Institute
of Certified
Public Accountants
in Israel
לשכת
רואי חשבון
בישראל

1906/36823

January 18, 2015

International Accounting Standards Board
30 Cannon Street
London EC4M6XH
United Kingdom

Dear Sir/Madam,

Re: **Exposure Draft – Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value**

We appreciate the opportunity to respond to the Exposure Draft "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value" issued by the International Accounting Standards Board (IASB). This response represents the views of the Institute of Certified Public Accountants in Israel.

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 alternatives do you propose?

Response

We agree with the IASB's conclusion that the unit of account for the type of investments mentioned above is the investment as a whole rather than the individual financial instruments that comprise it. This conclusion is consistent with:

(a) the economics of transactions in subsidiaries, joint ventures and associates, where in many cases investors are willing to pay in excess of the quoted market

רחוב מונטפיורי 1
בית לשכת רואי חשבון
ע"ש קסירר
ת.ד. 29281
תל אביב 61292
טל. 03-5116666
פקס. 03-5116665
אתר: www.icpas.org.il
E-mail: cpas@icpas.org.il

value for a bulk of shares which entitles them with control, joint control or significant influence; and

(b) requirements in other IFRSs which account for these investments as a whole. For example, this is evident in IAS 28.42 which states that "…the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 as a single asset".

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 x 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.

Response

We do not agree with the proposed amendment. We believe that it would be inconsistent to determine, on the one hand, that the unit of account for an investment in a subsidiary, joint venture, or associate is the investment as a whole and, on the other hand, that the fair value measurement of such an investment would be based on the quoted price of the individual instruments that comprise it.

Real-life market transactions and academic studies show that investors usually pay extra for control interests or significant influence interests (commonly referred to as "control premium" or "significant influence premium"). Therefore, when the investment is measured at fair value the result of measuring the fair value at P x Q would be recognizing immediate losses ("day 1 loss") on what is in fact a transaction that reflects the genuine market value.

Furthermore, we believe that the proposed amendment would be inconsistent with IFRS 13. Paragraph B2 of IFRS 13 states that:

"The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

(a) the particular asset or liability that is the subject of the measurement (**consistently with its unit of account**)…"

Paragraph 69 of IFRS 13 states that:

"An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 11 and 12). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (eg a control premium or non-controlling interest discount). However, **a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the IFRS that requires or permits the fair value measurement** (see paragraphs 13 and 14). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 80) **rather than as a characteristic of the asset or liability (eg a control premium when measuring the fair value of a controlling interest)** are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (ie a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 79."

In our view, once we have established that the unit of account is the investment as a whole (i.e., the investment as a whole is "the asset" being valued), IFRS 13 requires that the measurement would take into account the characteristics of the asset (such as control or significant influence rights, as mentioned in paragraph 69 above).

Although paragraph 69 states that "In all cases, if there is a quoted price in an active market (ie a Level 1 input) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value…", we believe that since the unit of account is the investment as a whole (i.e., "the asset" is the investment as a whole for applying IFRS 13), one cannot argue that it has a quoted price in an active market because the whole bulk of shares (as such) is not traded in an active market.

We understand that there might be a rationalization why measuring such investments at P x Q is not necessarily inconsistent with the conclusion that the unit of account is the investment as a whole. However, it is clear that these two decisions will be regarded intuitively by most people as a major conflict and inconsistency, which is bound to damage the understandability of IFRSs in this area.

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 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 alternatives do you propose?

Response

In line with our response to question 2 above, we believe that for the purpose of impairment testing the unit of account is the CGU as a whole, and hence should be measured as such (i.e., there is no active market for the CGU as a whole). Although the recoverable amount is the higher of value in use and fair value less costs to sell, this does not justify measuring fair value at P x Q, which is inconsistent with the relevant unit of account.

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 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 method proposed (see paragraphs BC30-BC35)? If not, why and what alternatives do you propose?

Response

According to our measurement approach, as described in our responses to questions 2-3 above, it is reasonable to apply the transition method as proposed, for practical reasons only.

However, if the measurement approach proposed by the IASB ("P x Q") is nonetheless adopted, we do not agree with the transition method proposed. Since there is no difficulty to obtain quoted prices for previous dates, we believe that a full retrospective application is appropriate and required in this case. This would allow appropriate comparability between reporting periods with very low costs to preparers.

An additional material issue

Paragraph BC14 of the ED states that:

"…The IASB also considered making similar amendments to IFRS 3 Business Combinations to clarify that the fair value measurement of non-controlling interests or previously held equity investments quoted in an active market (quoted non-controlling interests and previously held quoted equity investments) should be the product of the quoted price multiplied by the quantity of financial instruments held by the quoted non-

controlling interests or in the previously held quoted equity investment, without adjustments. **The IASB however concluded that these potential amendments would be better dealt with as part of the Post-implementation Review of IFRS 3 and, therefore, this Exposure Draft does not propose to amend that Standard.**"

We do not believe that such approach is appropriate or reasonable. In our view, the measurement of fair value for quoted investments in subsidiaries, joint ventures and associates shall be aligned for all the situations in which IFRSs require measuring such investments at fair value. We do not believe that it is appropriate or reasonable to leave the fair value measurement of such investments, in the area described in BC14 above, open-ended for an undefined period of time until IFRS 3 will be reviewed.

Sincerely yours

Adir Inbar
Chair of the Professional Council

Arnon Ratzkovsky
Chair of the Financial Reporting Standards Committee

Copy: David Goldberg, President of the Institute of Certified Public Accountants