SwissHoldings
Verband der Industrie- und Dienstleistungskonzerne in der Schweiz
Fédération des groupes industriels et de services en Suisse
Federation of Industrial and Service Groups in Switzerland

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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Comment Letter on Exposure Draft – Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

Dear Sir/Madam,

SwissHoldings, the Swiss Federation of Industrial and Service Groups in Switzerland, represents 58 Swiss groups, including most of the country's major industrial and commercial enterprises. We very much welcome the opportunity to provide comments to the ED on measuring quoted investments in subsidiaries, joint ventures and associates at fair value. Our response (in the appendix) has been prepared in conjunction with our member companies.

Yours sincerely

SwissHoldings
Federation of Industrial and Service Groups in Switzerland

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cc SH Board

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APPENDIX

ANSWERS TO SPECIFIC QUESTIONS IN INVITATION TO COMMENT

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 with this proposal.

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 consider that this ED is heavily influenced by the need of the financial services industry to have guidance on how they should value a large block of shares. We also note that at present this ED does not extend to valuations in business combination situations. Despite this, we nevertheless consider that a holder of the investment in a subsidiary, JV or associate needs to consider related implications of disposing of a large block of shares to a market participant. We therefore strongly disagree with this proposal as currently written.

IFRS 13.9 defines fair value as the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. This should be applied to the unit of account of the whole block of shares. If this value is different from selling a marginal amount of shares that is too small to move the share price, this should be taken into account. In this regard, we agree with the position of Mr. Edelmann outlined in DO2.

While IFRS 13.61 (referred to in BC10 and BC19 of the amendment) requires the maximisation of the use of observable inputs, we consider that the fundamental definition of fair value “as the price that would be received” should take precedence in order to arrive at a fair presentation, and therefore drives to the application of adjustments where justified. The quoted market for a single share used in a PxQ valuation can only be indicative of the value for a total block of shares which is the unit of account to be measured when valuing quoted subsidiaries, joint ventures and associates. We suggest that there is a rebuttable presumption that the PxQ approach is the appropriate approach to use, however, we consider that this price can be adjusted to reflect that a market participant would often pay either a premium or discount to this price based on other factors that are not reflected in the price for a single quoted share.

Factors leading to a discount would be the impact on the free float which would result from disposing of a large block of a non-controlling interest (such a discount would be reflective of the anticipated fall in the quoted share price should a large block be placed on the market). This is separate from the issue where “normal daily trading volume is not sufficient to absorb the quantity held by the entity” mentioned in IFRS 13.69 and 80. In the case we are considering, the market price represents the impact of a demand/supply imbalance, which the very act of selling a large holding would correct, and the price obtained would therefore not match the pre-disposal price of disposing of a small number of shares.

Factors leading to a premium would be the ability of a market participant to achieve synergies by acquiring a controlling interest in a new subsidiary or obtaining significant influence/joint control. Similarly, if the non-controlling interest in an associate represents a hurdle for another party achieving its full synergies then this would justify placing a valuation premium on this interest. The current requirements of IFRS 13.69 consider this to be a “characteristic of the asset”, which must be considered when selecting the inputs as required by IFRS 13.11.

Guidance should therefore be provided as to how these premiums or discounts can be estimated based on recent market or other observed inputs.

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?

As indicated in our answer to question 2 above, we strongly disagree with this proposal for the factors already mentioned above. Furthermore, the use of a P x Q approach could lead to day 1 impairment of any control premium, which would not present an accurate picture of the value of a newly acquired business.

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 categorized 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?

Since we strongly disagree with the proposed amendments in this ED we also disagree with the proposed illustrative example to IFRS 13.

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?

Should this ED be adopted we agree that prospective application is appropriate.