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14 January 2015

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

Re: Comments on Exposure Draft "Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value"

Dear Sir or Madam,

1. The Accounting Standards Board of Japan (hereinafter referred to as the "ASBJ" or we) appreciates the IASB's efforts on the clarification of the unit of account for investment in subsidiaries, joint ventures and associates, on their fair value measurement when those investments are quoted in an active market, and on the measurement of the recoverable amount of cash-generating units on the basis of the fair value less costs of disposal when they correspond to entities that are quoted in an active market. We welcome the opportunity to comment on the Exposure Draft "*Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*" (hereinafter referred to as the "ED").

Overall Comments

2. We support the following conclusion and proposals of IASB in relation to the ED:
   - The conclusion that the unit of account for investment in subsidiaries, joint ventures and associates should be the investment as a whole (Question 1);
   - The proposed amendments 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) without adjustments (Question 2 and 3); and
   - The proposed illustrative example in IFRS 13 *Fair value Measurement* which aims to clarify that the fair value of an entity's net exposure to market risks arising from such a group of financial assets and financial liabilities should be measured in accordance with the corresponding Level 1 inputs (Question 4).

3. However, we do not believe that investments in subsidiaries, joint ventures and associates

should be measured at FV-PL in the separate financial statements in the first place. On the contrary, we believe that such investments should be measured based on historical cost, irrespective of whether they are quoted or not.

4. We are of the view stated in the previous paragraph, because an entity normally invests in subsidiaries, joint ventures and associates with the aim of generating cash flows from their ordinary course of business activities of investees rather than from cash flows resulting from price changes of those investments. For those investments not held for sale through markets, we do not believe that the fair value (or market price) is a relevant measurement basis from the viewpoint of reporting the financial performance of an entity. Instead, we believe that the historical-cost based measurement basis would be more relevant for measuring such investments in the separate financial statements.

Comments on individual questions in the ED

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?

5. We agree with the IASB's conclusion, because the notion that the unit of account for an investment in a subsidiary, joint venture and associate is the investment as a whole is consistent with the characteristics of the investment (see paragraph BC 6 of the ED).

6. However, for the reasons stated in paragraph 4 of this letter, we do not believe that the investment in subsidiaries, joint ventures and associates should be measured at FV-PL in the separate financial statements.

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.

7. We support the proposed amendments to IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosure of Interests in Other Entities* which clarify that the fair value measurement of quoted investments should be the product of P × Q without adjustments, when an investment entity invests in quoted investments. For the situations envisaged in the ED, we do not think that the measurement method needs to be consistent with the unit of account (that is, the investment as a whole) for the following reasons:

   (a) When the proposed amendments in the ED are applied in the context of IFRS 10, an investment entity is supposed to have an exit strategy (including how to sell the investment in a public market) for respective investments in subsidiaries, joint ventures and associates.

   (b) When an investment entity trades its investment in a public market, the transaction is supposed to take place at a smaller unit rather than at the unit of an investment as a whole.

   (c) Fair value measurement using another valuation technique or by adjusting the Level 1 input entails the use of various internal data and assumptions. Because of the greater degree of subjectivity of such inputs it would often be difficult to ensure reliable measurement. In addition, such a requirement would not be considered to meet the cost-benefit balance, because measurement using valuation techniques would require significant effort (including the use of valuation experts). Furthermore, there is a concern that an entity may find it difficult to meet financial reporting deadlines especially in the context of quarterly financial reporting requirements.

8. Nevertheless, we believe that the investments in subsidiaries, joint ventures and associates should be measured at an amount based on historical cost in the separate financial statements, irrespective of whether they are quoted or not, for the reasons stated in paragraph 4 of this letter. We, therefore, recommend that IAS 27 *Separate Financial Statements* should be amended to require an entity to measure an investment in a subsidiary,

joint venture and associate at an amount based on historical cost in the separate financial statements.

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?

9. We agree with the proposed amendment to IAS 36 *Impairment of Assets* to clarify the method used to measure, at fair value less cost of disposal, the recoverable amount of a CGU that corresponds to a quoted entity.

10. Some may argue that the fair value less cost of disposal of the recoverable amount of a quoted CGU should be measured using another valuation technique or by adjusting the Level 1 inputs consistent with the unit of account, which is the investment as a whole. However, we do not think that such a measurement method is consistent with the rationale of measuring the recoverable amount based on the higher of net selling price and value in use. As explained in Basis for Conclusions of IAS 36 (BCZ22 of IAS 36), the standard presumes that a rational enterprise will dispose of the asset if an asset's net selling price is higher than value in use. Therefore, for the reasons stated in paragraph 7 of this letter, we think that measurement using P × Q is appropriate.

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?

11. We agree with the proposed additional illustrative example to IFRS 13. However, we recommend that the IASB explain the underlying principle of the proposed illustrative example in the application guidance, Basis for Conclusion or both to promote consistent application in practice.

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?

12. If the IASB were to finalise the proposed amendments to IFRS 10, IAS 27 and IAS 28 without making substantial changes to the proposals in the ED, we think that retrospective application should be required for related transitional provisions while permitting the early application. Unlike the situations envisaged in the initial application of IFRS 13, we think that the effect of changing the methods of fair value measurement in the manner proposed in the ED (that is, to measure fair value by P × Q) is generally separable from a change in fair value measurement.

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We hope our comments will contribute to the forthcoming deliberations on the project.

Yours sincerely,

Tomo Sekiguchi

Tomo Sekiguchi
Board member of the Accounting Standards Board of Japan