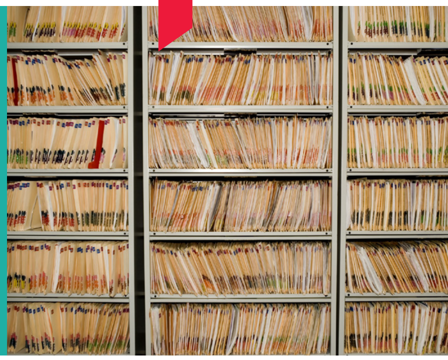
MEASURING QUOTED INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES AT FAIR VALUE
(PROPOSED AMENDMENTS TO IFRS 10, IFRS 12, IAS 27, IAS 28 AND IAS 36 AND ILLUSTRATIVE EXAMPLES FOR IFRS 13)
INTERNATIONAL FINANCIAL REPORTING BULLETIN 2014/17



Summary

The International Accounting Standards Board (IASB) published ED/2014/4 *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) on 16 September 2014.

The proposed amendments address the unit of account and the fair value measurement of investments quoted in an active market that are:

- Subsidiaries,
- Joint ventures, or
- Associates.

The proposed amendments clarify that the measurement of the fair value of quoted investments and quoted CGUs is measured as the product of:

- The quoted price for the individual financial instrument; and
- The quantity of financial instruments held by the investor.

This approach also applies to cash generating units (CGUs) that are quoted in an active market and whose recoverable amount is calculated based on the fair value less costs of disposal.

In addition, the proposals add an example to IFRS 13 *Fair Value Measurement* that illustrates the fair value measurement of an entity's net exposure to market risks arising from a group of financial assets and liabilities whose market risks are substantially the same and whose fair value measurement is categorised within level 1 of the fair value hierarchy (portfolio exemption).

The deadline for comments on ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* is 16 January 2015.

STATUS
Exposure Draft

EFFECTIVE DATE
To be confirmed

ACCOUNTING IMPACT
The fair value measurement of investments in subsidiaries, joint ventures, and associates (including CGUs) quoted in an active market is calculated using the single price of a financial instrument multiplied by the number of financial instruments held by the investor.
No adjustment would be made for control/significant influence premium or discount.

Background

After the issuance of IFRS 13 the IASB received an enquiry about whether the unit of account of investments in subsidiaries, joint ventures or associates measured at fair value was the whole investment or the individual financial instruments that make up the investment. The issue was raised, because the applicable guidance for the accounting in those investments refers to IFRS 9 *Financial Instruments* where the unit of account is the single financial instrument.

The IASB concluded that the unit of account is the investment as a whole. However, it also concluded that for measurement purposes, if the separate financial instruments making up that investment are quoted on an active market, the fair value of the instrument is made up of the sum of the separate financial instruments (quoted price multiplied by quantity, or 'P x Q'). The rationale for this approach is that the valuation would maximise the use of unadjusted observable inputs.

This approach would apply to investments in subsidiaries, joint ventures and associates quoted in an active market as well as for CGUs for which the recoverable amount is measured on the basis of the fair value less costs of disposal and that are quoted in an active market.

Measuring investments in subsidiaries, joint ventures and associates

The amendments would clarify the fair value measurement approach for investments in subsidiaries, joint ventures and associates, that are quoted in an active market and that an investor records at fair value in its financial statements.

The fair value of quoted investments would be calculated by multiplying the price of each single financial instrument (P) with the quantity of financial instruments held by the investor (Q). The result would be a measurement which is based on a 'P x Q' formula. Accordingly, the unit of account for valuation purposes would not be the investment as a whole and no adjustments would be made for interests of a size that give rise to control, joint control or significant influence.

It is proposed that the same procedure would apply to the fair value measurement of CGUs where the recoverable amount is calculated using fair value less costs of disposal and the CGU is quoted in an active market.

The amendments would establish consistent requirements for the fair value measurement of investments quoted in an active market in both consolidated and separate financial statements.

Additional application guidance for IFRS 13

The proposed amendments are accompanied by an additional example in IFRS 13 that explains the exception to measure investments on a portfolio basis if the market risks of the assets and liabilities are substantially the same and the fair value measurement is within level 1.

The calculation of the overall risk exposure of the portfolio would be based on the net number of instruments multiplied by the quoted level 1 price, and would be consistent with the other amendments that have been proposed.

Dissenting opinion

Not all IASB Board members agreed with the proposals, which include a dissenting opinion. This notes that, if (as the IASB has concluded) the unit of account is the investment as a whole, then as a logical consequence the unit of account which should be used for measurement purposes should also be the investment as a whole. Consequently, either the level 1 price should be adjusted, or a different valuation technique used, to determine the fair value of the investment.

Effective Date and Transition

The effective date for the proposed amendments is yet to be confirmed. The proposed amendments are intended to be applied prospectively, with early application permitted.

On initial application, an entity would be required to adjust its opening balance of retained earnings for differences in the carrying amount that arise from the application of the amendments.

If the first time application of the proposed amendments to IAS 36 led to the recognition of an impairment loss or reversal, the entity would be required to disclose this impairment loss amount or impairment loss reversal.

The deadline for comments on ED/2014/4 *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* is 16 January 2015.

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