

Ms Françoise Flores  
European Financial Reporting  
Advisory Group (EFRAG)  
35 Square de Meeûs  
1000 Brussels, Belgium

**Ref: The IASB's Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*: Proposed amendments to IFRS 10, IFRS 12, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13**

Dear Ms Flores,

*DEAR FRANCOISE,*

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to the EFRAG's due process. ESMA has considered EFRAG's draft comment letter to the IASB's Exposure Draft (ED) *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*: Proposed amendments to IFRS 10, IFRS 12, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13. We are pleased to provide you with the following comments with the aim of improving the enforceability of IFRSs and the transparency and decision usefulness of financial statements.

ESMA agrees that the proposed clarifications correctly apply the principles in IFRS 13 *Fair Value Measurement* that result in objective, enforceable and verifiable financial information. In some circumstances, however, we are concerned that application of these principles can lead to counterintuitive outcomes. While agreeing with the proposed amendments as a short-term solution, ESMA urges the IASB to explore further whether there are any alternatives to the "P times Q" approach, as a part of the upcoming Post-Implementation Review of IFRS 13. We do not believe that such alternative could be found as part of this narrow-scope project.

Furthermore, ESMA believes that the IASB should consider providing a clarification of the unit of account for fair value measurement in other Standards, such as IFRS 3 *Business Combinations* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Our detailed comments on the ED are set out in the Appendix I to this letter. Please do not hesitate to contact us should you wish to discuss all or any of the issues we have raised.

Yours sincerely,



Steven Maijoor  
Chair

European Securities and Markets Authority

## Appendix I – ESMA’s detailed answers to the questions in the ED

### **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? Do you agree with the proposed amendment? Why or why not? If not, what alternative do you propose?*

1. ESMA agrees that the unit of account for investments within the scope of IFRS 10, IAS 27 and IAS 28 is the investment as a whole, instead of the individual financial instruments that make up the investment. We agree that the clarification should be done in the respective Standards reflecting the nature of the investments and the level of control or influence these investments convey.
2. Nonetheless, we believe that the proposed clarification regarding the unit of account should be included directly in the body of the respective Standard in order to be authoritative and enforceable. ESMA is of the view that the Basis for Conclusions should only reflect the arguments that the IASB considered in forming its views rather than providing clarifications of the requirements included in the Standard.

### **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.*

3. While ESMA agrees that the proposed clarifications are the correct application of the underlying principles in IFRS 13, and result in objective, enforceable and verifiable financial information, we acknowledge that application of these principles can lead in some circumstances to counterintuitive outcomes. We are concerned that the proposed measurement method might disregard the unit of account that is normally reflected in a price that market participants are willing to pay on the date of the transaction. This could lead to an immediate recognition of a mechanical *profit or loss* subsequent to the acquisition of a controlling stake in a listed company. However, ESMA acknowledges

that the way the control premiums and liquidity discounts are reflected in the exit price of the stake is not observable on a continuous basis.

4. Therefore, in absence of an alternative that could be based on objectively measurable and verifiable inputs, ESMA accepts measuring the fair value of a quoted investment in a subsidiary, joint venture or associate using the mathematical product  $P \times Q$ . Nonetheless, ESMA urges the IASB to consider whether there are any potential alternatives to the  $P \times Q$  approach that provide reliable financial information (implying significant impact on IFRS 13) as part of the upcoming Post-Implementation Review of IFRS 13.
5. Although ESMA agrees that the proposed clarification is the logical application of principles underpinning IFRS 13 with regards to the use of Level 1 inputs, we suggest that the IASB clarifies the wording of paragraph 69 of IFRS 13, as we acknowledge that some market participants perceive a possible conflict stemming from the current drafting of the requirements.
6. Furthermore, we have identified a number of occasions where amendments to other Standards should be considered in order to achieve consistency and clarify the intent of the IASB. In our view, any amendments should also consider providing guidance on the unit of account in relation to transactions that result in the loss of control over a subsidiary (paragraph 25(b) of IFRS 10 *Consolidated Financial Statements*) and business combinations achieved in stages (paragraph 42 in IFRS 3).
7. Specifically, ESMA believes that the IASB should also consider consequential amendments to IFRS 5<sup>1</sup> in relation to the clarification of the interaction of the unit of account defined in IFRS 5 and fair value measurement (paragraphs 8A and 15 of IFRS 5), and IFRS 3 related to clarification how the proposed amendments interact with the measurement of non-controlling interest at fair value (paragraph 19 of IFRS 3).
8. While ESMA appreciates the arguments included in paragraph BC 14 of the ED that any amendments to IFRS 3 would be better dealt with as part of the post-implementation review of IFRS 3, ESMA would encourage the IASB to address all potential issues related to the unit of account together and the same time. ESMA is concerned that post-implementation review of IFRS 3 could lead to a broader re-evaluation of IFRS 3 requirements that can take considerable time and resources.
9. Finally, ESMA questions whether the proposed amendments to IFRS 12 are needed as they only clarify the additional guidance on measurement requirements that the IASB

---

<sup>1</sup> For further description of the issue please refer to paragraphs 39-47 of ESMA submission to the IFRS IC related to IFRS 5 - Agenda item request - Issues related to the application of IFRS 5 – Non-current as-sets held for sale and discontinued operations, ESMA, Paris, 2 December 2013, ESMA/2013/1773, [http://esma.europa.eu/system/files/2013-1773\\_esma\\_letter\\_to\\_the\\_ifrs\\_ic\\_-\\_ifrs\\_5\\_package.pdf](http://esma.europa.eu/system/files/2013-1773_esma_letter_to_the_ifrs_ic_-_ifrs_5_package.pdf)

proposes to add to IFRS 10, IAS 27 and IAS 28. If the IASB believes that these amendments are useful, it should explain its rationale in the Basis for Conclusions.

### **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?*

10. ESMA agrees with these amendments as they ensure consistency between the fair value measurements of quoted cash-generating units and those of other quoted instruments held by an entity.

### **Question 4—Portfolios**

*The IASB proposes to include an 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?*

11. ESMA agrees that the proposed illustrative example clarifies the use of the portfolio exception in fair value measurement.

### **Question 5—Transition requirements**

*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?*

12. ESMA disagrees with the limited retrospective application of the proposed amendments to IFRS 10, IAS 27 and IAS 28. For the sake of clarity and comparability of information for all periods presented, ESMA proposes full retrospective application of these proposed amendments as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
13. ESMA believes that because the measurement is based on a Level 1 fair value measurement, full retrospective application should not result in the use of hindsight.
14. ESMA agrees with the prospective application of the amendments to IFRS 12 and IAS 36, mainly to avoid the reversal of any previous impairment of goodwill identified in the carrying amount of the investments in accordance with IAS 36.
15. In general, ESMA strongly believes that amendments to the Standards that are not required to be applied prospectively should follow general principles in IAS 8 which requires retrospective application. ESMA believes that any modification of the retrospective application in the transition requirements should be clearly justified, e.g. by the use of hindsight or expected impracticability of restatements to prior periods.