Australian Government
Australian Accounting Standards Board

Memorandum

To:	**AASB members**	**Date:**	13 May 2014
From:	**Evelyn Ling**	**Agenda Item:**	12.1 (M138)
Subject:	**Narrow scope Amendments – Fair Value Measurement: Unit of Account**	**File:**	

Action

Consider the preliminary IASB decisions on the IASB narrow-scope amendment project *Fair Value Measurement: Unit of Account* and decide whether there are any issues that need to be raised with the IASB at this stage.

Overview

The IASB is undertaking a narrow-scope project to address the unit of account for financial assets that are investments in subsidiaries, joint ventures and associates measured at fair value, and to clarify the fair value measurement of such investments and of qualifying portfolios that comprise only Level 1 financial instruments.

Specifically, the IASB is addressing the following concerns:

1 whether, for financial assets that are investments in subsidiaries, joint ventures and associates measured at fair value, the 'unit of account' referenced in IFRS 13.14 refers to the investment as a whole, or to the individual financial instruments making up the investment;

2 whether to require fair value of an investment in a subsidiary, joint venture or associate to be measured:

(a) in accordance with the unit of account regardless of whether there is a Level 1 input for the underlying financial instruments within that investment; or

(b) even where the unit of account is the investment as a whole, as a product of the Level 1 input (without adjustment) multiplied by the quantity held (PxQ);

IASB staff noted that this would depend on whether the unit of account, or the requirement in IFRS 13 to prioritise Level 1 inputs, is considered to be the more important. IASB staff believe that the divergence in views result from IFRS 13.69 and 80 not being clear;

3 how the fair value of a cash-generating unit (CGU) with Level 1 prices for its underlying financial instruments should be measured for the purposes of impairment testing; and

4 how the fair value of a portfolio that is subject to the 'portfolio exception' in IFRS 13 and that fully comprises Level 1 financial instruments should be measured.

An IASB Exposure Draft is expected in Q2 2014.

Background

The IASB initiated the project following correspondence received on the issue. The IASB discussed the project at its meetings in February 2013, March 2013, May 2013, December 2013 and February 2014.[1] At its February 2014 meeting, the IASB granted staff permission to begin the balloting process for an exposure draft.

IASB tentative decisions

The IASB has made the following tentative decisions which are expected to be reflected in the exposure draft:

Measurement

- the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole;
- the fair value measurement of an investment composed of quoted financial instruments should be the product of the quoted price of the financial instrument (P) multiplied by the quantity (Q) of instruments held (i.e. P × Q). The IASB noted that quoted prices in an active market provide the most reliable evidence of fair value;
- the fair value measurement of CGUs for impairment testing when those CGUs correspond to a quoted entity should be the product of their quoted price (P) multiplied by the quantity (Q) of instruments held (i.e. P × Q);
- in respect of a portfolio that comprises only Level 1 financial instruments whose market risks are substantially the same, the measurement should be the one resulting from multiplying the net position by the Level 1 prices;
- the exposure draft should include a non-authoritative example to illustrate the application of the portfolio exception for a portfolio that comprises only Level 1 financial instruments whose market risks are substantially the same;

Location of amendments

- the clarification about the fair value measurement of quoted investments in subsidiaries, joint ventures and associates should be made to the Standards that deal with these investments;

[1] The agenda papers discussed at the IASB meetings in February 2013, March 2013, May 2013, December 2013 and February 2014 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
http://www.ifrs.org/Meetings/Pages/IASB-Dec-13.aspx
http://www.ifrs.org/Meetings/Pages/IASB-Feb-14.aspx

- the clarification about the measurement of the recoverable amount of CGUs on the basis of fair value less costs of disposal should be made to the Standard that deals with the impairment test for CGUs;

Disclosure

- the proposed clarification does not necessitate additional disclosure requirements;

Transition

- in respect of quoted investments, an entity should adjust its opening retained earnings for the period in which the proposed amendments are being first applied to account for the effect of the change in measurement as a catch-up adjustment and recognise the change in measurement of the quoted investments during that period in profit or loss. An entity should also be required to disclose the catch-up adjustment in its opening retained earnings;

- in respect of quoted CGUs, the proposed amendments should be applied prospectively. If an entity has incurred an impairment loss (or reversal thereof) during the period in which it first applied the amendments, the entity should provide quantitative information about what the effect would have been on the impairment loss amount in the immediately preceding period presented if the amendments had been applied;

- early application of the proposed amendments should be permitted; and

- a first-time adopter should apply the proposed amendments at the beginning of the earliest period for which it presents full comparative information under IFRS in its first IFRS financial statements.

AASB staff recommendation

Once the IASB Exposure Draft is issued, AASB staff intend to bring this project back to a future AASB meeting for the Board to form its views and decide on the key comments to be included in its submission to the IASB.

AASB staff do not consider that there any issues that are sufficiently substantive to warrant them being raised with the IASB in relation to any of its tentative decisions on this project prior to the AASB drafting its submission on the forthcoming IASB Exposure Draft.

Question for the Board

Q1 Do you agree with the staff's recommendation?