GDV
DIE DEUTSCHEN VERSICHERER

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Exposure Draft ED/2014/4: Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value
Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13

Dear Mr Hoogervorst

The German Insurance Association (GDV) takes the opportunity to comment on the 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 and IAS 36 and Illustrative Examples for IFRS 13" (ED/2014/4) as issued by IASB on the 16 September 2014 for public consultation. We understand that the suggested amendments are mainly intended to clarify the unit of account when measuring investments in subsidiaries, joint ventures and associates at fair value when those investments are quoted in an active market ('quoted investments').

In general, we have the strong view that the use of an appropriate unit of account is absolutely decisive for the validity and relevance of information provided by financial statements to users. Hence we support the efforts undertaken by IASB to ensure a globally consistent application of principles of IFRS with regard to this essential aspect and thus to safeguard a level playing field for all reporting entities applying IFRS.

We agree with the amendment proposed in the ED to clarify that the **unit of account** for investments under consideration is the **investment as a whole**. However, we are concerned that the ED provides more than just a "clarification". Therefore, we recommend that the ED's **suggested approach** for how the fair value of quoted investments needs to be determined should be **only a rebuttable assumption** and **not an absolute valuation rule**.

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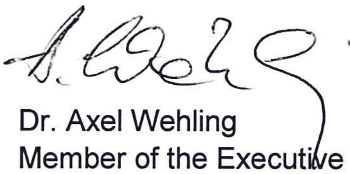
Otherwise the proposal would cause a substantial change in existing accounting policies. This change would however not always result in a fair value that is relevant to users. Consequently, we urge the IASB to explicitly clarify the rebuttable character of the suggested amendments in Questions 2 and 3, explicitly considering the case of investments quoted in active markets.

For our comments and our rationale in more detail we kindly refer to our responses to specific questions in the annex. If you like to discuss our response in more detail, we would be delighted.

With best regards



Dr. Axel Wehling
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Annex

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 are supportive of the conclusion reached by the IASB for the ED and agree with the rationale provided in paragraphs BC3-BC7. We fully share the view that the investment as a whole constitutes the appropriate unit of account. It would definitively neglect the economic reality and be against the nature of the investment if the individual financial instruments included within the investment would be assessed as the unit of account in cases under consideration.

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 × 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 disagree with the proposed amendments. We recommend a modification to provide an explicit clarification of the rebuttable character of the suggested amendments.

Our rationale

In general, we acknowledge the proposed amendments and we can follow the rationale as expressed in the BC10. However, we strongly believe that the amendments when implemented as suggested in the ED would require a substantial change in existing accounting policies and would cause

significant unintended consequences (i.e. potential inconsistency between initial and subsequent measurement approach). And we do not share the view that the proposed amendment is more acceptable because it would have - in the IASB's assessment - "limited effects" only (BC 12).

In particular, there might be cases in which the reference to quoted prices for single financial instruments that make up the investment might lead to a departure from the usually expected or the fundamental value of the investment as a whole in a significant way. This is especially true when the difference can be identified and explained in a reasonable and auditable way (i.e. taking into consideration premium or discount on the value of the investment as a whole). This is true as the proposed absolutely mechanical valuation rule would fully ignore the possibility of the potential departure of the total value of the investment as a whole from that one being outcome of the suggested mathematical calculation (P × Q) without any adjustment.

Finally, the suggested mechanical approach would completely override the conclusion reached in first place with regard to the appropriate unit of account which is rightly the investment as a whole. Therefore, we believe that the ED provides more than just a "clarification" only. In our assessment, the suggested mathematical approach would require a substantial change in existing accounting policies (e.g. in cases of purchase respective holding of blocking minorities or controlling majorities).

We recommend modifying the ED's suggested approach and to implement it as a rebuttable assumption only. It would better address the economic reality in which investments under consideration are valued as a package with a premium or with a discount. Otherwise the danger would arise that the artificially constrained accounting measurement approach might lead to a significant departure from the economic reality which should be presented in financial statements to safeguard their relevance for users. Also the fair value measurement needs to be calculated in accordance with the economic reality to be relevant for users.

Consequently, we urge the IASB to modify the proposal and to explicitly clarify the rebuttable character of the suggested amendments. It would also address the valid concerns as expressed by one of the Board members in his dissenting opinion (paragraph D02). We share the related consistency concerns.

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 × 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?

We refer to our critical comments and our recommendation with regard to Question 2 above as we believe that consistency between both areas is essential. In addition, we recommend explicit clarification that the use of the alternative measurement basis "value in use" (paragraph 6 of IAS 36) when determining the recoverable amount is not intended to be excluded by the suggested amendment or any potential modification of it.

Question 4 – Portfolios

The IASB proposes to include an illustrative 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?

We do not have any critical comments on the proposal with regard to the additional illustrative example on the application of the portfolio exception (paragraph 48 of IFRS 13). We recommend however to amend the example to demonstrate how the required allocation (paragraph IE47G) *could* be performed.

In addition, we note that in our view the suggested example refers to a different dimension of the unit of account issue as those raised above.

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 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?

We agree with the transition provisions as proposed in the ED.