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International Financial Reporting Standards

ASAF MEETING

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

October 2015

The views expressed in this presentation are those of the presenter, not necessarily those of the IASB or IFRS Foundation.

Agenda

- Purpose of this session (slides 3–4)
- Measuring quoted investments at fair value (slides 5–6)
- Measuring quoted Cash Generating Units (CGU) at fair value (slide 7)
- Recommendations provided by respondents to the ED regarding possible solutions (slide 8)
- Appendix A—Key messages from comment letters (slides 9–10)

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 and specific input that we can use in our research.
- To capture your views and input, we have structured the presentation as follows:
  - measuring quoted investments at fair value on the basis of P × Q (slides 5–6);
  - measuring quoted CGUs at fair value on the basis of P × Q (slide 7); and
  - recommendations provided by respondents to the ED regarding possible solutions (slide 8).
- Appendix A incudes a high level summary of the main comments received for the proposed measurement in the ED (slides 9–10).

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 $P \times Q$.
- 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 ASAF:

1. Considering the instances in which investments are required or permitted to be measured at fair value (see slide 5), in your jurisdiction:
   (a) How frequently do investment entities have investments in subsidiaries that are quoted?
   (b) How frequently do non-investment entities have investments in subsidiaries, joint ventures and associates that are quoted and are measured at fair value in the parent's separate financial statements?
   (c) How frequently do venture capital organisations, mutual funds, unit trusts and similar entities have investments in joint ventures and associates that are quoted and measured at fair value in the investor's consolidated and separate financial statements?
2. How relevant do you think the fair value measurement of quoted investments is on the basis of P × Q?
3. When valuation techniques are used, what are the main inputs used in deriving the fair value measurement? How relevant/predominant is the inclusion of premiums and/or discounts in those measurements and how well substantiated are they?
4. Is there any specific input that you recommend that we include in the research (for example, academic papers, specific data or pieces of evidence supporting any of the views etc)?

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 should be the product of the quoted price (P) and the quantity of financial instruments held (Q), or P × Q.

Questions to the ASAF:

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?

3. Is there any specific input that you recommend that we include in the research (for example, academic papers, specific data or piece of evidence supporting any of the views etc)?

Recommendations provided by respondents to the ED regarding possible solutions

- Respondents to the ED provided the following recommendations in relation to the fair value measurement of quoted investments:
  - set up a rebuttable presumption so that P × Q is presumed to be the measurement that best represents the fair value of quoted investments 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 affecting the measurement of the investment as a whole.
  - both the recognised fair value of the investment (measured 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.

Questions to the ASAF:

1. What are your views on the recommendations received?
2. Do you have any additional recommendations that could be considered?

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 with 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 as 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; and
- inconsistency in how entities would determine the recoverable amount on the basis of fair value less costs of disposal for quoted and unquoted CGUs.