

10 February 2015

International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

RESPONSE TO EXPOSURE DRAFT – MEASURING QUOTED INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AT FAIR VALUE (PROPOSED AMENDMENTS TO IFRS 10, IFRS 12, IAS 27, IAS 28, IAS 36 AND ILLUSTRATIVE EXAMPLES FOR IFRS 13)

ISCA sought views from its members through a one-month public consultation and from the ISCA Financial Reporting Committee which includes experienced technical accounting professionals from large accounting firms.

We support IASB's efforts in clarifying the unit of account in the application of IFRS 13 Fair Value Measurement for quoted investments in subsidiaries, joint ventures and associates. We agree with IASB that the unit of account shall be the investment as a whole for the respective investments in subsidiaries, joint ventures and associates. However, we do not agree that the fair value of these investments should be measured as the product of the quoted price multiplied by the quantity of instruments held, without adjustments at all times. Whilst the proposed approach provides the most objective and verifiable value of such investments, this is not consistent with the economics of transactions in subsidiaries, joint ventures and associates as it does not take into account investment specific price adjustments (i.e. premiums or discounts) applicable to the investment as a whole.

Our detailed comments and responses to the questions in the ED are set out below.

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 agree that the unit of account for an investment in a subsidiary, a joint venture and an associate is the investment as a whole rather than the individual financial instruments included within that investment. As explained in BC 6 of the ED, the nature of an entity's

relationship with an investee, based on the level of control or influence, is the relevant characteristic for those investments to be included within the scope of IFRS 10, IAS 27 and IAS 28. Consequently, the unit of account is best reflected by considering the investment as whole.

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.

We do not agree that the proposed fair value measurement of quoted investments in subsidiaries, joint ventures and associates is the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), or $P \times Q$, without adjustments. This would be contrary to the principle in IFRS 13 *Fair Value Measurement* on the determination of fair value based on unit of account which is the investment as a whole in all circumstances as discussed in our response in Question 1.

Fair value is defined 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. A market participant would typically pay a premium or be given a discount (on top of the quoted price) to obtain a controlling stake in a subsidiary/joint venture or that equivalent for significant influence in an associate. Such premiums/discounts are considered a characteristic of the investment as a whole and therefore, should be accounted for in the fair value measurement of the investment. Notwithstanding that there would be judgment involved in the valuation of such premiums/discounts, this should not hinder the recognition of these premiums/discounts for a more relevant measurement of these investments.

We do not agree that the requirements in IFRS 13 paragraph 69 should be applied in the context of the measurement of investments in subsidiaries, joint ventures and associates. As proposed by IASB in Question 1, the unit of account of these investments shall be the investment as whole which is “the asset” to be valued. The investment as a whole does not have a quoted price in an active market because such an asset is usually not traded in an active market. Correspondingly, the valuation of the investment as a whole would fall under Level 2 or Level 3.

We noted that in BC 10 of the ED, IASB is of the view that the proposed fair value measurement ($P \times Q$) is more relevant, objective and verifiable when it is based on unadjusted Level 1 inputs. However, such measurement would not result in relevant financial information, nor would it faithfully represent the underlying economics of transactions.

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?

In line with our response to Question 2 above, we are of the view that the unit of account of quoted investments in a subsidiary, joint venture or associate for impairment purposes is the CGU as a whole. Similarly, as there is no active market for the CGU as whole, the CGU would fall under a Level 2 or 3 valuation as well.

Should you require any further clarification, please feel free to contact Ms Lim Ju May, Deputy Director, Technical Standards Development and Advisory, or Ms Jezz Chew, Manager, Technical Standards Development and Advisory, from ISCA via email at jumay.lim@isca.org.sg or jezz.chew@isca.org.sg respectively.

Yours faithfully,



Ms Lim Ai Leen
Executive Director
Technical Knowledge Centre and Quality Assurance