



European Financial Reporting Advisory Group ■

ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

Feedback to respondents – EFRAG Final Comment Letter

March 2015

Contents

Objective of this feedback statement	2
Background to the Exposure Draft	2
EFRAG's draft comment letter	2
Comments received from respondents and constituents.....	2
EFRAG's final comment letter.....	3
List of respondents	4

Objective of this feedback statement

EFRAG published its final comment letter on the Exposure Draft ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* ('the ED') on 15 January 2015. This feedback statement summarises the main comments received by the EFRAG Board and explains how those comments were considered by the EFRAG Board.

Background to the Exposure Draft

In February 2013, the IASB was asked whether the fair value of investments in subsidiaries, joint ventures and associates should reflect the measurement of the investment as a whole or of the individual financial instruments included within that investment.

On 16 September 2014 the IASB published the Exposure Draft which proposed that the 'unit of account' should be applied in two different ways to investments in subsidiaries, joint ventures and associates that are quoted in an active market:

- for recognition, the unit of account should be the investment as a whole, which determines the relationship between the investor and the investment; and

- for measurement, the unit of account should be the quoted price of the individual instrument multiplied by the number of instruments held (that is, $P \times Q$) without adjustments.

The IASB tentatively concluded that there was no better way than the mathematical product $P \times Q$ to measure the fair value of an investment in a subsidiary, joint venture or associate quoted in an active market because this provides the most reliable measurement. Further details are available on the EFRAG's [project webpage](#) and on the IASB's [project webpage](#).

EFRAG's draft comment letter

EFRAG published a [draft comment letter](#) on the proposals on 29 October 2014. In that letter, EFRAG was concerned that the IASB proposals would not always result in relevant information because where the unit of account is the investment in a subsidiary, joint venture or associate, the price paid may include control premiums or discounts and hence differ from the mathematical product $P \times Q$. In EFRAG's view the resulting financial information lacked relevance, impaired the assessment of management stewardship and did not faithfully represent the substance of the transaction. EFRAG believed that, before finalising these proposed amendments, the IASB should analyse current practices in measuring fair value of this type of quoted investments including premiums and discounts and reassess where to strike the balance between relevance and reliability.

EFRAG requested comments by 31 December 2014.

Comments received from respondents and constituents

EFRAG received comments from eight respondents which were considered during the finalisation of the EFRAG comment letter. These comment letters are available on the EFRAG [website](#). Letters received came from 6 national standard setters, one regulator and one preparer association.

The majority of respondents disagreed with the IASB's main proposal, i.e. measurement of the quoted investment on the basis $P \times Q$ (price multiplied by quantity). These respondents thought that the IASB should take time to evaluate current practices before changing them.

In addition to the comment letters, EFRAG User Panel members stated unanimously that the reliability of measuring quoted investments at $P \times Q$ was paramount, even at a loss of relevance. They added that information on premiums and discounts belonged better in the notes. This view contrasted with the views of all other constituents who gave primacy to relevance. Therefore EFRAG maintained and reinforced its recommendation that the IASB first considers how to make measurements consistent with the unit of account of the investment as a whole reliable enough.

EFRAG's final comment letter

EFRAG published its [final comment letter](#) on 15 January 2015. In that letter, EFRAG supported the clarification that the unit of account for investments within the scope of IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* is the investment in a subsidiary, joint venture or associate as a whole rather than the individual financial instruments included within that investment.

EFRAG remained concerned that determining the fair value of an investment in a subsidiary, joint venture or associate, quoted in active market as the product $P \times Q$ will not result in relevant information. EFRAG believed that the IASB should analyse current practices in measuring the fair value of this type of quoted investment and reassess where to strike the balance between relevance and reliability.

Finally, EFRAG thought that the IASB should consider developing guidance to bring fair value estimates that are consistent with the unit of account of the investment to a reasonable level of reliability, noting

that the IASB could liaise with the International Valuation Standards Council for this purpose.

List of respondents

<i>Constituents whose comment letters were considered by EFRAG Board before finalisation of the comment letter</i>	<i>Country</i>	<i>Nature</i>
European Securities and Markets Authority (ESMA)	France	Regulator
Swedish Financial Reporting Board (SFRB)	Sweden	National Standard Setter
Italian Standard Setter (OIC)	Italy	National Standard Setter
Dutch Accounting Standards Board (DASB)	The Netherlands	National Standard Setter
The Danish Accounting Standards Committee (FSR)	Denmark	National Standard Setter
Gesamtverband der Deutschen Versicherungswirtschaft (GDV)	Germany	Preparer Association
Autorité des Normes Comptables (ANC)	France	National Standard Setter
Polish Accounting Standards Committee	Poland	National Standard Setter