STAFF PAPER

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IASB Meeting

Project	**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)**
Paper topic	Project next steps

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Purpose and structure of this paper

1. This paper discusses the possible project directions concerning the proposals that the IASB published 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).

2. In particular, this paper outlines the possible directions for developing solutions for the matters covered in:

   (a) Question 2 of the ED relating to the fair value measurement of investments in subsidiaries, joint ventures and associates that are quoted in an active market (quoted investments); and

   (b) Question 3 of the ED relating to the measurement of 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).

3. This is because these two questions frame the matters dealt with in the ED for which the majority of the respondents did not agree with (see paragraphs 5–10). This paper

does not focus on providing a project plan for Questions 1, 4 and 5 of the ED for the following reasons:

(a) Question 1 asked constituents whether they agreed that the unit of account for investments within the scope of IFRS 10 *Consolidated Financial Statements*, IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* is the investment as a whole instead of the individual financial instruments included within that investment. The majority of the respondents supported the proposals included in the ED, on the basis that the nature of an investor's relationship with an investee based on the level of control, joint control or significant influence in that investee is the key characteristic. In their view, this highlighted that the appropriate unit of account in IFRS 10, IAS 27 and IAS 28 is the investment as a whole to which that key characteristic applies. Depending on the direction of the project that the IASB tentatively decides on at today's meeting, the staff would bring back this matter so that the IASB can reconfirm its proposals in the ED (see Option A in paragraphs 13–15). If the IASB favours Option B or Option C (see paragraphs 16–20 and 21–25, respectively) as part of the work to be carried out under these two options, the proposals in the ED relating to the unit of account could be reconsidered.

(b) in Question 4 the IASB asked constituents whether the proposed additional illustrative example for IFRS 13 *Fair Value Measurement* illustrated the application of paragraph 48 of IFRS 13. The majority of the respondents to the ED agreed with this proposal. The IASB discussed this question at its meeting in April 2015 and decided not to publish the proposed illustrative example in IFRS 13 as a separate document. The IASB reconfirmed its views on this matter at its meeting in April 2015 but concluded that publication of the illustrative example as a separate document was not necessary, because the proposed example is non-authoritative and the comments received did not reveal significant diversity in practice.

(c) in Question 5 the IASB asked constituents about the proposed transition provision. The staff note that this area will be affected by any redeliberations of Questions 2 and 3 of the ED. Consequently, it would be appropriate to consider Question 5 once any tentative decisions concerning Questions 2 and 3 have been made.

4. This paper is structured as follows:

   (a) summary of key comments received for Questions 2 and 3 (paragraphs 5–10);

   (b) possible project directions (paragraphs 12–25);

   (c) staff's conclusion and recommendation (paragraph 26–27); and

   (d) question for the IASB.

Summary of key comments received for Questions 2 and 3

5. As a reminder, before discussing possible directions for the project, the staff think that it is worth providing a high level summary of the main comments received for Questions 2 and 3 of the ED.

6. The ED proposed that the fair value measurement of investments in subsidiaries, joint ventures and associates quoted in an active market should be the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), or P × Q, without adjustments. This was covered by Question 2 of the ED.

7. The majority of the respondents did not agree with these proposals. The main reason for their disagreement was conceptual and related to the perceived lack of alignment between the proposed measurement and the unit of account (ie the investment as a whole). Many respondents were of the view that the measurement should be aligned with the unit of account, because this is a fundamental principle embedded in IFRS 13. Measuring quoted investments at fair value using P × Q would be a departure from this principle, because P represents the quoted price for an individual financial instrument and not for the investment as a whole. These respondents were of the view that the fair value of quoted investments within the scope of the ED should instead 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. From their point of view, applying these measurement techniques would result in more relevant information.

8. The majority of users with whom we conducted outreach, however, indicated a strong preference for P × Q because they thought that the proposed measurement would involve less judgement as compared to other measurement techniques.

9. The ED also proposed to align the measurement of the recoverable amount of quoted CGUs on the basis of fair value less costs of disposal to the fair value measurement of quoted investments. It proposed to amend IAS 36 *Impairment of Assets* to clarify that the recoverable amount of a CGU that corresponds to a quoted entity measured on the basis of fair value less costs of disposal should be P × Q without adjustments. This was covered by Question 3 of the ED.

10. The majority of the respondents did not agree with the proposals covered by Question 3. These respondents *did not* think that P × Q would provide the most appropriate measurement when measuring the recoverable amount of quoted CGUs on the basis of fair value less costs of disposal. In particular, many of the respondents commented that the proposed measurement would not be aligned to the unit of account (ie the CGU). For many respondents there is a disconnection between the quoted price (P) and the recoverable amount of a quoted CGU on the basis of fair value less costs of disposal. They did not think that it was appropriate to recognise an impairment loss based on the value of an asset (the individual financial instruments), which is qualitatively different from the collective assets of the CGU or group of CGUs being assessed for impairment. As previously mentioned, this disagreement is conceptual and relates to the perceived lack of alignment between the unit of account (ie the CGU) and the proposed measurement (ie the product of the quoted price (P) multiplied by the number of financial instruments held (Q), or P × Q, without adjustments).

Other recommendations proposed by the respondents of the ED

11. The following paragraphs provide a high level summary of some of the recommendations received from respondents to the ED concerning possible solutions that the IASB could consider:

    (a) P × Q should be presumed to be the measurement that best represents the fair value of quoted investments (ie present P × Q as a rebuttable presumption of fair value) unless an entity can identify a measurement that more faithfully represents fair value. (For example, an entity is able to identify and explain in a reasonable and auditable way a premium or discount on the value of the investment as a whole.)

(b) both the recognised fair value of the investment (determined using either a valuation technique or adjusted Level 1 inputs) and the measurement resulting from P × Q should be disclosed together with a reconciliation to explain the difference between the two measurements.

Possible project directions

12. For the purposes of framing the direction that the project could take, the staff have considered the following options:

 (a) Option A—Build a deeper understanding of the proposed measurement, taking into consideration the input from different sources (ie perform research) and derive from this exercise recommendations to the IASB.

 (b) Option B—Postpone research on the proposed measurement to the Post-implementation Review (PIR) of IFRS 13.

 (c) Option C—Undertake research on the proposed measurement and feed the results of the research into the PIR of IFRS 13.

Option A—Build a deeper understanding of the proposed measurement, taking into consideration the input from different sources (ie perform research) and derive from this exercise recommendations to the IASB

13. The staff think that for the purposes of deriving relevant recommendations to the IASB, it would be key to perform research on the proposed measurement. For example, as part of this research, the staff propose to gather input from the following activities:

 (a) engaging with valuation specialists to understand current practice and confirm the appropriateness of the proposed measurement for quoted investments and quoted CGUs;

(b) analysing the different recommendations proposed by respondents in their comment letters and compare these recommendations among users, preparers and accounting firms (see paragraph 11);

(c) undertaking outreach activities to gain an understanding of any potential effect of clarifying P × Q in the final amendments and determine whether there is currently any divergence in practice; and

(d) analysing relevant academic papers or other related sources of literature.

14. On the basis of this work, the staff envisage that the next steps under this option would be to proceed towards the redeliberations of the proposed amendments included in the ED.

15. Table A in paragraph 26 shows the pros and cons that the staff have noted for this option.

Option B—Postpone research on the proposed measurement to the PIR of IFRS 13

16. Under this option, any analysis and research relating specifically to P × Q for both quoted investments and quoted CGUs would be undertaken as part of the PIR of IFRS 13.

17. The measurement of quoted investments and quoted CGUs at fair value would be explicitly considered when planning the first phase of the PIR of IFRS 13 as a key topic on which to gather feedback.

18. If during the first phase of the PIR this area is identified as being critical for entities when implementing IFRS 13, the Request for Information (RFI) would then include a specific question for constituents to comment on this matter.

19. Consequently, this option means that any decisions relating to the project would thus effectively be deferred to the PIR of IFRS 13.

20. Table B in paragraph 26 shows the pros and cons that the staff have noted for this option.

Option C—Undertake research on the proposed measurement and feed the results of the research into the PIR of IFRS 13

21. Option C proposes the same type of research as Option A but with a different purpose. In the case of Option C, the results of the research activities outlined in paragraph 13 would be fed into the PIR of IFRS 13.

22. The staff believe that any research work concerning the measurement of quoted investments and quoted CGUs at fair value by using P × Q carried out before the PIR of IFRS 13 could represent a saving of time and resources for the PIR.

23. The staff note that a similar approach to Option C was taken for the PIR of IFRS 3 *Business Combinations*. In that case, the IFRS Interpretations Committee (the 'Interpretations Committee') staff had undertaken outreach concerning the area of business definition and its results were reported to the Interpretations Committee at its meeting in May 2013 and passed onto the staff undertaking the first phase of the PIR of IFRS 3.[1]

24. In this particular case, any results from the research activities could be first presented to the IASB in a public meeting and then passed onto the staff undertaking the work on the PIR of IFRS 13.

25. Table C in paragraph 26 shows the pros and cons that the staff have noted for this option.

Staff's conclusion and recommendation

26. The pros and cons of each of the options previously described are presented in the following tables.

[1] The paper presented by the Interpretations Committee staff to the Interpretations Committee in May 2013 concerning the area of business definition can be found at: http://www.ifrs.org/Meetings/MeetingDocs/Interpretations%20Committee/2013/May/AP06A%20-%20WIP%20-%20Definition%20of%20a%20business%20-%20Summary%20of%20outreach%20results%20and%20analysis.pdf.

TABLE A—Option A: Build a deeper understanding of the proposed measurement, taking into consideration the input from different sources (ie perform research) and derive from this exercise recommendations to the IASB

Pros	Cons
Option A would probably result in finalising the proposed amendments within a shorter time frame compared to Option B and Option C.	Carrying out amendments as a result of this project while the PIR of IFRS 13 is under way may reveal that the issue is not an area in which entities have encountered difficulties when applying IFRS 13.
Other recommendations provided by respondents would be explored and considered as possible solutions.	Research on P × Q may not lead to any firm conclusions on which to base sound recommendations. This would then most probably result in the issue being incorporated into the PIR of IFRS 13.

TABLE B—Option B: Postpone research on the proposed measurement to the PIR of IFRS 13

Pros	Cons
The PIR may reveal that the issue is not an area in which entities have encountered difficulties when applying IFRS 13. Consequently, it could help to assess more accurately the need for the project.	As a result of the PIR, the IASB may conclude that a specific project on the measurement for quoted investments and quoted CGUs at fair value needs to be undertaken. This would represent a delay in any solutions provided on this area.
The majority of respondents did not agree with the proposals in the ED. The PIR could result in a balanced approach that would allow us to better evaluate the alternatives rather than proceeding towards either finalising the amendments or putting the project on hold.	
If it is identified as a critical area, inclusion of this matter as part of the RFI would allow for a greater degree of detail in terms of information relevant to the application of P × Q. For example, the responses to the RFI could provide information on: (a) jurisdictions that are most affected; (b) the extent of diversity in practice; and (c) other alternative solutions. In other words, the PIR could be a more appropriate platform for obtaining much	

Pros	Cons
of the information that could have been obtained from any research activities on P × Q.	

TABLE C—Option C: Undertake research on the proposed measurement and feed the results of the research into the PIR of IFRS 13

Pros	Cons
Option C would ensure that work on P × Q continues with the purpose of feeding any results into the PIR of IFRS 13.	As work from this option will be reported to the PIR of IFRS 13 and any work will continue to be carried out as part of that PIR, the same cons relating to undertaking work as part of the PIR of IFRS 13 in Option B would apply in this case.
The PIR for IFRS 3 followed a similar approach and the work done in the area of business definition by the Interpretations Committee staff preceding the PIR represented a significant saving of time for that specific area.	
As work from this option will be reported to the PIR of IFRS 13 and any work will continue to be carried out as part of that PIR, the same pros relating to undertaking work as part of the PIR of IFRS 13 in Option B would apply in this case.	

27. On the basis of this analysis, the staff are of the view that Option C provides the most balanced solution, because:

(a) it ensures that work on the measurement of quoted investments and quoted CGUs at fair value continues;

(b) any results from the work undertaken will be fed into the PIR of IFRS 13, which will translate in time savings while undertaking that review; and

(c) the PIR will still provide a good platform for obtaining valuable information about the use of P × Q for the purposes of building sound conclusions for the IASB.

Question for the IASB

Question for the IASB
Does the IASB agree with the staff's recommendation outlined in paragraph 27 of this Agenda Paper?