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IASB proposes amendments to clarify the unit of account and measurement of quoted investments in subsidiaries, joint ventures and associates at fair value

This edition outlines the proposed amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of interests in Other Entities, IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures, IAS 36 Impairment of assets and IFRS 13 Fair Value Measurements set out in the recent Exposure Draft (ED) 2014/4 issued by the International Accounting Standards Board (IASB).

Why are amendments being proposed?

The IASB received questions about the measurement requirements when quoted investments in subsidiaries, joint ventures and associates are measured at fair value in accordance with IFRS 9 Financial Instruments. The question was focused on whether IFRS 9 refers only to the measurement basis of the investments (with the unit of account determined in accordance with other Standards) or whether it also determines the unit of account of those investments (being the individual financial instruments that make up the investment).

The IASB also received a request to clarify the interaction between level 1 inputs for an investment that is quoted in an active market and measuring the fair value less costs of disposal of that investment for impairment testing.

The IASB acknowledged these concerns and, consequently, proposes in ED 2014/4 to clarify that the unit of account would be the investment as a whole; however, in measuring investments in subsidiaries, joint ventures or associates whose underlying individual financial instruments have a Level 1 price, the fair value would be determined on the basis of the individual quoted prices, without adjustment. The same criteria would apply to measure the fair value of a cash generating unit for impairment testing.

Observation

The IASB decided that the unit of account for investments in subsidiaries, joint ventures and associates would be the investment as a whole on the basis that the nature of an entity's relationship with its investee (i.e. the level of control or influence) is the relevant characteristic for the investment to be included within the scope of IFRS 10, IAS 27 and IAS 28. The IASB's intention in developing IFRS 13 was to prioritise Level 1 inputs; however, the IASB acknowledged that IFRS 13 does not explicitly state that Level 1 inputs should be prioritised even when those Level 1 inputs do not correspond to the unit of account of the asset being measured (i.e. the investment as a whole).

In addition, the IASB was asked to consider different views about how a net exposure to market risks arising from quoted financial assets and financial liabilities should be measured when the portfolio exception in paragraph 48 of IFRS 13. In response to this request, the IASB proposes to add an illustrative example to IFRS 13.

What are the proposed amendments?

The proposed amendments to clarify the measuring of quoted investments in Subsidiaries, Joint Ventures and Associates at fair value are summarised below:

IFRS 10 Consolidated Financial Statements:

IFRS 10 requires an investment entity to measure its investments in subsidiaries at fair value. When a subsidiary is quoted in an active market, the proposed amendments would specify that the fair value should be determined on the basis of the individual quoted market price without adjustments.

IFRS 12 Disclosure of Interest in Other Entities:

An entity is required to disclose the fair value for each material joint venture and associate that is measured using the equity method. The proposed amendment would define that the fair value of an investment in a joint venture or associate that is quoted in an active market would be based on the quoted market price without adjustment.

IFRS 13 Fair value Measurements

The proposed amendments would add an illustrative example on the application of the portfolio exception to Level 1 financial instruments for which market risks are substantially the same

Observation

The IASB concluded that it would not be necessary to amend IFRS 13 to clarify that the portfolio exception in paragraph 48 applies to Level 1 financial instruments. However, given the existence of different views in practice, the IASB proposes to add an illustrative example.

IAS 27 Separate Financial Statements:

IAS 27 permits an entity to measure in its separate financial statements its investments in subsidiaries, joint ventures and associates at fair value. When those investments are quoted in an active market, the proposed amendments would specify that the fair value should be determined on the basis of quoted market prices without adjustment.

IAS 28 Investments in Associates and Joint Ventures:

Certain entities (venture capital organisations, mutual funds, unit trusts and similar entities including investment-linked insurance funds) can elect to account for their investments in associates and joint ventures at fair value. For investments that are quoted in an active market, the proposed amendments would specify that the fair value should be determined on the basis of quoted market prices without adjustment.

IAS 36 Impairment of assets

The recoverable amount of a cash-generating unit (CGU) is defined as the higher of its value in use and its fair value less cost of disposal. The proposed amendments would affect those CGUs for which recoverable amount is determined on the basis of fair value less cost of disposal.

In measuring fair value less cost of disposal of investments in a subsidiary, joint venture or associate that is quoted in an active market, an entity would be required to determine the fair value on the basis of the quoted market prices without adjustment.

Effective date, transition requirements and comment period

The ED does not specify an effective date. The IASB will determine the effective date as part of considering the comments they receive on this ED.

The proposed amendments related to quoted investment would apply from the beginning of the year of application, with an adjustment to opening equity for the difference between the previous carrying amount and the carrying amount based on quoted market prices at the beginning of the period in which the proposed amendments are being first applied. Subsequent changes would be recognised in profit or loss. An entity would also be required to disclose the effect of the proposed amendments in the reporting period in which the amendments are being applied.

The proposed amendment related to measurement of CGUs at fair value less cost of disposal would be applied prospectively. In addition, the ED proposes that an entity that incurs an impairment loss or an impairment loss reversal in the period of initial application of the proposed amendments should disclose the impact on the impairment loss amount, if any, that would have been recognised in the immediately preceding period as if the proposed amendments had been applied.

The ED proposes that earlier application would be permitted, provided that all proposed amendments applied as a package at the same time.

Observation

The IASB concluded that the proposed amendments do not represent a change in a measurement basis, rather they would represent a change as to how fair value it is determined; accordingly, the IASB decided not to require retrospective application.

Comments on the ED are due by 16 January 2015.