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Re: Draft comment letter on ED *Measuring quoted investments in subsidiaries, joint ventures and associates at fair value*

Dear Françoise,

We are pleased to have the opportunity to provide our comments to the exposure draft *Measuring quoted investments in subsidiaries, joint ventures and associates at fair value,* included in the appendix.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò

APPENDIX

Question 1

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, as explained in the Basis for Conclusions of the proposed amendment, 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. Although the unit of account represents a mere explanation of the concepts underpinning the measurement choice, we believe that the IASB should consider whether it may be clarified also in the body of the standard. This would help to clarify the application of the amendment also for preparers that may not have access to the Basis for Conclusions, because those are not part of the text endorsed in EU law.

Question 2

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.

In relation to the IAS proposal 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, we have the following concerns:

- With this amendment the IASB is creating a distinguish between the unit of account (investment is considered as a whole) and the unit of measurement (investment is considered as a set of individual financial instruments). We believe that the introduction of an exception to the consistency between unit of account and unit of measurement (as proposed in the ED) is not conceptually sharable.

- Determining the fair value measurement of an investment in a subsidiary, joint venture or associate, quoted in active market as the product P × Q will not result in relevant information. 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 consequently differ from the mathematical product P × Q.

- If the unit of account is the investment as a whole, the measurement of that item could be done through a PxQ formula when the price of the single quoted share is effected by the values of the premiums or discounts that a potential investor on the investment in its entirety would consider. In theory the market value of the listed shares may be representative of the fair value of investment as a whole in the circumstances in which the controlled entity manages its assets at the highest and best use. Therefore we believe that the market capitalization is an input that should always be considered in measuring the fair value of an investment in a listed entity. Obviously, not always is an entity able to manage its resources at the highest and best use. Then, not always is the market value of the shares representative of the fair value of the investment as a whole. A potential buyer may be interested in paying more than the market value of the shares to acquire the control of the entity and to gain the value of managing resources at their highest and best use.

- The reasons explained above should be demonstrated by the analysis of the differences in share market values before and after public tender offers. To this end we have analyzed 185 public tender offers completed in the main European Financial Market from 2009 to nowadays. The table below summarizes the results of this statistical analysis.

Financial Market	Number of transactions	Average of One Day Premium (%)	Average of Two Weeks Premium (%)	Average of 30 Days Premium (%)	Average of 90 Days Premium (%)
Milan (Italy)	12	19,07	29,45	26,40	42,86
Amsterdam	11	32,29	36,83	45,76	46,64
Brussels	13	23,72	26,84	28,04	47,59
Paris	61	30,01	31,80	38,67	42,72
London	78	34,22	36,74	43,13	61,76
Stockholm	37	30,21	34,82	37,46	69,03
Oslo	33	28,19	29,39	31,18	43,78
Swiss SIX Exchange	12	24,46	28,16	33,32	40,58
Frankfurt	20	18,49	24,51	31,60	39,51
OTHER	67	24,59	28,00	30,56	41,50
Total	**344**	**28,35**	**31,61**	**36,05**	**49,78**

The table shows, in addition to the number of transactions per country, the percentage difference between the price per share offered by the acquirer and the target's closing stock price at different dates (one day, two weeks, 30 days, 90 days) prior the announcement date. The difference in percentage is calculated by the following formula (offer-close) / close * 100. The above analysis shows that in fact a substantive difference exists between the prices of shares paid for acquiring control and the prices that are normally listed in the market in the absence of a public tender offer.

- We also note many advances have been made in the US to evaluate the implied premium in the fair value of a controlling interest. The AICPA Accounting and Valuation Guide *"Testing Goodwill for Impairment"* (2013) devotes a section to the comparison between the fair value of an entity in the perspective of a person who has control and the market capitalization and states that when the difference between the fair value and capitalization expands, adequate external evidence is needed (the universe of likely buyers, on the activity level of M & A in the industry, the existence of at least two bidders to support the control premium). For this reason we note that the introduction of this amendment would reduce comparability (under this profile) of the financial statements prepared under US GAAP and IAS/IFRS with confusion on the part of users.
- Finally we concur with EFRAG in soliciting the IASB to 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. We suggest the IASB clarifies the principle underpinning the fair value measurement of investments within the scope of IFRS 10, IAS 27 and IAS 28 that are listed in an active market, establishing the circumstances in which the quoted prices are representative of the value of the share of the investment as a whole.

Question 3

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?

With reference to this question, please refer to what has already been stated in the answer to question 2.

Question 4

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?

In view of what has already been shown in previous answers we support the illustrative example.

Question 5

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?

With the exception of proposed amendments to IAS 36, OIC recommends retrospective application of the requirements, as this would result in comparable information for all reporting periods presented.