IFRS

IASB Meeting

STAFF PAPER

17–21 February 2014

Project	**Fair Value Measurement**
Paper topic	Unit of account Clarification of the fair value measurement of quoted investments and the recoverable amount of cash generating units (CGUs) that coincide with quoted entities—Summary of due process followed

CONTACT(S)	Mariela Isern	misern@ifrs.org	+44 (0)20 7246 6483

Purpose of this paper

1. This paper:

   (a) provides a brief summary of the project to date;

   (b) sets out the due process steps undertaken in developing the Exposure Draft (ED);

   (c) discusses the comment period for the ED;

   (d) seeks the IASB's permission to ballot the ED.

Background

2. In February, March, May and December 2013 the IASB discussed questions that it had received about:[1]

[1] The Agenda Papers discussed at the IASB meetings in February, March, May and December 2013 can be found at:
http://www.ifrs.org/Meetings/Pages/IASBFebruary2013.aspx,
http://www.ifrs.org/Meetings/Pages/IASBMarch2013.aspx,
http://www.ifrs.org/Meetings/Pages/IASBMay2013.aspx,

(a) the unit of account of investment in subsidiaries, joint ventures and associates. The questions received asked whether the unit of account was the investment as a whole or the individual financial instruments included within that investment;

(b) the interaction between the guidance in IFRS 13 *Fair Value Measurement* on the use of Level 1 inputs and the unit of account of those investments. Similarly, a question was also raised about the measurement of the recoverable amount of a CGU, on the basis of fair value less costs of disposal, when that CGU corresponds to an entity that is quoted; and

(c) applying the portfolio exception set out in IFRS 13 for portfolios that comprise only Level 1 financial instruments whose market risks are substantially the same.

3. The IASB tentatively decided that:

(a) the unit of account for investments in subsidiaries, joint ventures and associates is the **investment as a whole** rather than the individual financial instruments that make up the investment;

(b) the fair value measurement of an investment composed of quoted financial instruments should be the **product of the quoted price** of the financial instruments (P) multiplied **by the quantity** (Q) of instruments held (ie P × Q). Similarly, the **recoverable amount** of CGUs measured on the basis of fair value less costs of disposal when those CGUs correspond to quoted entities should be based on the product of their **quoted price (**P) multiplied **by the quantity** (Q) of instruments held (ie P × Q); and

(c) the measurement of portfolios that comprise only Level 1 financial instruments whose market risks are substantially the same should result from multiplying the net position by the Level 1 prices.

---

http://www.ifrs.org/Meetings/MeetingDocs/IASB/2013/December/AP11-Fair%20Value%20Measurement.pdf

4. The proposed amendments to the Standards that deal with the accounting of investments in subsidiaries, joint ventures and associates and with the measurement of the recoverable amount of CGUs on the basis of fair value less costs of disposal (IAS 27 *Separate Financial Statements*, IAS 28 *Investments in Associates and Joint Ventures*, IAS 36 *Impairment of Assets*, IFRS 10 *Consolidated Financial Statements*) seek to address the questions raised in paragraph 2(a)–(b).[2]

5. In relation to the question received on the application of the portfolio exception in IFRS 13 for a portfolio that comprises only Level 1 financial instruments whose market risks are substantially the same as described in paragraph 2(c), the IASB tentatively decided to include a non-authoritative example to illustrate the application of the portfolio exception in the same Exposure Draft dealing with the above mentioned amendments. The IASB concluded that the measurement of such portfolios in the way described in paragraph 3(c) results from the direct application of the measurement principles in IFRS 13, but because the questions received reflect the existence of different views, the IASB believed that including an illustrative example in IFRS 13 would be useful to illustrate the application of its principles.

6. Currently there are 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 investment considered as a whole 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

[2] The proposed transition provisions for those amendments will be discussed by the IASB at its meeting in February 2014 (see Agenda Paper 11A).

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.

7. On the basis of these discussions and of the need to clarify those measurements with the aim of reducing any possible divergence in practice, the IASB has decided to publish an Exposure Draft to clarify those measurements. That Exposure Draft is planned to be published in Q1/Q2 2014.

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 apply the existing measurement requirements in IFRS 13, the proposals may cause a degree of controversy. This is because, as mentioned in paragraph 6, there are currently different views about how those measurements should be performed. During the comment period the IASB will conduct outreach with users of financial statements to understand which measurement they believe to provide more useful information.

9. We believe that the clarification should change the current practice of an only 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 were published only late in 2012, this is difficult to assess. In the case of the recoverable amount of CGUs when measured on the basis of fair value less costs of disposal, the change caused by the proposed amendments will affect impairment tests only prospectively (assuming that the IASB agrees with the staff's recommendation in Agenda Paper 11A presented in February 2014).

10. 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 A we have summarised the due process steps we have taken in developing the proposed amendments to IAS 27, IAS 28, IAS 36 and IFRS 10.

12. We note that the required due process steps for the publication of the proposed amendments have been completed, as documented in Appendix A. However, because the proposed amendments 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 for the IASB

Question 1—compliance with due process
Is the IASB satisfied that all of the required due process steps that pertain to the publication of the proposed amendments have been complied with?

Comment period and permission to ballot

13. Confirmation from the IASB that it is satisfied that all of the required due process steps have been complied with is the last decision we formally require from the IASB before asking for permission to begin the balloting process of the proposed amendments to the Standards mentioned above and the illustrative example in IFRS 13.

14. We expect that the ED could be published by the end of Q1 2014 or early Q2 2014. 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 2—comment period, permission to ballot and dissents
(a) Do you agree with a comment period for the ED of 120 days? (b) Do the staff have permission to begin the balloting process for the ED? (c) Do any members of the IASB propose to dissent from the publication of the ED?

Appendix A—Confirmation of due process steps followed in the development of the amendments to IAS 27, IAS 28, IAS 36 and IFRS 10.

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, May, December 2013 and February 2014 meetings. The IASB decided to propose a narrow-scope amendment to IAS 27, IAS 28, IAS 36 and IFRS 10 and to publish a non-authoritative example to illustrate the application of the portfolio exception in IFRS 13. A webpage was created for this specific project containing a full description and up-to-date information. An *IASB Update* was posted after each of the IASB meetings at which this issue was discussed.
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. Nevertheless, references to the project were included in the technical activities update reports to the DPOC at their meetings in July 2013 (Agenda Paper 3B), October 2013 (Agenda Paper 3B) and January 2014 (Agenda Paper 3B).

Step	*Required/ Optional*	*Metrics or evidence*	*Evidence provided to DPOC*	*Actions*
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 measurements of quoted investments at fair value and the measurement of the recoverable amount of CGUs on the basis of fair value less costs of disposal when they coincide with a quoted entity. We believe that the clarification might change the current practice of only a small number of entities. The implementation of the proposed requirements should, however, not represent a significant cost.
Finalisation				
Due process steps reviewed by the IASB.	Required	Summary of all due process steps discussed by the IASB before a Standard is issued.	The DPOC has received a summary report of the due process steps that have been followed before the Exposure Draft is issued.	To be discussed at the February 2014 IASB 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.	To be discussed at the February 2014 IASB meeting, but the staff are recommending a standard comment period.
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 IAS 27, IAS 28, IAS 36 and IFRS 10 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 amendments propose requiring disclosures on transition only. Due to the limited disclosures proposed in the ED, the involvement of the XBRL team is not required.

Step	***Required/ Optional***	***Metrics or evidence***	***Evidence provided to DPOC***	***Actions***
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 Q1/Q2 2014.
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.