

STAFF PAPER

20 – 24 May 2013

IASB Meeting

Project	Fair Value Measurement
Paper topic	Proposed Amendments to IFRS 13—Discussions with the Interpretations Committee
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Purpose of this paper

1. The purpose of this paper is to inform the IASB about:
 - (a) the discussions held with the IFRS Interpretations Committee (‘the Interpretations Committee’) about the interaction between the use of Level 1 inputs and the portfolio exception in IFRS 13 *Fair Value Measurement*;
 - (b) the implications of those discussions on our plan to publish an Exposure Draft to clarify the interaction between the use of Level 1 inputs and the unit of account for investments in subsidiaries, joint ventures and associates.

Discussions with the Interpretations Committee

2. On 15 May 2013, the Interpretations Committee discussed a request to clarify the interaction between the use of Level 1 inputs and the portfolio exception in IFRS 13.¹ The purpose of the meeting was for the Interpretations Committee to decide whether to add the issue to its agenda.

¹ The portfolio exception in paragraph 48 of IFRS 13 enables an entity to measure its net exposure to market risks or to credit risk arising from a group of financial assets and financial liabilities that are measured at fair value subject to satisfying particular criteria.

3. In particular, the issue discussed by the Interpretations Committee was whether an entity is:
- (a) permitted to apply the portfolio exception in IFRS 13 to measure the resulting net risk exposure of a portfolio made up solely with identical Level 1 instruments; or
 - (b) required to measure the financial assets and the financial liabilities of such a portfolio on an individual basis, using the corresponding Level 1 prices for each financial instrument.
4. In its discussions, the Interpretations Committee observed that, in relation to (a), the main question that really needs to be addressed is whether an entity:
- (i) would be required to measure such a net risk exposure on the basis of the Level 1 prices for the individual instruments that comprise that net risk exposure; or
 - (ii) would be allowed to consider the net risk exposure as a whole and, consequently, consider adjusting Level 1 prices for relevant premiums or discounts.
5. The Interpretations Committee noted that there was insufficient guidance in the Standard for it to be able to answer this question and so it decided that this issue should be considered by the IASB. Accordingly it asked the staff to present the Interpretations Committee's concerns to the IASB.

Implications of the discussions with the Interpretations Committee

6. The staff think that the portfolio exception issue discussed by the Interpretations Committee has similarities with the issue of the interaction between the use of Level 1 inputs and the unit of account for investments in subsidiaries, joint ventures and associates, previously considered by the IASB. Therefore, we believe that the IASB should discuss the portfolio exception issue before it finalises the Exposure Draft clarifying the fair value measurement of quoted investments that is contemplated by Agenda Paper 14A.

7. This would allow the Board to consider any consequences of the portfolio discussion on the earlier decision and also enable any proposed amendments to be published together.
8. The immediate effect of this recommendation is that the expected time-table for publishing the Exposure Draft clarifying the fair value measurement of quoted investments in subsidiaries, joint ventures and associates will be delayed.
9. Nonetheless, delaying the Exposure Draft means that if the IASB decides to address the portfolio exception issue, as recommended by the Interpretations Committee, it can:
 - (a) consider the interaction between these two related issues; and
 - (b) avoid the inconvenience for stakeholders of proposing sequential changes to IFRS 13.
10. The urgency of the Exposure Draft relating to subsidiaries, joint ventures and associates is mainly motivated by the amendments the Investment Entities project made to IFRS 10 *Consolidated Financial Statements*. We initially estimated publishing the final amendments arising from the Exposure Draft in Q1 2014 [which is already subsequent to the mandatory effective date of the investment entity related amendments to IFRS 10]. We think that discussing the portfolio exception issue and including any resulting amendments in the same exposure draft might delay publication to Q2 2014.
11. The staff recommend that the portfolio question should be considered before publishing the Exposure Draft.
12. If the IASB agrees with this recommendation, we will not ask the IASB for permission to ballot, as initially planned in Agenda Paper 14A, and we will not discuss Agenda Paper 14B, which explains the due process steps followed to date.

Question for the IASB

Question 1—Should publication of the Exposure Draft follow discussion of the portfolio exception in IFRS 13?

Does the IASB agree with the staff's recommendation to discuss the portfolio exception issue prior to the publication of the Exposure Draft that clarifies the measurement of quoted investments in subsidiaries, joint ventures and associates at fair value?