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OF
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2 December 2014 By email: commentletters@hkicpa.org.hk and by post

Mr. Simon Riley
Acting Director
Standard Setting Department
Hong Kong Institute of Certified Public Accountants
37th Floor, Wu Chung House
213 Queen's Road East
Wanchai
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Dear Mr. Riley

**Invitation to comment on IASB Exposure Draft on Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IAS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)**

Thank you for your letter dated 24 September 2014 inviting the Association's comments on the IASB Exposure Draft on Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IAS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13). Our comments on the specific questions raised in the exposure draft are set out in the enclosed annex.

We hope you would find our comments useful. Should you have any questions, please do not hesitate to contact Ms. Emily Ngan of the Secretariat at 2526 6080.

Yours sincerely

Eva Wong
Secretary

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**<u>Responses of the Hong Kong Association of Banks ("HKAB") to the International Accounting Standards Board's Exposure Draft on Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value (Proposed Amendments to IAS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13)</u>**

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| **Question 1—The unit of account for investments in subsidiaries, joint ventures and associates**<br>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).<br>Do you agree with this conclusion? If not, why and what alternative do you propose? |

We agree with the Board's proposal as it is consistent with the well accepted valuation approach that already taken by preparers of financial statements.

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| **Question 2—Interaction between Level 1 inputs and the unit of account for investments in subsidiaries, joint ventures and associates**<br>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).<br>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. |

In view of operational simplicity and enhanced consistency of fair value measurement, we agree with this proposed amendment.

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| **Question 3—Measuring the fair value of a CGU that corresponds to a quoted entity**<br>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.<br>Do you agree with the proposed amendments? If not, why and what alternative do you propose? |

We agree with the proposed amendment as it will align the fair value measurement of a quoted CGU to a quoted investment in subsidiaries, associates, and joint ventures. This also maximises the use of Level 1 inputs as advocated under IFRS 13.

**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 welcome the Board's proposal to provide additional illustrative example for the application of paragraph 48 of IFRS 13. However, we believe additional guidance should be provided on the following aspects:

- the proposed example only applies to a portfolio which is entirely comprised of instruments with Level 1 inputs. More examples concerning portfolio consisting of instruments for which Level 1 inputs are unavailable should be provided;

- how would this illustrative example interact with the practical expedient of mid-market pricing in paragraph 71 of IFRS 13; and

- how should an entity allocate the bid-ask spread of the net exposure to the instruments for disclosure purpose.

In addition, we recommend the Board to consider incorporating this additional guidance in Appendix B of IFRS 13 rather than as an illustrative example.

**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 believe the transition provision should be consistently applied to all affected standards. Specifically, we do not support the retrospective application as we believe these clarifications should be viewed as or akin to a change in accounting estimate. Therefore, the general transition provision of prospective application in IAS 8 applies without restatement in the opening retained earnings or other components of equity.

In addition, no transition provision arrangement is addressed for the proposed amendment under IFRS 13. We request that the same prospective transition application should be provided with disclosure on the effect of change in estimate.

Furthermore, we agree with the early adoption option provided that all relevant standards should be early adopted simultaneously to ensure consistent application.