15 January 2015

The Association of
Accounting Technicians
140 Aldersgate Street
London EC1A 4HY
t: 0845 863 0800 (UK)
t: +44 (0)20 7397 3000
f: +44 (0)20 7397 3009
e: aat@aat.org.uk
aat.org.uk

IFRS Foundation
30, Cannon Street
London
EC4M 6XH

Dear Sirs

IASB EXPOSURE DRAFT – MEASURING QUOTED INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AT FAIR VALUE

AAT welcomes the opportunity to respond to the invitation to comment on the IASB Exposure Draft entitled "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value" published in September 2014.

Introduction

AAT has reservations as to the proposal for investment entities to establish the fair value of investments in quoted investments in subsidiaries, joint ventures and associates simply by reference to the quoted price and number of financial instruments held, even in an active market. Such holdings, by definition, place the investing entity in a position of control or significant influence, probably with a view to achieving additional commercial returns compared to an investor without such influence, and possibly to produce benefits for other investments under its influence, such as by trading arrangements with other entities under common control. The ultimate realisation of such holdings is probably not expected to be effected through the public markets but more likely to be by a private sale or placing.

While using the quoted price in an active market as a basis for evaluating fair value has some apparent merit as a potential realisable value, there are shortcomings in that it reflects a market value derived from a population of potential buyers and sellers who are not as fully informed as an investment entity having influence or control, but also reflects levels of public investor confidence generally, as well as the effect of competition from alternative investments available to investors and interest rates generally. Quoted prices can be volatile in the short term and are influenced by investment supply and demand that may represent a realisable value at a point of time only. Whereas the investor in subsidiaries, joint ventures and associates is likely to be anticipating a long term investment with a planned realisation at the end of the period of investment. The quoted price at the end of any accounting period is unlikely to have any relevance to the amount expected to be realised ultimately.

Consequently, AAT has sympathy with the opinion of the dissenting Member of the IASB as reported in paragraph DO2 of the Exposure Draft. It is the view of AAT that the basis for establishing a fair value of investments in subsidiaries, joint ventures and associates should reflect the investing entity's expectations for ultimate realisation but exercising prudence where realisation is not anticipated in the short-term foreseeable future. Until such time as realisation of the investment is foreseen, the fair value should be evaluated on the basis of returns achieved by the investing entity, both from dividends or interest distributions made to all investors and also any commercial returns obtained as a result of exercising influence.

Furthermore, for the benefit of readers of financial statements in interpreting the results disclosed, an investing entity should be required to disclose the basis adopted for the evaluation of fair values.

It is in the light of these opinions that AAT has provided comments on the five questions raised 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?

AAT agrees that the unit of account should be the investment as a whole rather than the individual financial instruments included within that 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 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 amendment? 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.

As explained in the introduction above, AAT does not agree that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be the product of the quoted price multiplied by the quantity of financial investments held without adjustment.

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?

AAT agrees with the principal that the fair value measurement of a quoted CGU should be aligned with the fair value measurement of a quoted investment, but on the basis as set out in the introduction above.

Question 4 – Portfolios
The IASB proposes to include an illustrative example to IFR 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?

AAT is concerned that the proposed illustrative example covering the application of paragraph 48 of IFRS 13 is only helpful to a reader's understanding in instances where the quoted price of the investments is being used as the basis for evaluating fair value. If the approach suggested by AAT in our introduction (above) was to be adopted, it would be helpful to preparers of financial statements to provide an illustrative example of an appropriate disclosure note outlining the basis of establishing the fair value of investments.

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 components 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?

AAT agrees with the transition methods proposed in paragraphs BC30-BC35 both as regards the treatment of opening carrying amounts of quoted investments and the timing of the introduction of the provisions of the Exposure Draft albeit with a wish to see a different approach to establishing fair values.

Conclusion

In the opinion of AAT, the use of a quoted price in an active market is not an appropriate basis for establishing the fair value of investments in subsidiaries, joint ventures and associates held by investing entities on the basis that the quoted price at the end of any accounting period is not likely to have any relationship to the ultimate realisable value of those investments given the investing entity's ability to exercise influence over the activities of its investment entities and the ultimate realisation of the investments through a quoted market being unlikely.

About the AAT

AAT is a professional accountancy body with over 49,800 full and fellow members and 87,700 student and affiliate members worldwide. Of the full and fellow members, there are 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types. (Figures correct as at 30 November 2014)

AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

Thank you for the opportunity to respond to the invitation to comment on the IASB Exposure Draft entitled "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value".

Further engagement

If you have any questions or would like to discuss any of the points in more detail then please contact the AAT at:

email: consultation@aat.org.uk and aat@palmerco.co.uk

telephone: 020 7397 3088

Aleem Islan
Association of Accounting Technicians
140 Aldersgate Street
London
EC1A 4HY

Yours faithfully

Adam Harper
Director of Professional Development

t: +44 (0) 20 7397 3075
f: +44 (0) 20 7397 3009
e: adam.harper@aat.org.uk