IFRS 13: Fair Value Measurement Unit of Account

Extract, IFRS Discussion Group Report on Meeting – September 5, 2013

IFRS 13 *Fair Value Measurement* defines fair value, establishes a framework for measuring fair value and a fair value hierarchy based on the source of the inputs used to estimate fair value, as well as providing disclosure requirements. IFRS 13 does not establish new requirements for when fair value is to be used. To determine when fair value is to be used, one must look to individual standards such as IAS 39 *Financial Instruments*: *Recognition and Measurement* when accounting for financial instruments and IAS 36 *Impairment of Assets* when measuring a cash-generating unit for impairment.

In applying the guidance in paragraph 14 of IFRS 13, the unit of the account of the item to be valued must be determined first:

> "Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the IFRS that requires or permits the fair value measurement, except as provided in this IFRS."

Sometimes, the unit of account is self-evident. However, determining the appropriate unit of account may be more difficult when two standards appear to overlap because IFRSs on those topics do not provide further guidance. For example, what is the unit of account when the investment is held in the form of shares quoted in an active market but is sufficiently large to require accounting as an associate, a joint venture or a subsidiary?

An issue could arise in many situations including the following:

- an investment in a subsidiary, joint venture or associate accounted for in accordance with IFRS 9 or IAS 39 in separate financial statements;
- an investment in a joint venture or associate accounted for in accordance with IFRS 9 or IAS 39 by a venture capital or similar organization;
- an investment in a subsidiary, joint venture or associate measured at fair value in accordance with IFRS 9 or IAS 39 by an investment entity;
- shares in a subsidiary, joint venture or associate distributed to owners.
- a previously held equity interest in an acquiree in accounting for a business combination achieved in stages;
- a retained interest following a loss of control, joint control or significant influence; and
- a cash-generating unit that consists of a publicly listed entity.

The Group considered how to determine the unit of account when measuring the fair value of an associate, joint venture or subsidiary (herein referred to as “investment”) when the shares of the investee are quoted in an active market. Is the unit of account the entire investment (View A) or the individual share (View B)? What should be given primacy when measuring the investment at fair value, the nature of the investment along with the unit of account or price multiplied by quantity (referred to as “P x Q”)?

The Group’s Discussion

Group members observed that the IASB has a current implementation project to consider these questions. Group members highlighted that this project only relates to investments that have a quoted price in an active market and will not affect investments held in private entities.

Group members noted that the IASB tentatively decided that the unit of account is the investment as a whole (View A). However, the IASB also tentatively decided that when the shares underlying the investment being measured at fair value are publicly traded in an active market, the quoted price multiplied by the quantity of shares held should be given primacy over the unit of account. Further project information is available on the IASB’s Fair Value Measurement: Unit of Account project page.

Group members noted that understanding the basis for the IASB’s tentative decision that the quoted price multiplied by the quantity of shares overrides the unit of account is a struggle. Group members observed that there will be important implications if ultimately the IASB issues amendments to clarify IFRSs for this tentative decision. For example, an entity would not be permitted to recognize any premium that is reflected in the size of the holding, such as a control premium.

Group members commented that it is important to recognize that the IASB’s decision is tentative and passed with a very narrow margin with only eight IASB members in agreement. As a result, the tentative decision may not stand in future deliberations.

Group members observed that the IASB’s project suggests that there is currently no clear answer and alternative views could continue until the IASB issues amendments. In the intervening period, it is difficult to ignore the IASB’s tentative decision, which puts more pressure on supporting a valuation premise that includes a control premium. Group members encouraged preparers to continue to apply a lot of rigour when supporting fair values greater than the quoted price multiplied by the quantity of shares.

The Group did not recommend any further action be taken regarding this issue.