Appendix 2

Matrix of areas of experience with IFRS 13 shared by stakeholders

(please print in A3 paper size for easier reading)

<table>
<tr><th rowspan="2">#</th><th rowspan="2">Category and items affected</th><th rowspan="2">Description of areas of experience with IFRS 13 shared by stakeholders</th><th colspan="4">Staff assessment of the area raised</th><th colspan="5">Source</th></tr>
<tr><th>How pervasive</th><th>Diversity in practice</th><th>Priority</th><th>Staff's rationale</th><th>Auditors</th><th>Preparers</th><th>Regulators</th><th>Investors</th><th>Standard-setters</th></tr>
<tr><td colspan="12">Areas relating to disclosures</td></tr>
<tr><td>1</td><td>Disclosure effectiveness in general</td><td>IFRS 13 requires disclosures about fair value measurements (FVM) with greater requirements for measurements classified within Level 3 of the fair value hierarchy.
Many stakeholders questioned the effectiveness of some of the FVM disclosures. Some preparers saw some of the disclosure requirements as too onerous, not reflecting the way they manage their business and questioned their relevance, in particular when aggregated. The investors found the disclosures provided often to be boilerplate and needed more granularity.
Specific examples of disclosures not seen as effective by stakeholders are below.</td><td>Widespread</td><td>N/A</td><td>H</td><td rowspan="4">Disclosure requirements were one of the main areas of changes brought in by IFRS 13. Many stakeholders provided us consistent messages on the need to review the overall effectiveness of the disclosure requirements in IFRS 13, in particular, the disclosure requirements for Level 3 FVM. Even though some requirements raised more comments than others, the staff think that a review of the effectiveness of the disclosures can be better carried out when considering the topic as a whole and therefore propose to further assess the whole area.</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
<tr><td>1A</td><td>Sensitivity analysis</td><td>IFRS 13 requires a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs. Some stakeholders have stated that this requirement is typically not well understood with the result being low quality boilerplate disclosures.
IFRS 13 requires, for recurring FVM of financial assets and financial liabilities categorised within Level 3 of the FV hierarchy, a quantitative sensitivity analysis reflecting reasonably possible alternative assumptions. Some stakeholders questioned the appropriateness of the range of reasonably possible alternative assumptions identified in practice, noting the information provided was often not useful. Some preparers stated that this disclosure requirement is onerous to prepare, does not reflect the way they manage their business and questioned the relevance of the resulting information. Several investors stated they would like this disclosure to go further by showing the range of possible values, and reflecting interdependencies of assumptions.</td><td>Seems widespread</td><td>N/A</td><td>M/H</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td></td></tr>
<tr><td>1C</td><td>Reconciliation for level 3 measurements</td><td>IFRS 13 requires, for recurring Level 3 FVM, disclosure of the reconciliation from opening to closing balances.
Some stakeholders have stated that preparing the reconciliation is an onerous and manual task because the instruments are not managed by the level of fair value hierarchy. Those stakeholders questioned the usefulness of the reconciliation to users of financial statements.</td><td>Seems widespread</td><td>N/A</td><td>M</td><td>✓</td><td>✓</td><td></td><td></td><td></td></tr>
<tr><td>1D</td><td>Unrealised gains or losses</td><td>IFRS 13 requires a disclosure of the change in unrealised gains or losses recognised in profit or loss (P/L) for recurring Level 3 FVM.
Some stakeholders questioned the relevance of this disclosure, especially in the context of financial instruments (as liquidity is seen as more important than whether something was actually sold). Others questioned the meaning of realised vs unrealised gains or losses with some wondering whether unrealised gains or losses should be disclosed for all levels in the hierarchy, noting that in some jurisdictions the term has legal implications relating to distributable dividends.</td><td>Europe due to dividend laws</td><td>No</td><td>M</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td><td>✓</td></tr>
</table>

#	Category and items affected	Description of areas of experience with IFRS 13 shared by stakeholders	Staff assessment of the area raised: How pervasive	Diversity in practice	Priority	Staff's rationale	Source: Auditors	Preparers	Regulators	Investors	Standard-setters
1E	Disclosure of FV for items not measured at FV (FI & IP)	IFRS 13 requires entities to disclose the fair value of Investment Property and financial instruments that are not measured at fair value in the statement of financial position. Several stakeholders stated that the quality of such fair value measurements is perceived to be lower, with entities often relying on proxies for measurement, thus questioning the usefulness of this information for investors. Some stakeholders noted that smaller entities in particular find the requirement onerous.	N/A	N/A	M		✓	✓		✓	✓
Areas relating to the unit of account											
2	Measurement of quoted investments and quoted CGUs (P × Q)	IFRS 13 requires that Level 1 inputs are used whenever available. The Standard also requires that the FVM considers the unit of account of the item being measured. Some stakeholders reported a lack of clarity on whether the use of Level 1 inputs (for example individual share price) prevails over the principle of considering the unit of account of the item measured. Many stakeholders questioned the relevance of measuring quoted investments in subsidiaries, joint ventures or associates or the recoverable amount of quoted cash generating units on the basis of fair value less costs of disposal by using unadjusted Level 1 inputs in all circumstances, noting that this was the approach mostly used in practice. Overall the feedback received was very similar to the feedback received on the 2014 ED and during the research undertaken in 2015 on this topic.	Not often but material when it occurs	Mixed views	M	Whilst the matter was commented upon by most stakeholders, there were mixed views on diversity in practice and on the difference between using Level 1 inputs or valuation techniques. Consequently, this matter is assessed as medium priority.	✓	✓	✓		✓
3	Highest and best use (Non-financial assets)	IFRS 13 requires that the HBU of a non-financial asset is considered when measuring its fair value, even if that is different from the asset's current use. Some stakeholders have stated that, when the valuation premise of a non-financial asset is to use it in combination with other assets and liabilities and the HBU of any of the assets within that group is different from its current use, the measurement for the non-financial asset is not clear and may result in counter-intuitive outcomes when using a residual method (for example, the fair value of the non-financial asset may be nil). Most common examples provided are of farms or factories near suburbs which could be used for urban development. In addition, some noted challenges when applying the HBU to specialised assets (such as schools or government properties). A few stakeholders questioned whether opportunity cost or options accounting is to be considered, similar to what the Board had proposed in its Exposure Draft during the development of IFRS 13.	Specific to Malaysia Australia New Zealand and France	Some indicated diversity that some entities do not apply HBU	M	Issues relating to the application of HBU were reported by several stakeholders in a limited number of jurisdictions, yet they described the matter as very important to them.	✓	✓	✓		✓
4	Restrictions attached to assets (FI)	IFRS 13 requires that restrictions that are attached to assets are reflected in the FVM. Some stakeholders stated that the accounting requirements for these restrictions	Mainly in business combinations	Some indicated diversity	L/M	Restrictions are fact specific, their assessment and subsequent measurement is highly dependent on the clarity of the	✓	✓	✓		✓

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		are not well understood and that entities find it difficult to assess whether a restriction is attached to an asset or not. A common example mentioned was of shares provided as consideration in a business combination, which can be restricted from being traded for a certain period. Another example given was of measuring the fair value of a liability by considering the fair value of the same item held as an asset by another market participant, with the only difference being that there is a restriction attached to the asset. Some stakeholders stated that these restrictions are not always adjusted for and, when identified, their measurement can be challenging.				law, contracts and how easy it is to understand the economics underlying the transactions. The stakeholders did not state that the requirements in the Standard are not clear but rather acknowledge that it is an area that requires judgement.					
5	Unit of account - Tax features (Non-FI)	The sale of a physical asset within a corporate wrapper can have different tax treatments depending on whether it is sold on its own or in a corporate wrapper. The optimisation of the tax position of the parties has an impact on the transaction price, which means that the measurement of the physical asset at fair value will differ depending on the assumptions that are made about its sale. Some stakeholders (mainly accounting firms) think that the IFRS requirements are clear and that only the underlying asset is to be measured, however, in their view this may not reflect the way the asset is transacted and, consequently, may lead to a measurement that does not reflect the economics. More broadly, these stakeholders think that the Standard does not provide guidance to deal with cases when the unit of account of the items measured at fair value is not aligned with the unit of account of the item when transacted.	Some, especially in business combinations	Some indicated diversity	L/M	Whilst not raised by many stakeholders, those who raised it said it was material. However, some may consider this to be outside the scope of IFRS 13 PIR.	✓				
Areas requiring use of judgement											
6	Assessing when a market is active	IFRS 13 defines 'active market' and requires that entities use quoted prices when markets are active and, conversely, allows adjustments to quoted market prices when determining fair value when markets are inactive. Some stakeholders stated that they find making this assessment challenging in some circumstances and asked for more guidance. An example of guidance sought was how to consider factors such as the 'volume' or the 'frequency' of the trades in the assessment. Several stakeholders stated that the concerns around 'PxQ' (number 2 in this table) add to the pressure on the assessment of active market.	Pervasive	Unknown	M/H	The assessment of whether a market is active requires judgement and therefore some diversity in practice is expected. However due to the concerns expressed by many stakeholders and the implications of wrong assessments in this area, the staff think this item is of a medium/high priority.	✓	✓	✓		✓

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7	Fair value hierarchy (All)	IFRS 13 requires that 'the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement […]'. Many stakeholders have raised concerns with the implementation and general understanding of the categorisation of measurements within the fair value hierarchy. Some stakeholders have stated that assessing both the *observability* and the *significance* of the inputs can be challenging. Those stakeholders noted that additional disclosure requirements for measurements at Level 3 of the hierarchy (ie measurements relying on significant unobservable inputs) adds further pressure to the assessment. Some stakeholders have stated that entities can also find it difficult to assess whether a measurement would fall within Level 1 or Level 2 in the hierarchy. Some of these stakeholders referred to the example of quoted third party prices which was also a submission discussed by the IFRS Interpretations Committee.[1]	Widespread	Mixed reports	M	This assessment requires judgement and therefore some diversity in practice is expected. However due to concerns expressed by some stakeholders and the implications of wrong assessments in this area (ie particularly affecting the disclosures provided by an entity), the staff think this item has a medium priority.	✓	✓	✓	✓	✓
8	Transaction price different from fair value (All)	Some stakeholders have stated that, in some cases, entities have difficulties in assessing whether the transaction price represents fair value. The conclusions from the assessment add pressure to: (a) the assessment of the principal market for the item being measured at fair value (for example loans below market rates); (b) identifying the nature of the item that explains the difference between the transaction price and fair value and its appropriate accounting treatment (for example, for financial instruments whether to recognise it immediately as a gain or loss or whether to defer it)	Limited	Unknown	L	The comments received do not necessarily indicate that the requirements in the Standard are unclear but rather that the assessment required is challenging and that more guidance would be beneficial. This area of judgement does not seem to be pervasive.	✓		✓		
Areas relating to FVM when markets are not active or there are no markets											
9	Unquoted equity instruments	IFRS 13 sets out requirements for measuring the fair value of assets and liabilities regardless of whether observable market prices exist for them. Several stakeholders reported difficulties with measuring fair value when markets are not active or there are no observable market prices that can be used. In some circumstances, IFRS 9, IFRS 10, IAS 27 and IAS 28 require or permit equity investments to be measured at fair value. Several stakeholders reported difficulties when measuring unquoted equity instruments. Some of these stakeholders stated that in some cases the fair value measurements are subject to dispute as various valuation techniques could be used and the	Emerging markets	Some indicated diversity	M	The staff note that the IFRS Education Initiative published non-authoritative education material for the fair value measurement of unquoted equity instruments within the scope of IFRS 9. Consideration of the appropriate measurement basis is not within the scope of the PIR of IFRS 13. Due to the concerns raised, the staff think this is a matter of medium priority however the staff do not think it is in the	✓	✓	✓		

[1] For more details on the submission to IFRS IC see Agenda Paper 7A for this meeting.

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		assumptions and inputs used are highly subjective and easily challenged. Some of these stakeholders stated that in some of these cases the cost of determining fair value exceeds the benefits. These stakeholders also questioned the reliability of such measurements, especially when performed by in-house valuers or accountants.				scope of the IFRS 13 PIR					
10	Biological Assets	IAS 41 *Agriculture* requires that biological assets (with some exceptions) are measured at fair value less costs to sell when fair value can be measured reliably. Many stakeholders (mainly preparers in Asia) reported difficulties with measuring fair value of biological assets. Common examples given were of measuring fair value of immature fruit for which there is no market and determining which part of the biological asset should be subject to fair value measurement (when both cost and fair measurement are applied to parts of a single biological asset).	Asia, Scandinavia	Some indicated diversity	H	The areas raised touch on the question of the appropriate unit of account and detailed valuation guidance which could be considered outside the scope of the PIR of IFRS 13. Due to the concerns raised, the staff think this is a matter of medium priority however the staff do not think it is in the scope of the IFRS 13 PIR	✓	✓	✓		✓
Areas specific to FVM of financial instruments											
11	Financial liability with a demand feature	IFRS 13 states that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid. Some stakeholders questioned the relevance of this measurement. In their view, such a measurement fails to consider: (a) behavioural aspects that would factor in the stability of demand deposits as a source of funding; (b) some features affecting the demand of these deposits, such as contingent rights to demand; or (c) own-credit risk at initial recognition.	None mentioned as concerning	Not aware	L	The comments received challenge the relevance of the specific fair value measurement requirements for liabilities with a demand feature. These requirements were relocated unchanged from IAS 39 and IFRS 9 as a consequence of the Board's fair value measurement project. This matter was not identified as a major area of concern by stakeholders.	✓	✓			✓
12	Bid-ask spread (FI)	IFRS 13 requires entities to measure the fair value of an asset or liability at a price within the bid-ask spread that is most representative of fair value in the circumstances. Entities are, however, not precluded from using a pricing convention such as mid-market pricing. Some stakeholders have stated that the interaction between these requirements in IFRS 13 is not clear. A stakeholder also noted that the FVM does not incorporate transaction costs however, according to IFRS 13 the bid-ask spread includes them. This stakeholder stated that IFRS 13 does not provide guidance for entities to assess the transaction costs within the bid-ask spread so that they can be eliminated from the spread to derive the exit price.	Less liquid market with bigger spreads	Some divergence noted	L	The staff note that the requirements in IAS 39 were more prescriptive and, consequently, probably easier to implement. This was, however, not identified as a major area of concern by stakeholders.	✓	✓			✓

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			How pervasive	Diversity in practice	Priority	Staff's rationale	Auditors	Preparers	Regulators	Investors	Standard-setters
13	Portfolio exception (FI)	IFRS 13 allows an entity that manages a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk to measure the fair value of that group on the basis of the price that would be received to sell a net long position or transfer a net short position for a particular risk exposure. When the basis for the presentation of the financial instruments in the statement of financial position differs from the basis for their measurement, entities may need to allocate the portfolio-level adjustments to the individual financial assets and liabilities (ie when the latter are presented on a gross basis). Some stakeholders have stated that there is diversity in the methodologies applied by entities when allocating the portfolio-level adjustments to the individual financial assets and financial liabilities.	None mentioned as concerning	Some indicated diversity	L	When developing the portfolio exception requirements of IFRS 13 the Board decided not to require a particular method of allocation for the portfolio-level adjustments, concluding that a quantitative allocation would be appropriate if it was reasonable and consistently applied. The staff think that the Board gave priority to allocations being reasonable and consistently applied rather than entities performing the allocations in a similar manner. In addition, this was not identified as a major area of concern by stakeholders.	✓				✓
14 A	Valuation adjustments *(CVA/DVA)* (FI)	IFRS 13 states that the fair value measurements of financial assets and financial liabilities should reflect counterparty credit risk and an entity's own credit risk, respectively. These valuation adjustments are typically referred to as credit valuation adjustment (CVA) and debit valuation adjustment (DVA). Several stakeholders have stated that the inclusion of CVA and DVA in the fair value measurement of financial instruments and the quality of the measurement of the resulting adjustments vary depending on an entity's sophistication and availability of valuation skills or resources. For example, most financial institutions include CVA and DVA in the fair value measurement of their financial instruments but fewer corporates do.	Pervasive when relevant	Yes (In the inclusion of the adjustments and in their measurements)	L/M	Entities generally include CVA and DVA in the fair value measurement of financial instruments. A few stakeholders stated that the matter does not generally raise concerns provided the adjustments are within reasonable ranges. The inclusion of these adjustments is, however, less common among corporates. The inclusion and, when so, the measurement of XVAs vary depending on entities' degree of sophistication and also because this is still an evolving field. In this context, a few stakeholders (mainly accounting firms) stated that valuation theory is moving beyond the efficient market theory underlying the Standard and that even though this may not be a concerning matter now it is an area worth following it up.	✓	✓	✓		✓
14 B	Valuation adjustments *(Other valuation adjustments (XVAs))* (FI)	Some stakeholders have stated that derivative valuation has continued evolving since the issuance of IFRS 13. Currently market participants often consider the impact of, among others, funding costs (funding valuation adjustments or FVA) and regulatory requirements (capital valuation adjustments or KVA) as valuation adjustments when valuing derivatives. These stakeholders stated that consideration of these valuation adjustments when measuring derivatives at fair value also varies depending on an entity's sophistication and availability of valuation skills or resources. In addition, when these valuation adjustments are considered, there is also divergence in the methodologies used among entities to measure them as techniques are currently evolving. The evolving nature of this field is also evidenced by new valuation adjustments arising (for example margin valuation adjustment or MVA). The consideration of an increasing number of valuation adjustments explains that they are generally referred to as XVAs. Several of these stakeholders (mainly accounting firms) have however stated that they do not think that there is necessarily a need for developing further guidance on this area as it is an evolving practical issue. These stakeholders think that the	Evolving		L/M		✓		✓		

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			How pervasive	Diversity in practice	Priority	Staff's rationale	Auditors	Preparers	Regulators	Investors	Standard-setters
		principles in IFRS 13 should be sufficient for entities to conclude on the appropriate treatment of these adjustments when measuring the fair value of financial instruments. However, a stakeholder (banking regulator) stated that in some instances financial institutions would not necessarily know whether the inclusion of these adjustments in the fair value measurements are permitted by the Standard.									
15	Own credit risk (FI)	Some stakeholders questioned the underlying assumption in FVM that liabilities are transferred to a party with the same non-performance risk as the issuer rather than to a market participant. In their view, this questions the appropriateness of considering own credit risk when measuring the fair value of liabilities in particular for those non-derivative financial liabilities that cannot in practice be transferred or bought back. Some of these stakeholders also questioned the usefulness of the information arising from own credit risk adjustments. According to them, many entities exclude these adjustments to get to an adjusted profit figure that enables them better period-to-period comparability.	Not aware	N/A	L/M	The nature of this issue is conceptual rather than practical. The evidence gathered during this first phase is limited to the comments received from some stakeholders (mainly preparers in the financial services industry).	✓				
Areas considered outside the scope of IFRS 13											
16	Underlying standards - Business vs group of assets (Non-FI)	Several stakeholders have raised some issues relating to the mismatch between unit of measurement and unit of account. One example is the accounting for groups of assets that do not meet the definition of a business. For example, the measurement of a group of ships may include an assemblage value making the group worth more than the sum of the values of the individual ships. However, for accounting purposes, it is the individual ships that are recognised and measured, which can result in a day one loss.	Not clear	N/A	L	The issue relates to guidance in underlying Standards on what and how is recognised and measured. It is therefore outside the scope of the PIR of IFRS 13.	✓	✓			
17	Reliability of fair value (non-FI)	IFRS 13 presumes that fair value can always be measured, however, some IFRS Standards require fair value only when it can be reliably measured, for example for biological assets, or consideration in an barter transaction accounted in accordance with IFRS 15. A few stakeholders stated that IFRS Standards do not provide any guidance for assessing when fair value cannot be measured reliably and that preparers struggle with this assessment.	Mostly biological assets	Do not know	L	When developing IFRS 13 the Board acknowledged that some other IFRS Standards may include practicability exceptions to fair value measurements[2] and this was not considered in the fair value measurement project. It is therefore outside the scope of the PIR of IFRS 13.	✓	✓			✓

[2] See paragraph BC8 of IFRS 13.

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18	IAS 36 (non-FI)	Several stakeholders questioned the interaction between the guidance for measuring the recoverable amount of an asset on the basis of value in use for impairment testing in IAS 36 *Impairment of Assets* with IFRS 13. Some stakeholders stated that the rules-based requirements for determining value in use sometimes result in unexpected differences between value in use and fair value measurement. Those stakeholders thought this was counterintuitive.	Emerging markets	Some indicated diversity	L	Whilst these questions seem useful to investigate in general, they are outside the scope of IFRS 13 PIR. These matters could be investigated further within the Goodwill and Impairment project.		✓			
19	Customer Relationships	Several stakeholders have stated that measuring and auditing customer relationships is a difficult area. Those stakeholders stated that this is mainly because it was not clear what is the asset being measured (ie what is the unit of account and what are the economics underlying the item).	Business combinations	Unknown	L	The stakeholders who raised this did not think of it as a priority. Also, it is outside the scope of the IFRS 13 PIR. These matters could be investigated further within the Goodwill and Impairment project.	✓	✓			
20	Calibration of valuation models	Several stakeholders have also stated that the calibration of valuation models is a challenging area for some entities. These stakeholders gave examples of factors such as price negotiation which are difficult to incorporate in the calibration of a valuation model. These stakeholders stated that more guidance would be useful.	Emerging markets	Some indicated diversity	L	This seems to be mostly related to how to apply FVM framework and is outside the scope of the IFRS 13 PIR.	✓	✓	✓		