the investments.
As a minimum, we believe that once the appropriate unit of account has been defined (for each economic and business situation), IFRS 13 should be applied consistently. We therefore disagree that no adjustment should be made to a level-one input when the unit of account is the investment as a whole and not the individual financial assets.

Please do not hesitate to contact us if you require any further information or explanation.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU	François SOULMAGNON	Agnès LEPINAY
Chairman	Director General	Director of economic and financial affairs

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?

We believe that the answer will depend on the business model of the investor. There is a significant difference between an investment entity for which the business purpose is to invest funds solely for capital appreciation and/or investment income (whatever the level of investment, control or influence) and other entities for which the business purpose is an investment to develop operational activities and for which the level of control or influence is a key characteristic of its investment. For the latter, we agree with the conclusion reached in paragraph BC 6 that "the nature of an entity's relationship with an investee, based on the level of control or influence in that investee, is the relevant characteristic for those. As a result, that characteristic (ie the level of control or influence) would highlight that the relevant unit of account in those Standards is the investment to which that key characteristic applies, instead of the individual financial instruments that make up the investment".

For investment entities, it may be less relevant to have different units of account for their non-controlled investments and subsidiaries (or JV or associates) if in all cases the business purpose is the same.

We therefore regret that the Board has decided to focus only on investment entities, without considering the possible impacts for all other situations in IFRS 10 which use a fair value for an investment (residual value or the revaluation of an investment already owned). We believe that the ED should not be finalised without examining all the issues which are broadly related to this question.

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

Relevance will be ensured only by determining the appropriate unit of account, considering the business purpose of the investment, and then applying IFRS 13 consistently.

We therefore believe that the Board should ensure consistency between the conclusion on the unit of account and the way that IFRS 13 should be applied. Actually, IFRS 13 states that fair value measurement is for a <u>particular</u> asset (IFRS 13 paragraph 11) defined according to its unit of account and taking into account its characteristics.

Since the IASB has concluded that the asset to be fair valued is the whole investment, IFRS 13 should be applied consistently with this conclusion. It should therefore be helpful first to consider whether there could be a level-one value for such an investment. We thus have sympathy for the view developed in paragraph BC 8 (a) which considered that there was no Level 1 input for the unit of account (ie the investment as a whole) and, that therefore the investment's fair value should be measured using either another valuation technique or by adjusting the Level 1 price to reflect differences between the investment and the underlying individual financial instruments.
Furthermore, even if the IASB had to maintain its Level 1 qualification, we note that IFRS 13 permits one in certain circumstances to make adjustments to level 1 input. We believe that in the case of investments over which there is control or influence, one may usefully apply paragraph 79 (c) which permits the adjustment of the quoted price for "identical underlying assets" to reflect the factors specific to the asset which is measured at fair value.

Finally, we would like to point out that in our experience, negative goodwill arises in many cases because of a "low unadjusted fair value" applied to the equity interest in the acquiree that was already held by the investor.

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?

We disagree as we believe that it is typically the case where the unit of account is the whole investment and for which IFR13 should be applied accordingly.

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 example requires the net position to be valued at the most representative exit price, and the resulting net amount to be allocated by a methodology appropriate to the circumstances. Since the net position has been valued using a single price, the most obvious allocation method would be to use the same price for both assets and liabilities thus ensuring that the net position is properly measured. It would be helpful if the example could provide an explanation of what other methods might be more appropriate and why.

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?