STAFF PAPER

20 – 24 May 2013

IASB Meeting

Project	**Fair Value Measurement**		
Paper topic	Unit of account—Proposed Amendments to IFRS 13		
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Purpose of this paper

1. This paper follows up the discussions held by the IASB in its February and March 2013 meetings. The purpose of those meetings was to address questions received about the unit of account for financial assets that are investments in subsidiaries, joint ventures and associates and that are measured at fair value.

2. In those meetings, the IASB tentatively decided that:

   (a) the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole; and

   (b) the fair value measurement of an investment composed of financial instruments quoted in an active market should be the product of the quoted price of the financial instrument (P) multiplied by the quantity (Q) of instruments held (ie P × Q).

3. This paper:

   (a) analyses whether IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* need to be amended to clarify the unit of account for investments and makes a recommendation (see paragraphs 4–9);

   (b) makes a recommendation not to propose any additional disclosure requirements (see paragraphs 10–13);

(c) makes a recommendation on transition provisions and effective date (see paragraphs 14–15); and

(d) asks the IASB for permission to start the balloting process of the Exposure Draft (see paragraphs 16–17).

Assessing the need to amend IFRS 10, IAS 27 and IAS 28

4. During the February and March meetings the IASB was informed that questions had been raised about the unit of account for investments in subsidiaries, joint ventures and associates that are within the scope of IFRS 10, IAS 27 and IAS 28. That is because the measurement requirements for such investments in those Standards refer to IFRS 9 *Financial Instruments*, and IFRS 9 refers to the fair value measurement of *individual* financial instruments. In particular, the question was whether those references to IFRS 9 should be understood to:

   (a) refer only to the measurement basis of the investments (for example, fair value through profit or loss); or

   (b) also prescribe the unit of account of those investments (ie the individual financial instruments that make up the investment).

5. At the March meeting the IASB tentatively decided that the unit of account for investments in subsidiaries, joint ventures and associates was the investment as a whole rather than the individual financial instruments that make up the investment.

6. We have analysed the requirements in IFRS 10, IAS 27 and IAS 28 to assess whether any amendment would be necessary to ensure that the unit of account and references to IFRS 9 in those Standards is clear. We have noted that the requirements in **[emphasis added]**:

   (a) IFRS 10 state that an investment entity should "measure its **investments** in particular subsidiaries at **fair value through profit or loss in accordance with IFRS 9**";

(b) IAS 28 state that an “entity may elect to measure **investments** in […] associates and joint ventures at **fair value through profit or loss in accordance with IFRS 9**”; and,

(c) IAS 27 state that “when an entity prepares separate financial statements, it shall **account** for **investments** in subsidiaries, joint ventures and associates either: at (a) cost, or (b) **in accordance with IFRS 9**”.

7. On the basis of those requirements, the staff are of the view that references to IFRS 9 are intended to ensure that entities use the requirements in IFRS 9 when:

(a) measuring investments at fair value through profit or loss, including the accounting for matters such as any differences between the fair value at initial recognition and the transaction price; and

(b) accounting for such investments in the entity’s separate financial statements (for example, either by measuring those investments at fair value through profit or loss or by making an irrevocable election at initial recognition to present in other comprehensive income subsequent changes in the fair value of those investments).

8. The staff think it is clear that the unit of account in those Standards is the investment as a whole and that references to IFRS 9 should be read as referring to the measurement basis and as prescribing that an entity must apply any other accounting provisions in that Standard such as the ones mentioned in paragraph 7. Consequently, we recommend not amending IFRS 10, IAS 27 and IAS 28. However, we propose including a question for respondents to the Exposure Draft on this matter.

9. Appendix 1 to this paper includes an early draft of the amendments proposed to IFRS 13 *Fair Value Measurement*.

Question for the IASB

Question 1—Amendments to IFRS 10, IAS 27 and IAS 28
Does the IASB agree with the staff’s recommendation that the unit of account in the Standards dealing with the accounting for subsidiaries, joint ventures and associates is clear and that there is no need to amend IFRS 10, IAS 27 and IAS 28 for this particular matter?

Disclosures

10. When the IASB discussed the fair value measurement of investments in subsidiaries, associates and joint ventures in February and March no additional disclosures were proposed.

11. IFRS 13 includes disclosure requirements for assets and liabilities measured at fair value. The Standard requires disclosure of the fair value amount and the level of the fair value hierarchy for recurring and non-recurring fair value measurements. The disclosure requirements in IFRS 13 are most extensive for measurements categorised as Level 3 in the fair value hierarchy.

12. We additionally note that the disclosures required by IFRS 13 are not required for assets for which the recoverable amount is fair value less costs of disposal in accordance with IAS 36 *Impairment of Assets*. We note, however, that the IASB is in the process of amending the disclosures of IAS 36 so that they include additional requirements when the recoverable amounts of impaired assets or cash generating units (CGUs) are determined on the basis of fair value less costs of disposal.

13. On the basis of the above paragraphs, we do not think that the proposed amendments to IFRS 13 should trigger additional disclosure requirements.

Question for the IASB

Question 2—Disclosure
Does the IASB agree that the proposed amendments to IFRS 13 should not result in any additional disclosure requirements?

Transition provisions and effective date

14. On the basis of our recommendation to amend IFRS 13 (as set out in Appendix 1), we think that the effect that these proposed amendments might have on the fair value measurements of an entity's quoted investments or quoted CGUs could be viewed as analogous to a change in accounting estimate as described in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

Consequently, the staff recommend that the amendments should be applied prospectively (ie the effect of the change is recognised in the current and future periods affected by the change). We also think that the amendments should be permitted to be applied earlier.

15. Assuming that the final amendments are published in early 2014 (see the time-table of the forthcoming steps leading to the publication of the final amendments in Appendix 2 to this paper), we are proposing that the amendments should be applied for annual periods on or after 1 January 2015. We think that such an early effective date can be proposed for the following reasons:

    (a) the amendments consist of a clarification of the existing requirements;

    (b) implementing the requirements will not represent an undue cost; and

    (c) the prospective nature of the provisions facilitates the earlier adoption of the amendments.

Question for the IASB

Question 3—Transition provisions and effective date
Does the IASB agree with the staff's recommendations about the transition provisions and effective date?

Permission to start the balloting process

16. The above are the last decisions we formally require from the IASB before asking the IASB whether it grants the staff permission to begin the balloting process of the proposed amendments to IFRS 13.

17. In accordance with the time-table in Appendix 2, we expect that an Exposure Draft could be published in July 2013. We recommend a comment period of 120 days, which is the standard comment period for Exposure Drafts, in accordance with the Due Process Handbook.

Question for the IASB

Question 4—Permission to start the balloting process
(a) Do you grant the staff permission to begin the balloting process for the proposed amendments to IFRS 13? (b) Do you agree with a comment period for the Exposure Draft of 120 days?

Appendix 1—Proposed amendments to IFRS 13

In IFRS 13, paragraph 69 is amended and as part of that amendment paragraphs 69A–69B have been added. Paragraph 80 is also amended. New text is underlined and deleted text is struck through.

Measurement

69 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~~A fair value measurement shall ~~not~~ incorporate a premium or discount that is ~~in~~consistent with the unit of account in the IFRS that requires or permits the fair value measurement (see paragraphs 13 and 14), with the following exception.

69A If an entity holds investments in subsidiaries, joint ventures and associates that are made up of financial instruments with a quoted price in an active market (ie a Level 1 input), the entity shall use those prices without adjustment when measuring the fair value of those investments (see paragraph 80), except as specified in paragraph 79. Similarly, for impairment testing purposes, an entity shall measure the fair value of a cash-generating unit that corresponds to a quoted entity as the product of the quoted price for the individual financial instruments and the quantity held by the entity.

69B 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 an unquoted 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.~~

80 If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability

shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity <u>(see paragraph 69A)</u>. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price <u>(see paragraph 69B)</u>.

Appendix 2—Proposed time-table

The table below illustrates the main forthcoming steps leading to the publication of the final amendments to IFRS 13 *Fair Value Measurement* resulting from these proposals.

	Date
Publication of the Exposure Draft	July 2013
Comment period ends	October 2013
Comment letter analysis	November 2013
Publication of final amendments	Q1 2014