GPF meeting, 4 November 2015
Agenda paper 6

Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value

Fair Value Measurement: Unit of Account

Contacts:
Shandhir Lachman (slachman@ifrs.org)
Mariela Isern (misern@ifrs.org)

Agenda

- Purpose of this session (slides 3–4)
- Measuring quoted investments at fair value (slides 5–6)
- Measuring quoted CGUs at fair value (slide 7)
- Appendix A—Key messages from comment letters (slides 8–9)
- Appendix B—Key messages from users of financial statements (slide 10)

Purpose of this session

- In July 2015, the IASB discussed how to proceed with the measurement proposals included in the Exposure Draft (ED) *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (Proposed amendments to IFRS 10, IFRS 12, IAS 27, IAS 28 and IAS 36 and Illustrative Examples for IFRS 13).
- At that meeting, the IASB decided that further research should be undertaken with respect to the fair value measurement of:
  - investments in subsidiaries, associates and joint ventures that are quoted in an active market (quoted investments); and
  - the recoverable amount of cash-generating units (CGUs) on the basis of fair value less costs of disposal when they correspond to entities that are quoted in an active market (quoted CGUs).

Purpose of this session *continued*

- We would like to ask your views regarding the measurement proposals included in the ED.
- To capture your views, we have structured the presentation as follows:
  - measuring quoted investments at fair value on the basis of P × Q (slides 5–6); and
  - measuring quoted CGUs at fair value on the basis of P × Q (slide 7).
- Appendices A and B include key messages from comment letters to the ED and feedback from users of financial statements (slides 8–10).

Measuring quoted investments at fair value

- The ED proposes that the measurement of quoted investments in subsidiaries, joint ventures and associates at fair value should be based on the product of the quoted price for the individual financial instruments that make up the investments held (P) and the quantity of financial instruments (Q), ie P × Q.
- The table below summarises when investments in subsidiaries, joint ventures and associates are required [R] or permitted [O] to be measured at fair value:

	Consolidated financial statements (IFRS 10, IAS 28)	Separate financial statements (IAS 27)
Subsidiaries	When held by an investment entity [R]	▪ When held by an investment entity [R] ▪ When not held by an investment entity [O]
Joint ventures/ Associates	When held by a venture capital organisation, mutual fund, unit trust and similar entities [O]	▪ When held by venture capital organisations, etc, if they have been measured at fair value in the consolidated financial statements [R] ▪ When not held by venture capital organisations, etc [O]

Measuring quoted investments at fair value *continued*

Questions to the GPF:

1. Would the proposed measurement in the ED affect the way in which your organisation measures the fair value of quoted investments in subsidiaries, joint ventures and associates?
2. How relevant do you think the fair value measurement of quoted investments is on the basis of $P \times Q$?
3. We received the following recommendation in the comment letters to the ED:
   Entities should be required to measure the fair value of quoted investments using either a valuation technique or adjusted Level 1 inputs and provide a reconciliation between that measurement and the measurement resulting from $P \times Q$.
   - What are your views on this recommendation? Do you think that entities would be able to provide such a reconciliation together with disclosures to substantiate the difference between the two measurements?

Measuring quoted CGUs at fair value

- The ED proposes that the recoverable amount of a quoted CGU measured on the basis of fair value less costs of disposal (FVLCD) should be the product of the quoted price (P) and the quantity of financial instruments held (Q), or P × Q.

Questions to the GPF:

1. How relevant do you think the measurement of the recoverable amount of quoted CGUs is on the basis of fair value less costs of disposal using P × Q?

2. Would the proposed measurement have any unforeseen consequences affecting the impairment test of quoted CGUs?

Appendix A—Key messages from comment letters

Quoted investments measured at fair value

The majority of respondents to the ED disagreed that the fair value measurement of quoted investments should be based on P × Q. These were the main reasons:

- lack of alignment between the proposed measurement and the unit of account being measured at fair value (ie the investment as a whole);
- there is no Level 1 input for the unit of account being measured at fair value (ie the investment as a whole);
- P × Q results in Day 1 gains or losses when the acquisition price includes a premium or a discount ;
- the fair value of quoted investments should be measured by either applying a valuation technique or by adjusting Level 1 inputs to reflect any differences between the investment as a whole and the individual financial instruments that are comprised within the investment because this would result in a more relevant measurement; and
- inconsistencies between the measurement of quoted and unquoted investments at fair value.

Appendix A—Key messages from comment letters

Quoted CGUs measured at fair value

The majority of respondents to the ED disagreed that the recoverable amount of a quoted CGU measured on the basis of fair value less costs of disposal should be based on P × Q and provided some of the following reasons:

- lack of alignment between the proposed measurement with the unit of account being measured at fair value (ie the CGU);
- CGUs do not correspond exactly or are rarely identical to a quoted entity;
- it is inappropriate to recognise an impairment loss based on the value of an asset (the quoted price of individual financial instruments) that is qualitatively different from the collective assets of the CGU;
- inconsistency in how entities would determine the recoverable amount on the basis of fair value less costs of disposal for quoted and unquoted CGUs; and
- FVLCD determined under a discounted cash flow methodology is the preferred measurement of the recoverable amount of CGUs because the measurement obtained from Value in Use ('VIU') does not properly reflect the value of a CGU.

Appendix B—Key messages from users of financial statements

During the comment period of the ED, the staff held meetings and conference calls with different users and user groups to discuss the proposed measurements, including a public meeting with the Capital Markets Advisory Group (CMAC) and a user panel event organised by EFRAG.

The majority of users indicated a strong preference for P × Q and provided some of the following reasons:

- P × Q was less judgemental as compared to other measurement techniques;
- It is difficult to substantiate the use of another measurement technique when there was a Level 1 price available;
- A Level 1 price was the most objective indicator of the price that market participants would transact at; and
- Differences between the acquisition price of quoted investments and their subsequent measurement at P × Q (i.e. Day 1 gains or losses) are appropriate because they reflect the investor's risk of doing business.