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Brasília, Distrito Federal – Brazil
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January 6, 2015

IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Subject: Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value
Reference: ED/2014/4

Dear Board Members,

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)[1] welcomes the opportunity to respond to this exposure draft.

We are a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidance for Brazilian companies.

We are pleased to continue to support the Board's efforts to provide greater transparency in financial reporting and to address the needs of financial statements users. While 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, we strongly disagree that the fair value measurement of quoted investments in subsidiaries and joint ventures should be the product of the quoted price (P) multiplied by the quantity held (Q), without adjustments.

In our view, the proposal contained in ED would result in a complete lack of interaction between Level 1 inputs and the unit of account for investments in subsidiaries and joint ventures. This would ultimately contradict the definition of 'fair value' since the outcome of the approach proposed would not reflect the price that would be received by an entity to sell an investment.
If the unit of account is the investment in a subsidiary, joint venture or associate, the fair value measurement should reflect the characteristics of the asset (control, joint control, significant influence). Therefore, exit price should include control premiums or discounts, because, if not, it would simply reflect the fair value of the underlying financial instruments and it would not faithfully represent the value of the entire investment, resulting in potentially misleading information.

Our detailed responses to the specific questions posed in the ED are set forth in the following pages.

1 The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC (National Association of Capital Market Investment Professionals and Analysts), BMFBOVESPA (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Auditors).

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?

Answer to question 1

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 rather than the individual financial instruments included within that investment because the determination of the unit of account should consider the nature and characteristics of the asset or liability, which in this case is the entity's relationship with an investee, based on the level of control or influence in that investee. From our perspective, the fact that the investment is measured at fair value should not affect its unit of account. Instead, the unit of account affects the measurement.

We recommend that this clarification should be included in the standards instead of only being mentioned on the basis for conclusion.

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.

Answer to question 2

Paragraph 48 of IFRS 13 defines "fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date", but the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), does not represent, in most cases, the amount to be received to sell an investment as a whole, thus the information resulted from this metric would not be relevant. In fact, it could even mislead users of financial statements.

We believe that the fair value of an investment's must either be measured using another valuation technique that reflects the value of control associated with a controlling interest or by applying a separate control premium or discount adjustment.

Our understanding is that there is no level 1 of the fair value hierarchy for subsidiaries and for most cases of joint ventures. For investments in associates, the entity should take into consideration the level of their influence on the investee and whether the sale price would consider any block factor or not, which may depend on the concentration or dispersion of the remaining shares.

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?

Answer to question 3

We agree that the fair value measurement of a quoted CGU should be aligned to the fair value measurement of a quoted investment, but, as we stated previously, we do not believe that the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), correspond to the best metric to represent the investment as a whole, because it does not reflect the value of control.

Besides, we are concerned that the product of the P x Q could be significantly different from the value in use of an investment and such difference would not be justified by a distinction in assumptions used by market participants and the investor, as it would normally be the case when fair value less cost to sell is estimated for an asset under IAS 36.

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?

Answer to question 4

We agree with the inclusion of an additional illustrative example in order to demonstrate the application of paragraph 48 of IFRS 13.

We consider that it might be valid to demonstrate the differences when the portfolio approach is used and when it is not, as well as better elaborate the examples, such as considering when there are a mix of assets and liabilities with Level 1 and 2 prices available, or in situations on which there are several Level 1 prices available for the assets and liabilities of the portfolio.

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).

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Do you agree with the transition methods proposed (see paragraphs BC30–BC35)? If not, why and what alternative do you propose?

Answer to question 5

The proposed amendments represent changes in how the fair value measurements are determined (and not a change in the measurement basis, therefore, it would not constitute a change in accounting policy). Thus, the amendments should be treated as a change in accounting estimate.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors a change in an accounting estimate shall be recognized prospectively.

In regard to the amendments to IAS 36, we support the prospective application in order to avoid the reversal of any previous impairment.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,

Idésio da Silva Coelho Júnior
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)