IFRS

IASB Meeting

STAFF PAPER

20 – 24 May 2013

Project	**Fair Value Measurement**
Paper topic	Unit of account Proposed Amendments to IFRS 13—Summary of due process followed

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Purpose of this paper

1. The purpose of this agenda paper is to explain the steps in the due process that the IASB has taken before the publication of the final Exposure Draft (Proposed Amendments to IFRS 13 *Fair Value Measurement*; see paragraph 7) and to ask the IASB to confirm that it is satisfied that it has complied with the due process requirements to date.

Background

2. In February, March and May 2013 the IASB discussed questions that it had received about the unit of account for financial assets that are investments in subsidiaries, joint ventures and associates that are measured at fair value.[1]

[1] Agenda Paper 5, which was discussed by the IASB at its February 2013 meeting can be found at: http://www.ifrs.org/Meetings/Pages/IASBFebruary2013.aspx
Agenda Paper 4, which was discussed by the IASB at its March 2013 meeting can be found at: http://www.ifrs.org/Meetings/Pages/IASBMarch2013.aspx

3. In particular, the IASB received a question on whether the unit of account of such investments was the investment as a whole or the individual financial instruments included within that investment and on the interaction between the guidance in IFRS 13 on the use of Level 1 inputs and the unit of account of those investments.

4. The proposed amendments to IFRS 13 (see paragraph 7 and Appendix A to this paper) seek to address questions relating to the interaction between the use of Level 1 inputs and the unit of account for investments in subsidiaries, joint ventures and associates that arise from different interpretations of the requirements in paragraphs 69 and 80 of the Standard.

5. The different interpretations of those requirements lead to two different approaches for measuring quoted investments at fair value:

   (a) One view considers that there is no Level 1 input for the investment but that the Level 1 price is for the underlying individual financial instruments. For those supporting this view, the investments' fair value should either be measured using a valuation technique or by adjusting the Level 1 inputs to reflect differences between the investments and the underlying individual financial instruments.

   (b) A second view considers that because the investment is made up of individual financial instruments that have a Level 1 price, that Level 1 price input must be used and the fair value measurement of those investments should be the product of the quoted price (ie P) multiplied by the quantity held (ie Q), or P × Q, without adjustments.

6. In its 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).

7. On the basis of these discussions, the IASB has decided to publish an Exposure Draft to propose a narrow-scope amendment to IFRS 13. That Exposure Draft is planned to be published in July 2013 (see Agenda Paper 14A).

Effect of the proposed amendments

8. IFRS 13 prioritises the use of Level 1 measurements. The proposed clarifications are consistent with this principle. However, although the purpose of the amendments is to clarify the existing requirements in IFRS 13 when measuring investments in subsidiaries, joint ventures or associates (ie when the investor has control, joint control or significant influence respectively) composed of financial instruments quoted in an active market, the proposal may cause controversy. This is because, as mentioned in paragraph 5, there are currently different views about how those measurements should be performed. In particular, some parties may argue that allowing adjustments to Level 1 inputs when measuring quoted investments might result in more economically sound measurements (for example, when there is a control premium).

9. The IASB proposes to measure those investments using unadjusted Level 1 inputs because this results in more objective and transparent measurements. During the comment period the IASB will reach out to users of financial statements to understand which measurement they believe to provide more useful information.

10. We believe that the clarification should only change the current practice of a small number of entities. For example, for investment entities we understand that it is unusual for their subsidiaries to be quoted in an active market. However, because IFRS 13 has only been effective since 1 January 2013 and the closely related investment entity requirements in IFRS 10 *Consolidated Financial Statements* were only published late in 2012, this is difficult to assess. The implementation of the proposed requirements should not, however, represent a significant cost. In fact, undertaking a measurement based on P × Q should if anything be less onerous than a measurement that requires the use of a valuation technique or the use of adjustments to Level 1 inputs.

Confirmation of due process steps

11. In Appendix B we have summarised the due process steps we have taken in developing the proposed amendments to IFRS 13.

12. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in Appendix B. However, because the proposed amendments to IFRS 13 are narrow-scope in nature, the extent of the due process steps performed was more limited than the ones that are required for an Exposure Draft of a Standard.

Question to the IASB—Compliance with due process
Is the IASB satisfied that all required due process steps that pertain to the publication of proposed amendments have been complied with?

Appendix A—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 (see paragraph 69A). 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 (see paragraph 69B).

Appendix B—Confirmation of due process steps followed in the development of the amendments to IFRS 13 *Fair Value Measurement*

The following table sets out the due process steps followed by the IASB that are required for publication of the Exposure Draft.

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
Board meetings held in public, with papers available for observers. All decisions are made in public session.	Required	Meetings held. Project website contains a full description with up-to-date information. Meeting papers posted in a timely fashion.	Members of the IASB have discussed with the DPOC the progress of the due process that is being conducted on major projects. The DPOC has reviewed, when appropriate, the comments that have been received from interested parties on the due process that the IASB followed.	This issue was discussed by the IASB during its February, March and May 2013 meetings. The IASB decided to propose a narrow-scope amendment to IFRS 13 *Fair Value Measurement*. An *IASB Update* was posted after each of the IASB meetings at which this issue was discussed. A project webpage was created after the IASB March 2013 meeting.
Consultation with the Trustees and the Advisory Council.	Required	Discussions with the Advisory Council.	The DPOC has met with the Advisory Council to understand stakeholders' perspectives. The Advisory Council Chair is invited to Trustees' meetings and meetings of the DPOC.	Because of the narrow-scope nature of the amendments this was considered to be unnecessary.
Analysis of the likely effects of the forthcoming Standard or major amendment, for example, initial costs or ongoing associated costs.	Required	Publication of the Effect Analysis as part of the Basis for Conclusions.	The IASB has reviewed, with the DPOC, the results of the Effect Analysis and how it has considered such findings in the proposed Standard. The IASB has provided a copy of the Effect Analysis to the DPOC at the point of the Standard's publication.	This is a narrow-scope amendment and its objective is to clarify the guidance in IFRS 13 when measuring investments composed of financial instruments quoted in an active market. We believe that the clarification might only change the current practice of some entities. Because the Standard is only effective since 1 January 2013 this is difficult to assess. The implementation of the proposed requirements should, however, not represent a significant cost.
Finalisation				
Due process steps reviewed by the	Required	Summary of all due process steps discussed	The DPOC has received a summary report of the due	The IASB has reviewed the due process steps in

Step	Required/ Optional	Metrics or evidence	Evidence provided to DPOC	Actions
IASB.		by the IASB before a Standard is issued.	process steps that have been followed before the Exposure Draft is issued.	its May 2013 meeting.
The ED has an appropriate comment period.	Required	The period has been set by the IASB. If outside the normal comment period, an explanation from the IASB to the DPOC has been provided, and the decision has been approved.	The DPOC has received notice of any change in the comment period length and has provided approval if required.	The IASB agreed at its May 2013 meeting that the ED will be published with a standard comment period of 120 days.
Drafting				
Drafting quality assurance steps are adequate.	Required	The Translations team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before the ED is issued.	The proposed amendments will result in only minor drafting changes to IFRS 13 and do not, therefore, involve drafting matters that required the input of the Translations team.
Drafting quality assurance steps are adequate.	Required	The XBRL team has been included in the review process.	The DPOC has received a summary report of the due process steps that have been followed before the ED is issued.	The proposed amendments will not result in any changes to the required disclosures. Consequently, the XBRL team involvement is not required.
Publication				
ED published.	Required	ED has been posted on the IASB website.	The DPOC has been informed of the release of the ED.	The ED is planned to be published in July 2013.
Press release to announce publication of ED.	Required	Press Release has been published. Media coverage of the release.	The DPOC has been informed of the release of the ED.	A press release will be published announcing the ED.