STAFF PAPER

March2018

IASB Meeting

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| **Project** | **Post-implementation Review of IFRS 13 *Fair Value Measurement*** |
| Paper topic | Responding to the feedback |



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## Purpose

1. In January 2018, the International Accounting Standards Board (Board) discussed the feedback received from the Post-implementation Review of IFRS 13 *Fair Value Measurement* (PIR). The papers for that meeting are useful background for this meeting and we have re-posted the ones that are likely to be the most useful at this meeting as background papers.

2. The objective of this meeting is for the Board to:

   (a) assess, based on the feedback received, whether IFRS 13 is working as intended; and

   (b) decide whether, as a result of the PIR, it wants to consider performing any follow up work.

## Staff assessment and recommendations

3. The staff assessment of the feedback received from the PIR is that IFRS 13 is working as intended. The staff recommends that the Board:

   (a) feeds the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting, in particular the projects on Principles of Disclosure and Primary Financial Statements and, in due course, considers whether to start separate projects to look at issues that were identified by the PIR and will not be addressed within the scope of work on Better Communication in Financial Reporting;

(b) continues liaison with the valuation profession, monitoring new developments in practice and promoting knowledge development and sharing; and

(c) conducts no other follow-up activities as a result of findings from the PIR.

4. The staff notes that the Accounting Standards Advisory Forum and many other stakeholders have recommended that the Board works on clarifying the issue of interaction between the unit of account and Level 1 inputs (often called the ‘PxQ issue’). However, the staff do not recommend follow-up work in this area because the staff’s assessment is that the costs of such work would exceed its benefits.

5. Many stakeholders have asked for application guidance or education materials on application of judgements, in particular relating to assessment of whether a market is active. The staff did not recommend developing such guidance as it is unlikely that further useful and principle-based guidance can be developed.

## Next steps

6. The next steps on the project depend on the Board’s decisions at this meeting:

(a) if the Board decides to consider any further follow up work in addition to what staff is recommending in this paper, we will bring a paper to a future meeting to help the Board decide what that follow up would entail.

(b) if the Board decides not to consider any further follow up work (except for what staff is recommending in this paper), there will be no further Board discussion as part of the PIR.

7. The staff will prepare a Report and Feedback Statement on the PIR. A draft of the Report and Feedback Statement will be made available for Board review as well as review by the IFRS Foundation’s Due Process Oversight Committee before being issued.

8. For information, we have included a draft structure for the Report and Feedback statement as Appendix A to this paper.

## Overview

9. This paper is structured as follows:

   (a) background – areas in which we received feedback during the PIR (paragraphs 10-12);

   (b) is IFRS 13 working as intended? (paragraphs 13-28):

      (i) is information required by IFRS 13 useful to users of financial statements? (paragraphs 16-20);

      (ii) do areas of IFRS 13 present implementation challenges that might result in inconsistent application of requirements? (paragraphs 21-23); and

      (iii) have unexpected costs arisen as a result of applying IFRS 13? (paragraphs 24-28).

   (c) considering follow up from the PIR:

      (i) what follow up activities could there be as a result of a PIR? (paragraphs 29-30);

      (ii) what are the criteria for follow up from a PIR? (paragraphs 31-34); and

      (iii) should there be follow up from the PIR of IFRS 13? (paragraphs 35-48).

   (d) questions to the Board (on pages 20-21);

   (e) Appendix A – tentative structure for the Report and Feedback Statement on the PIR of IFRS 13; and

   (f) Appendix B – how could suggestions on improving usefulness of disclosures be considered within the Board's work on Better Communication in Financial Reporting.

## Background – areas in which we received feedback during the PIR

10. The PIR, and the Board's Request for Information (RFI), focussed on the following areas of IFRS 13:

    (a) disclosures about fair value measurements (in order to gain a deeper understanding of both users' and preparers' perspectives on the usefulness of fair value measurement disclosures).

    (b) whether to prioritise Level 1 inputs or the unit of account (in order to further assess the extent and effect of the PxQ issue as well as current practice).

    (c) application of the concept of the highest and best use when measuring the fair value of non-financial assets (in order to better understand the challenges when applying this concept and whether further support could be helpful).

    (d) application of judgement in specific areas (in order to assess the challenges and whether further support could be helpful).

11. In addition, the RFI explored whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments.

12. The RFI also included questions on the effects of IFRS 13 and on any other matters not covered by specific questions.

## Is IFRS 13 working as intended?

13. The purpose of a PIR of a Standard, as set out in the IFRS Foundation's Due Process Handbook (Due Process Handbook) is to evaluate whether the Standard is working as the Board intended.[1] In particular, in reviewing IFRS 13, the Board aimed to assess whether:

[1] The IFRS Foundation's due process is set out in the *IASB and IFRS Interpretations Committee Due Process Handbook* and can be found at: http://www.ifrs.org/groups/due-process-oversight-committee/pages/due-process-handbook/

(a) the information required by IFRS 13 is useful to users of financial statements;

(b) areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and

(c) unexpected costs have arisen when preparing, auditing or enforcing the requirements of IFRS 13 or when using the information that the Standard requires entities to provide.

14. The staff's conclusion from the assessment is that IFRS 13 is working as intended. In particular:

(a) the information required by IFRS 13 is useful to users of financial statements;

(b) there are areas of IFRS 13 that present implementation challenges, driven by requirements to exercise judgement. However, there is evidence that practice is developing to deal with these; and

(c) there were no unexpected costs arising from application of IFRS 13.

15. We consider each of these conclusions in more detail in the following subsections.

### *Is information required by IFRS 13 useful to users of financial statements?*

16. Users of financial statements have said that IFRS 13 provides useful information as it helps them understand valuation techniques and inputs used to develop measurements, judgements made in arriving at those measurements as well as the effect of fair value measurements on financial performance.

17. Users identified the following information provided about fair value measurements as particularly useful: the fair value measurement hierarchy, information about valuation techniques and inputs, and quantitative information about significant unobservable inputs.

18. Users thought that information provided by IFRS 13 could be made more useful by:

(a) ensuring appropriate disaggregation so that information about assets and liabilities with different characteristics is not presented together, particularly for the following disclosures:

(i) quantitative significant unobservable inputs;

(ii) the reconciliation of changes in Level 3 measurements; and

(iii) quantitative sensitivity to reasonably possible alternative assumptions relating to significant unobservable inputs;

(b) improving consistency of what is presented within notes and of classification, particularly for the following disclosures:

(i) classification by the levels in the hierarchy; and

(ii) disclosure of valuation techniques and inputs (and requiring entities to also disclose weighted averages of inputs used);

(c) improving transparency by:

(i) emphasising material information and omitting immaterial items;

(ii) ensuring entity-specific information is included, for example on how the entity determines whether a market is active or whether an input is significant and unobservable; and

(iii) requiring additional disclosures for Level 2 measurements, particularly disclosures about unrealised gains and losses recognised in profit or loss; and

(d) more use of tables, and better placement of information.

19. The PIR also found that understanding of the required quantitative sensitivity analysis could be improved amongst both preparers and users, to make it clear this is not a forward-looking disclosure about possible future changes but rather about measurement uncertainty at the measurement date.

20. The PIR research also identified a trend for voluntary disclosure of a quantitative sensitivity analysis for investment property measured at fair value (the disclosure is required for financial instruments only).

### *Do areas of IFRS 13 present implementation challenges that might result in inconsistent application of requirements?*

21. Stakeholders have reported implementation challenges in all areas of focus listed in the PIR relating to how to measure fair value. Staff have assessed, to the extent evidence was available, whether these challenges result in inconsistent application of requirements as well as the population of entities for which these challenges arise.

22. In summary, the staff's assessment of challenges is as follows:

    (a) challenges in assessing whether a market is active, and whether an input is significant and observable, can lead to inconsistent classification within the fair value measurement hierarchy. Inconsistent assessment of whether a market is active can also lead to inconsistent fair value measurements because Level 1 inputs are used without adjustments, whereas Level 2 inputs can be adjusted.

    (b) challenges when the unit of account for the fair value measurement does not correspond to the available Level 1 inputs (PxQ issue) occur rarely and in practice it seems that priority is usually given to Level 1 inputs. However, any inconsistent application in this area can lead to significant differences in fair value measurement.

    (c) implementation challenges do occur with regard to the assessment of highest and best use. However, most assessments result in a conclusion that current use is also the highest and best use.

    (d) implementation challenges with regard to fair value measurement of biological assets and unquoted equities can sometime result in inconsistent application of requirements although some questioned the materiality in relation to biological assets.

23. We further explain findings relating to each of the challenging areas as follows:

    (a) Assessment of whether there is an active market for an asset or a liability: there are challenges with this assessment and they might result in inconsistent classification between Level 1 and Level 2 in the fair value hierarchy as well as differences in measurement. The inconsistent application can arise during assessment of whether there is sufficient frequency and volume of transactions, and assessment of whether there are recent relevant comparable transactions. Some preparers use internal or industry guides in seeking to achieve consistent application. Suggestions provided to address the challenges were to develop application guidance in the challenging areas.

(b) Assessment of whether an input is significant and unobservable: as for the assessment of whether a market is active, this assessment is challenging for some whereas others use internal or industry-level guidance in seeking to achieve consistent application. Specific challenges arise when using third-party pricing, and when deciding whether assessment is quantitative or qualitative, or is at one point in time or over time. This may result in diversity in practice with respect to what is classified as Level 3 measurement. Suggestions provided to address these challenges were to develop examples or application guidance on what constitutes unobservable inputs and on when such input is significant.

(c) PxQ issue: stakeholders have reported diversity in practice with respect to whether to adjust inputs from an active market when the unit of account for the fair value measurement does not correspond to the unit of account for the inputs from the active market. We understand that the prevalent practice following adoption of IFRS 13 was initially to use unadjusted Level 1 inputs (PxQ measurement) for measurements of investments that have a unit of account different from the input used. We further understand that in some jurisdictions practice has evolved so that adjustments are made to inputs if it can be justified that the resulting measurement equals fair value. We also understand that the issue arises for only a small population of entities, although its impact can be material when it does arise. Suggestions provided to address this issue included:

   (i) clarify that Level 1 inputs are to be used without adjustment, even when they do not correspond to the unit of account (view supported by most users);

(ii) clarify that Level 1 inputs can be adjusted when they do not correspond to the unit of account; or

(iii) address the broader issue of unit of account in IFRS Standards.

(d) Highest and best use for non-financial assets: there are challenges in practice with assessment of highest and best use. Those challenges may be pronounced in environments with unclear legal rules. These challenges have resulted in some diversity in practice with respect to assessing whether an alternative use is legally permissible and as a result of diversity in valuation practices. However, in practice the result of the assessment is usually that the highest and best use is the same as the asset's current use. Suggestions for addressing these challenges included:

(i) providing guidance on assessing whether an alternative use is highest and best use and on determining when it is possible to rebut the presumption that the current use is the highest and best use; and

(ii) moving some of the discussion from the Basis for Conclusions to become application guidance in the Standard, in order to provide authoritative guidance that would help preparers assess what is legally permissible and how much evidence is needed to assess what the highest and best use is.

(e) Fair value measurement of biological assets: there are challenges in measuring biological assets when there are no market inputs. These challenges arise mostly for growing produce, with differences arising in assessing when to start recognising growing produce and how to measure it, and in carrying out an overall assessment of whether the measurement is reliable. Some do not find this challenging, however, because the differences in judgement do not cause material differences in measurement, or because they use expertise from the valuation profession. Suggestions provided to address challenges included developing illustrative examples similar to those already produced by the IFRS Foundation for unquoted equities or providing application guidance in the Standard. There were also suggestions to change the scope of IAS 41. Some noted guidance being developed by valuation bodies or other standard-setters.

(f) Fair value measurement of unquoted equities: there are challenges with this assessment, including reconciling different valuation methods, measurement of early-stage investments and dealing with restrictions. Some do not find this challenging because they use industry guides and some thought IFRS education material *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments* [2] already issued provided sufficient guidance.

(g) Other challenges: other challenges reported by stakeholders included:

(i) a perception that Level 3 measurements are less relevant to users of financial statements than Level 2 measurements, and that Level 2 measurements are less relevant to them than Level 1 measurements. Academic research has found that fair value measurement across all levels of hierarchy is value relevant. Some suggested relabelling the components of the hierarchy to address this mis-perception.

(ii) diversity in practice with respect to use of valuation adjustments in measuring financial instruments, with a recommendation that the Board monitors how practice develops in this area.

(iii) a conclusion that fair value does not equal the original transaction price can lead to inappropriate recognition of day one gains or losses, with some suggesting that example 7 of the illustrative examples accompanying IFRS 13 is misleading.

### *Have unexpected costs arisen as a result of applying IFRS 13?*

24. The PIR has found that some requirements in IFRS 13 are costly to implement. However, the Board was aware of those costs at the time of finalisation of

[2] The educational material can be found at: http://www.ifrs.org/Use-around-the-world/Education/FVM/Documents/Education-guidance-FVM.pdf

IFRS 13 as evidenced by the discussion in the Basis for Conclusions on IFRS 13. This is discussed further in the following subsections.

### *Which requirements are costly to implement?*

25. During the PIR we identified the following disclosures relating to Level 3 fair value measurements as being the most costly to prepare:

    (a) reconciliation of changes in Level 3 fair value measurements (reconciliation);

    (b) quantitative analysis of the sensitivity of Level 3 measurement to reasonably possible changes in significant unobservable inputs (sensitivity analysis);

    (c) quantitative information about significant unobservable inputs; and

    (d) information on unrealised gains and losses relating to Level 3 measurements.

26. We were also informed that the disclosures in interim financial statements for financial instruments measured at fair value were very costly to prepare, in particular given the limited time available to prepare them.

### *Were any of the costs of complying with IFRS 13 requirements unexpected?*

27. The Basis for Conclusions on IFRS 13 recognised the costs of preparing the above disclosures and explained the expected benefits as follows:

    (a) With regard to the reconciliation and to information on unrealised gains and losses, BC197 said that:

    > …the users indicated that the disclosures allowed them to make more informed judgements and to segregate the effects of fair value measurements that are inherently subjective, thereby enhancing their ability to assess the quality of an entity's reported earnings

    (b) With regard to sensitivity analysis, BC208 says:

    > …the IASB concluded that information about the sensitivities of fair value measurements to the main

> valuation assumptions would provide users of financial statements with a sense of the potential variability of the measurement. In forming that conclusion, the IASB considered the view that disclosure of sensitivities could be difficult, particularly when there are many assumptions to which the disclosure would apply and those assumptions are interdependent. However, the IASB noted that a detailed quantitative disclosure of sensitivity to all assumptions is not required (only those that could result in a significantly different estimate of fair value are required) and that the disclosure does not require the entity to reflect interdependencies between assumptions when making the disclosure

(c) With regard to the quantitative information about significant unobservable inputs, BC192 says:

> The boards noted that the objective of the disclosure is not to enable users of financial statements to replicate the entity's pricing models, but to provide enough information for users to assess whether the entity's views about individual inputs differed from their own and, if so, to decide how to incorporate the entity's fair value measurement in their decisions. The boards concluded that the information required by the disclosure will facilitate comparison of the inputs used over time, providing users with information about changes in management's views about particular unobservable inputs and about changes in the market for the assets and liabilities within a particular class. In addition, that disclosure might facilitate comparison between entities with similar assets and liabilities categorised within Level 3 of the fair value hierarchy

28. Regarding disclosures in interim financial statements, BC 224 says:

> The IASB decided to include in IAS 34 an explicit requirement to provide updated disclosures because it concluded that the benefit of having incremental disclosures for financial instruments outweighed the associated costs

given the increased interest in those instruments during the global financial crisis that started in 2007.

## Considering follow up from the PIR

### *What follow up activities could there be as a result of a PIR?*

29. The Due Process Handbook says there could be several outcomes from the PIR and that there is no presumption that a PIR leads to a change to a Standard:

> The IASB may consider making minor amendments to the Standard or preparing an agenda proposal for a broader revision of the Standard. There is no presumption that a PIR will lead to any changes to a Standard. The IASB may also continue informal consultations throughout the implementation of the Standard or the amendment to the Standard.

30. There could be other forms of follow-up from a PIR:

    (a) research projects, when the Board needs to understand more about an issue or a potential issue before deciding how to proceed. For example, one of the follow-up from the PIR of IFRS 3 *Business Combinations* was a research project on goodwill and impairment; or

    (b) developing supporting materials, including illustrative examples or other education materials, to help stakeholders understand and apply the requirements. Such material would accompany but not be a part of IFRS 13. For example, staff, with the help from valuation experts group, developed educational material *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments* in response to a request from emerging markets.

### *What are the criteria for follow up from a PIR?*

31. The Due Process Handbook does not set out criteria for doing further work following a PIR in general. However, it states that the Board considers the

following when it evaluates the merits of adding to its work plan a project to develop a new Standard or make a major amendment to a Standard:

(a) whether there is a deficiency in the way particular types of transactions or activities are reported in financial reports;

(b) the importance of the matter to those who use financial reports;

(c) the types of entities likely to be affected by any proposals, including whether the matter is more prevalent in some jurisdictions than others; and

(d) how pervasive or acute a particular financial reporting issue is likely to be for entities.

32. The Due Process Handbook also discusses issues that could lead to narrow scope (maintenance) amendments of Standards (emphasis added):

> Issues could include the identification of **divergent practices** that have emerged for accounting for particular transactions, cases of **doubt about the appropriate accounting treatment** for a particular circumstance or concerns expressed by investors about **poorly specified disclosure requirements**.

33. The Due Process Handbook does not discuss convergence with US GAAP, but it is another factor to consider in the case of IFRS 13. We note that:

(a) IFRS 13 and codification Topic 820 *Fair Value Measurement* of the US standard setter, the Financial Accounting Standards Board (FASB) are substantially converged standards.

(b) The Financial Accounting Foundation (FAF), the oversight body of the FASB, completed its PIR of FASB Topic 820 in May 2013 and concluded the Standard was working well but that improvements to disclosures should be considered, taking into account its work on the Disclosure Framework.

(c) The FASB is currently working on amending disclosure requirements relating to fair value measurements. The FASB’s latest tentative decisions are for the following changes to requirements:

(i) Remove the requirements for entities to disclose:

1. the amounts of and reasons for transfers between Level 1 and Level 2 of the fair value;
2. their policy for timing of transfers between levels of the fair value hierarchy; and
3. their valuation processes for Level 3 fair value measurements.

(ii) Require public entities to disclose:

1. the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and
2. the range and weighted average used to develop significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy, as well as how they calculated weighted average.

(iii) Clarify that the narrative description should communicate information about the uncertainty in fair value measurements at the reporting date rather than information about sensitivity to future changes.

(iv) Eliminate "at a minimum" from the phrase "an entity shall disclose at a minimum," which makes it difficult for an entity to justify omitting immaterial disclosures.

(v) Remove or simplify some of the disclosures for non-public entities.

34. A final factor to consider when deciding whether any follow up is needed is the Board's other projects, some of which could review issues identified in the PIR.

### *Should there be follow up from the PIR of IFRS 13?*

35. The staff has organised the discussion below by types of possible follow up and by areas of focus in the PIR.

### *Major amendments to IFRS 13*

36. The staff thinks that no major amendments to IFRS 13 are required as a result of the findings from the PIR. The information IFRS 13 provides is useful, in other words there is no 'deficiency in the way particular types of transactions or activities are reported in financial reports'.

### *Narrow scope amendments to IFRS 13*

Disclosures

37. There is evidence that the way some disclosures are presented by some entities does not provide useful information. Some of that may be due to 'poorly specified' disclosure requirements. There might also be disclosures that are currently not required but would improve the usefulness of information about fair value measurements. Some of the improvements suggested by stakeholders are the same as those considered by FASB. Considering those improvements could provide an opportunity to enhance convergence between IFRS Standards and US GAAP in disclosures about fair value measurements.

38. However, the Board is working on two cross-cutting disclosure projects as a part of its work on Better Communication in Financial Reporting, and it may be better to consider findings from the PIR through these projects, not as a separate stand-alone project. Specifically:

    (a) the research project on Primary Financial Statements is looking at aggregation and disaggregation of information and could consider issues on disaggregation identified by the PIR; and

    (b) the research project on Principles of Disclosure is looking at several areas for which the findings from the PIR may be provide useful input, in particular:

        (i) principles of effective communication;

        (ii) location of information; and

        (iii) a potential standard-level review of disclosures.

    Next steps on the Principles of Disclosure project are also being discussed at the March 2018 Board Meeting (see Agenda Papers 11, 11A and 11B). Appendix B summarises how the feedback received on the PIR links with the staff recommendations and potential future work on the Principles of Disclosure project.

39. In September 2017, the Board published Practice Statement 2 *Making Materiality Judgements*, which could help entities address some of the concerns about presenting immaterial information relating to fair value measurements.

40. The staff recommends that the findings from the PIR relating to disclosures are fed into the Principles of Disclosures project as well as the Primary Financial Statements project. In October 2017, the Board published the Better Communications: Making Disclosures More Meaningful case studies. This document provided five examples of companies that have improved communication effectiveness in their financial statements.

41. However, it is unlikely these projects would cover all suggestions received in the PIR for improvements to disclosures. We have analysed this in appendix B to this paper. The staff further recommend that, once these projects decide which of the suggestions to incorporate in their work, the Board considers whether to do any work on the remaining suggestions.

<u>PxQ issue</u>

42. Although the PxQ issue is not pervasive, many stakeholders have said that it is important to them that the Board clarifies the requirements. Nevertheless, on balance, the staff does not recommend any follow up work because:

(a) the Board's previous significant work on the topic[3] as well as the PIR suggests the issue is narrow and affects only a limited population of entities;

(b) users have not expressed concern with reporting in practice (although they would like more transparency and have asked for clarification); and

(c) because of differences in views between preparers and users, any follow up activities are likely to require significant resource. Also, there is a high chance of scope creep because the unit of account is a cross-cutting

[3] The background papers for this meeting include a summary of the Board's previous work on the PxQ issue (agenda paper 7B).

issue across IFRS Standards. Thus, this project may be possible only as a major amendment to IFRS 13 and/or other IFRS Standards.

43. Taking all these factors in consideration, the staff thinks that costs of work on the unit of account issue would exceed the benefits.

<u>Assessment of whether a market is active and whether an input is significant and unobservable</u>

44. The staff thinks that follow-up work on the assessment of whether a market is active, and whether an input is significant and unobservable, could be considered as there is some evidence of divergent practice in these areas. However, the staff does not recommend the Board amends IFRS 13 to provide further guidance in this area because:

(a) the requirements are principle-based, and any further guidance is likely to remain such, so there will always be a need for exercise of judgement in making these assessments;

(b) the challenges raised are detailed valuation assessments and an accounting standard-setter may not be the best placed to provide guidance in this area; and

(c) there is evidence of practice having developed guidance to aid these assessments. Those aids are used by some and promote consistent application.

<u>Other areas of focus in the PIR</u>

45. The staff thinks that no amendments to IFRS 13 are required as a result of findings in the following focus areas of the PIR:

(a) assessment of highest and best use, because there is no evidence of inconsistent application of requirements (in most cases the assessment is that the highest and best use is the same as current use);

(b) fair value measurement of biological assets, because although there might be some inconsistent application, detailed application questions might best be addressed by the valuation profession, and not by accounting standard-setters. Initial discussions with the valuation community suggest that some of the issues raised could be addressed by analogising to valuation practice for other assets and not necessarily by specific guidance relating to biological assets. There is also a view of some stakeholders that the issues in this area may not be material although we could not obtain much evidence in this area; and

(c) fair value measurement of unquoted equities, because there is no evidence of inconsistent application. Some stakeholders have found IFRS education material on this topic useful and many also said they were using practice guides, for example those issued by the International Private Equity and Venture Capital Board.

*Supporting materials to accompany IFRS 13*

46. As some preparers find application of requirements in the focus areas of the PIR challenging, the Board could consider instructing staff to develop supporting materials, such as illustrative examples.

47. The staff thinks supporting material could be useful to help preparers improve usefulness of disclosures, for example case studies on good presentation of disclosure of valuation techniques or on disaggregation. However, given the scope of the project on Principles of Disclosures, the staff thinks that project should consider whether it would be worth developing such material. The staff does not recommend a standalone project resulting from the PIR.

48. The staff does not recommend developing supporting material in other areas of focus in the PIR, and we discuss the reasons by each area of focus:

(a) assessment of highest and best use for non-financial assets. The staff have already done work on developing education material following a request in 2013 from the Emerging Economies Group (EEG), but it was not finalised. Assessment of highest and best use is most difficult when significant judgement needs to be exercised, and it is doubtful whether supporting material would be helpful in these circumstances. The staff therefore does not recommend developing this material.

(b) application of judgements in assessing whether a market is active or an input is a significant unobservable input. Again, the staff does not recommend this because such material would be unlikely to help in specific cases which would still require exercise of judgement. For example, in responding to a request from the EEG, the staff had already considered developing education material relevant to assessing whether a market is active (the material considered assessment of whether a transaction is orderly). The staff concluded that any guidance would constitute interpretation of IFRS 13 because application in this area requires considerable judgement. Thus, the staff did not proceed with developing supporting materials in this area.

(c) fair value measurement of biological assets. The staff does not recommend this given that International Valuation Standards Council (IVSC) is starting a project to assist with valuation of biological assets. The staff suggests maintaining liaison with IVSC.

(d) fair value measurement of unquoted equities. The staff does not recommend this, as the staff has already developed supporting educational material *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9 Financial Instruments* in response to request from the EGG and there is also guidance in practice that is used.

## Questions for the Board

**Questions**

1. Do you agree with the staff assessment, based on the findings from the PIR, that IFRS 13 is working as intended? If not, why not?

2. Do you agree with staff recommendations for the following follow-up from the PIR:

a. Incorporate findings regarding usefulness of disclosures into the work on Better Communication in Financial Reporting, in particular the Principles of Disclosure and Primary Financial Statements projects, and, in due course, consider whether to start separate projects to look at issues that were identified by the PIR and will not be addressed within the scope of work on Better Communication in Financial Reporting; and

b. Continue liaison between the Board and the valuation profession, to monitor new developments in practice and promote knowledge development and sharing?

If not, which follow-up activities do you not agree with and why?

3. Do you want to consider any other follow up from the PIR? If yes, in which areas and why?

4. If you decide that no further follow-up is needed do you conclude we have done enough work on the PIR and can now prepare the Report and the Feedback Statement? If not, what additional work would you like to staff to do?

## Appendix A–Tentative structure for the Report and Feedback Statement

| Main headings of the document | Description of the section |
|---|---|
| **Contents page** | Table of contents for the publication. |
| **Introduction** | Overview of what the document is, including a description of the PIR process, the scope of the PIR and the findings. |
| **Summary of our findings and next steps** | High-level summary of the findings in phase 2. |
| **Background** on **the Standard** | Description of the Standard and convergence. |
| **Consultation and evidence gathered** | Description of phase 1 and 2 and the results from those phases. |
| **Feedback Statement on the implementation of the Standard** | Topic(s) issues broken down with questions from the RFI, messages received and the Board's next steps for the topic (if any). |
| **Respondents to the Request for Information** | List of respondents to RFI. |
| **Summary of academic research and related literature** | Summary of academic research. |
| **Appendix: Timeline for the Post-implementation Review of the Standard** | Project timeline. |

## Appendix B–Suggestions on improving usefulness of disclosures through the work on Better Communication in Financial Reporting

| # | Suggestion received in PIR for making disclosure more useful | How could the improvement be achieved? | Could this be done as part of the work on Better Communication in Financial Reporting? |
|---|---|---|---|
| **1.** | Ensuring appropriate disaggregation so that information about the fair value measurement of assets and liabilities with different characteristics is not presented together. | Several things could be useful: more guidance on how to disaggregate, and/or illustrative examples/case studies of good disaggregation. | The Primary Financial Statements project discusses principles of aggregation and disaggregation, which could potentially address this. |
| **2.** | Improving consistency of what is presented within notes, in particular for information that is common across entities, for example for valuation techniques and inputs used. | Case studies of good disclosure or illustrative examples could be useful. | Principles of Disclosures project (POD) issued the *Better Communication: Making Disclosures More Meaningful* case studies in October 2017. The POD team have recommended that the Board review the practical effect of these case studies, and other related documents, in Q2 2019. By this time, more information about the practical effect of those documents will be available and the Board will be able to make a more informed decision about whether, and what, further activity would be helpful (see Agenda Paper 11A; paragraphs 56-60). |
| **3.** | Improving consistency of classification by levels in the hierarchy. | This is not a disclosure but measurement issue. Addressing transparency of classification, as discussed below, could help though. | N/A |

| # | Suggestion received in PIR for making disclosure more useful | How could the improvement be achieved? | Could this be done as part of the work on Better Communication in Financial Reporting? |
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| **Improving transparency by:** | | | |
| **4.** | (a) emphasising material information and omitting immaterial items; | IFRS Practice Statement 2 *Making Materiality Judgements* on materiality has useful examples that could help entities omit immaterial information. It is too early to assess whether Practice Statement 2 *Making Materiality Judgements* will encourage improvements in this area. | The POD team have recommended that the Board review the practical effect of the Practice Statement in Q2 2019. See comments in row 2. |
| **5.** | (b) ensuring entity-specific information is included, for example on how entity determines whether there is an active market or a significant unobservable input; and | Case studies of good disclosure or illustrative examples could be useful. | See above comments on case studies in row 2. |
| **6.** | (c) requiring additional disclosures for Level 2 measurements; particularly disclosures about unrealised gains and losses recognised in profit or loss. | This would require amendment to IFRS 13. | The POD team have recommended that the Board undertake a targeted standards-level review of disclosures. The specific Standards that would be the subject of such a review are still to be analysed. Feedback received on IFRS 13 as part of this PIR would be considered as part of making that decision about which Standard(s) would be in scope (see Agenda Paper 11B; paragraphs 62-68). |
| **7.** | Use of tables and better placement. | Case studies of good disclosure or illustrative examples could be useful. | See above comments on case studies in row 2. |

| # | Suggestion received in PIR for making disclosure more useful | How could the improvement be achieved? | Could this be done as part of the work on Better Communication in Financial Reporting? |
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| **8.** | Make it clear that quantitative sensitivity analysis is not a forward-looking disclosure about possible future changes but rather about measurement uncertainty at the measurement date. | This could be achieved with amendment to IFRS or non-authoritative supporting materials. Some other communication material, for example an *Investor Perspectives* article, might also help. | As described in row 6, feedback received on the IFRS 13 PIR will also be considered if the Board decides upon the scope of a standards-level review of disclosure. |
| **9.** | Follow-up on trend for voluntary disclosure of a quantitative sensitivity analysis for investment property measured at fair value. | If this information is useful to investors, a requirement could be added via amendment to IFRS 13. | See above comments on standards-level review in row 6. |