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

Dear Sirs:

Re: 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)

This letter is the response of the Canadian Accounting Standards Board (AcSB) to the International Accounting Standards Board's (IASB) 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)," issued in September 2014.

The AcSB is Canada's national accounting standard setting body, which has adopted a strategy of importing IFRSs into Canada for publicly accountable enterprises. The AcSB consists of members from a variety of backgrounds, including financial statement users, preparers, auditors and academics. Additional information about the AcSB can be found at www.frascanada.ca.

The AcSB consulted with Canadian financial statement preparers, auditors and securities regulators on the Exposure Draft proposals. This letter represents the views of the AcSB after considering the input received from these consultations as well as input from individual members of the AcSB and its staff. However, they do not necessarily represent a common view of the AcSB, its committees, or staff. Formal positions of the AcSB are developed only through due process.

We commend the IASB for its efforts to address standards implementation issues.

We agree with the clarification 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 making up the investment. However, we disagree with the conclusion that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should always be the product of the

quoted price (P) of the share multiplied by the quantity of financial instruments held (Q), or P × Q, without adjustments. In these circumstances, we think that mandating the use of unadjusted Level 1 inputs in order to result in measurements that are objective and verifiable comes at the expense of not accurately reflecting marketplace realities. Such an approach fails to consider the characteristics of the asset being measured as a result of not using a consistent unit of account for measurement purposes. Consequently, we agree with the dissenting opinion of Mr. Edelmann in the Exposure Draft.

Responses to the questions posed in the Exposure Draft are provided in the Appendix to this letter.

We would be pleased to elaborate on our comments in more detail if you require. If so, please contact me or, alternatively, Rebecca Villmann, Director, Accounting Standards (+1 416 204-3464 or email rvillmann@cpacanada.ca) or Nicky Lahner, Principal, Accounting Standards (+1 416 204-3348 or email nlahner@cpacanada.ca).

Yours truly,

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APPENDIX

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 investments within the scope of IFRS 10, IAS 27 and IAS 28 is the investment as a whole, for the reasons identified in paragraphs BC3 to BC7 of the Exposure Draft. However, we think that the IASB's conclusion regarding the unit of account should be clarified in the Standards rather than only in the Basis for Conclusions. Including this clarification in non-authoritative material rather than in the Standards themselves may result in the important underlying unit of account concept being inconsistently applied in practice. Moreover, unless the IASB's conclusion on the appropriate unit of account is made explicit in the Standards themselves, the questions the IASB has received in this area may persist.

If the IASB decides against amending the Standards for this point, the Basis for Conclusions for the final amendments resulting from this project should state clearly why the IASB found it unnecessary to do so.

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 do not agree that the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should always be the product of the quoted price (P) of the share multiplied by the quantity of financial instruments held (Q), or P × Q, without adjustments.

The IASB's proposal applies faithfully the fair value hierarchy in IFRS 13 in terms of reflecting Level 1 observable inputs when they are available. However, fair value measurement at P × Q, without adjustments appears to use a different unit of account for fair value measurement purposes (i.e., the individual financial instruments making up the investment) than the one the IASB concluded is appropriate for investments within the scope of IFRS 10, IAS 27 and IAS 28 (i.e., the investment as a whole). We think that giving priority to the use of unadjusted Level 1 inputs in order to result in

measurements that are objective and verifiable comes at the expense of not reflecting accurately the characteristics of the asset being measured and, thus, the price market participants would receive for selling that asset. Our view is best illustrated by observing the pricing of an acquisition of a controlling interest in the market place, which almost always results in the inclusion of a control premium in the transaction price. A more accurate reflection of the asset's key characteristics would be achieved by using a consistent unit of account, which we agree is the investment as a whole, for both the identification of investments within the scope of IFRS 10, IAS 27 and IAS 28 and the fair value measurement of those assets.

The stakeholders we consulted on the Exposure Draft proposals agree with our view. They told us that, in many cases, P × Q, without adjustments will either overstate or understate the investment's fair value because such a measurement does not take into consideration marketplace factors affecting the pricing of the investment as a whole. They also thought that:

(a) IFRS 13 provides sufficient guidance to arrive at a more meaningful measurement result; and

(b) investment entities already incorporate these marketplace factors for Net Asset Value (NAV) pricing purposes and, therefore, have the information they need to apply the guidance in IFRS 13.

To illustrate the view that a P × Q measurement, without adjustments may fail to reflect marketplace realities, stakeholders provided the example of an investment entity with an investment in a private company that ultimately goes public. When the investment is initially acquired, the fair value measurement based on Level 3 inputs would factor in adjustments taking into consideration the level of control or influence (which, as noted in paragraph BC6 of the Exposure Draft, is a key characteristic of the investment). However, when the entity becomes public, the fair value measurement of the investment would be restricted to a P × Q valuation. Stakeholders view such a sequence of events as the investment entity having to change from a logical measurement methodology to one that makes less sense, especially in cases where, as noted above, the entity already performs a more comprehensive measurement for NAV pricing purposes.

Paragraph BC12 of the Exposure Draft suggests that the IASB's P × Q, without adjustments proposal will have limited effects. Stakeholders consulted expressed a contrary view. They noted that, even though the situation may not often occur, when it does, the financial effect is likely to be significant, especially for entities such as pension funds, private equity and hedge funds.

To summarize, we agree with the dissenting opinion expressed by Mr. Edelmann in the Exposure Draft that:

(a) the unit of account for measurement should be the same unit of account the IASB concluded was appropriate for investments within the scope of the Standards being clarified (i.e., the investment as a whole, because that is the asset being measured at fair value, rather than the financial instruments making up the investment); and

(b) the Level I input for the individual financial instruments should not be the sole determinant of the fair value of the investment. Instead, the measurement model should incorporate the price differences between the investment as a whole and the underlying individual financial instruments.

We think that the measurement methodologies in IFRS 13 provide appropriate guidance to determine the fair value of the investment as a whole. Therefore, the amendments identified in this question are not needed.

Lastly, regardless of how the IASB concludes on this issue, we encourage it to consider making similar amendments to IFRS 3 Business Combinations to clarify the fair value measurement of non-controlling interests or previously held equity investments quoted in an active market. We acknowledge the IASB's reasoning for not including the latter amendments as provided in paragraph BC14 of the Exposure Draft. However, we think that not adding these amendments may result in financial information that is not comparable at least until the post-implementation review of IFRS 3 may (if at all) result in changes to the guidance in that Standard.

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 disagree with this proposal for similar reasons to the ones given in our response to Question 2. We think that the appropriate unit of account in applying IAS 36, in the case of a CGU that is a quoted investment in a subsidiary (excluding a subsidiary that is consolidated), or an associate or joint venture that applies the equity method of accounting, is the investment as a whole. In these instances, we think that fair value used to determine the recoverable amount of a CGU should take into account the marketplace considerations referenced in our response to Question 2. The resulting fair value measurement would be more representative of the price market participants would receive to sell the investment. In addition, we think that, in respect of a subsidiary that is consolidated and is itself a CGU, the appropriate unit of account would be the CGU. The CGU is represented by the group of assets and liabilities operating together to generate cash inflows, irrespective of whether it is quoted in an active market.

We agree that disposal costs should be deducted from the fair value amount in order to measure the recoverable amount of a CGU that is determined on the basis of fair value less costs of disposal.

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 disagree with the proposed illustrative example to IFRS 13. As explained in our response to Question 2, for investments within the scope of IFRS 10, IAS 27 and IAS 28, the use of unadjusted Level 1 prices does not necessarily result in a fair value measurement that accurately reflects the price market participants would receive to sell the investment. This fundamental point aside, we think that the illustrative example oversimplifies the facts presented to such an extent that it does not accurately reflect, and could inadvertently change, existing practice when, in fact, IFRS 13 permits the use of judgment when determining the price that is most representative of fair value.

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 proposed transition provisions for the reasons identified in paragraphs BC31 to BC35 of the Exposure Draft.