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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**January 2009, London**
Project:	**Fair Value Measurement**
Subject:	**Disclosures about fair value measurements (Agenda paper 3D)**

Purpose of this paper

1 This paper addresses disclosure requirements to be proposed in an exposure draft of an IFRS on fair value measurement guidance.

Introduction

2 The Board did not express a preliminary view about disclosures in the *Fair Value Measurements* discussion paper. However, the Board asked:

a whether the disclosure requirements in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) provide sufficient information;

b if not, what additional disclosures would be useful; and

c whether there are disclosures in SFAS 157 that are excessive or not beneficial when considered with disclosures required in IFRSs.

3 This paper reflects the following:

a the comments received on the discussion paper;

b the comments received on the exposure draft to improve IFRS 7 *Financial Instruments: Disclosures* (issued October 2008);

c feedback received through the work of the expert advisory panel (both through discussions of the panel and the feedback received on the draft document);

d feedback received from preparers regarding disclosure requirements in IFRSs and US GAAP;

e input from users familiar with either IFRSs or US GAAP; and

f issues raised during the deliberations of the fair value measurement project.

4 The staff also has been liaising with FASB staff to ensure consistency in disclosure requirements where possible.

Staff analysis

5 The Board discussed the disclosure requirements for financial instruments when developing the exposure draft to improve IFRS 7. The fair value disclosures proposed in the exposure draft were based on feedback from users and preparers, mainly through discussions of the expert advisory panel. The comment period on that exposure draft ended on 15 December 2008. Agenda Paper 14A for the January 2009 meeting summarises the comments received.

6 Although the IFRS 7 disclosures apply to financial instruments, many of those disclosures relate just as well to non-financial assets and liabilities.

Summary of proposed disclosure requirements

7 The following table summarises the proposed disclosure requirements, including whether they are currently required by IFRSs and/or SFAS 157:

Disclosure requirement	SFAS 157	IFRS 7	IFRS 7 ED	FVM ED
Information disclosed by *class* of assets and liabilities	✗ (by major category)	✓	✓	✓
The fair value of each class of assets and liabilities at the end of the annual reporting period	✓ (also for interims)	✓	✓	✓
The level within the fair value hierarchy into which the fair value measurements are categorised in their entirety	✓	✗	✓	✓
The amount of any significant transfers into and/or out of Levels 1 and 2, and the reasons for those transfers	✗	✗	proposed in ED, but not recommended for final amendments for cost-benefit reasons, pending the outcome of the fair value measurement project	✓
The methods used and assumptions applied in determining fair value	✓/✗ (for methods used but not for assumptions applied)	✓	✓	✓
Any changes in valuation techniques and reason for the change	✓	✓	✓	✓

Disclosure requirement	**SFAS 157**	**IFRS 7**	**IFRS 7 ED**	**FVM ED**
Level 3 roll-forward: • Total gains or losses for the period • Purchases, sales, issues and settlements • Transfers into and/or out of Level 3	✓ (purchases, sales, etc. to be disclosed *net*; does not require disclosure of reasons for transfers into/out of Level 3)	✗	✓ (proposes purchases, sales, etc. to be disclosed *net*; staff recommends changing to *gross*; does not require disclosure of reasons for transfers into/out of Level 3)	✓ (purchases, sales, etc. to be disclosed *gross*; requires disclosure of reasons for transfers into/out of Level 3)
Amount of gains or losses for the period included in profit or loss related to assets or liabilities still held at the reporting date	✓ (describes these as 'unrealised' gains or losses)	✗	✓ (describes these as 'unrealised' gains or losses; staff recommends removing the term 'unrealised')	✓ (does not use the term 'unrealised')
Sensitivity analysis for Level 3	✗	✓	✓	✓

Disclosure requirement	**SFAS 157**	**IFRS 7**	**IFRS 7 ED**	**FVM ED**
If an entity is required or chooses to disclose the fair values of assets or liabilities not measured at fair value in statement of financial position (eg financial instruments measured at amortised cost and property, plant and equipment measured using the cost model), the entity shall disclose the fair value by level of the hierarchy[1]	✗	✗	✓	✓
Changes in own credit for liabilities, including the amount of the change and how it was calculated	✗	✓	n/a (already in IFRS 7, not part of proposed amendments)	✓
Policies for recognising day one gains or losses and the amount of the gain or loss recognised during the period, if any	✗	✓	✓/✗ (policies already in IFRS 7; amounts not required)	✓
If there is a difference between the highest and best use of an asset and its current use (depreciable and non-depreciable assets in an asset group), an entity shall disclose the amount of the difference in value and the reason the situation arose	✗ (SFAS 157 does not require recognition or disclosure of this difference)	n/a	n/a (not applicable for financial instruments)	✓
Disclosure shall be in tabular format	✓	✗	✓ (unless another format is more appropriate)	✓ (unless another format is more appropriate)

[1] Some IFRSs (eg IAS 16 *Property, Plant and Equipment*) *encourage*, but do not *require*, entities to disclose the fair value of assets or liabilities not recognised at fair value in the statement of financial position. The fair value measurement exposure draft proposes requiring disclosure of such information by level of the hierarchy *if* an entity chooses to disclose the fair value of the asset or liability.

Differences from the proposed disclosures and those in SFAS 157

8 A few of the disclosure requirement differences in the table above deserve further explanation:

a SFAS 157 requires disclosure by 'major category' of asset or liability. However, the staff suggests that the fair value measurement exposure draft proposes requiring disclosures by 'class' of asset or liability, consistent with the IFRS 7 exposure draft (issued October 2008). A major category is typically a line item in the statement of financial position (eg 'available-for-sale financial assets' or 'property, plant and equipment'). A class is described in IFRSs as a grouping of assets or liabilities of a similar nature and use. A class is generally at a level lower than a major category (eg 'equity investments' or 'land and buildings').

b SFAS 157 requires different disclosures depending on whether the fair value measurement is recurring (eg for financial assets held for trading) or non-recurring (eg for impairments). IFRSs have few non-recurring fair value measurements (eg the revaluation model in IAS 16). Even for non-recurring measurements (such as IAS 16), it seems users would want the information required by SFAS 157 for recurring measurements. Impairments, although non-recurring, are not measured using fair value, but recoverable amount (the higher of fair value less costs to sell and value in use). The staff does not suggest requiring fair value disclosures for impairments that are measured on the basis of fair value less costs to sell. The staff suggests that the exposure draft does not differentiate between recurring and non-recurring fair value measurements.

c The Level 3 roll-forward in SFAS 157 requires entities to disclose the *net* amount of purchases, sales, issuances and settlements. The staff understands that this information is about the transactions the entity has undertaken during the period and is not about their measurement. However, we have heard from users that this information would be more useful if it were presented gross, rather than net. One reason for this is that it seems useful to know how much an entity is buying or selling when the market for an asset or liability is illiquid. The Board has two options: it could address this (1) in the financial statement presentation project or (2) in the fair value measurement project. The staff suggests addressing it in the fair value measurement project because it relates to fair value disclosures and provides useful information to users about an entity's transactions in assets or liabilities that use significant unobservable inputs.

d The Level 3 roll-forward in SFAS 157 uses the terms 'realised' and 'unrealised' gains or losses for the reporting period. The staff understands that these terms cause confusion when an asset or liability is acquired in one reporting period and sold or remeasured in another period because it is unclear whether a realised gain should be measured from the acquisition date or the fair value at the end of the previous reporting period. The staff notes that SFAS 157 describes unrealised gains or losses as relating to assets or liabilities still held at the reporting date. This means that realised gains or losses relate to assets or liabilities that were sold or transferred during the reporting period. The objective of the disclosure of total gains realised and unrealised gains or losses is to indicate the amount of the gain or loss that has arisen since the last reporting date. Both reflect the change in economic conditions during the period, regardless of whether the entity has transacted. Therefore, the staff suggests removing the reference to realised and unrealised gains or losses to avoid confusion about from which point in time the realised or unrealised gain or loss results. Although we suggest removing the terms realised and unrealised to avoid confusion, users would get the information provided by the SFAS 157 disclosures as currently worded—they would have information about total gains or losses, as well as unrealised gains or losses, and from those two amounts they could determine the amount of realised gains or losses.

e Entities applying US GAAP prepare quarterly financial reports SFAS 157 includes disclosure requirements for both quarterly and annual reporting. IFRSs do not require entities to prepare interim reports, but IAS 34 *Interim Financial Reporting* applies if an entity is required or elects to prepare such reports in accordance with IFRSs. The staff is looking at potential amendments to IAS 34 to address which fair value disclosures should be required for interim reports prepared under IAS 34. Paragraph 6 of IAS 34 states that an interim financial report 'focuses on new activities, events, and circumstances and does not duplicate information previously reported'. The staff's current thinking is that an entity should be required to update its interim disclosures if, for example, there is a significant change in the business or economic circumstances. The staff does not envisage requiring updated interim disclosures for routine changes from the previous reporting period.

f SFAS 157 contains examples of the required fair value disclosures in its application guidance. However, the staff is recommending that an IFRS on fair value measurement require entities to disclose fair value information in tabular format, unless another format is more appropriate in the circumstances (this is consistent with the proposal in the IFRS 7 exposure draft (issued October 2008)). In other words, if the Board agrees with this recommendation, an entity is not required to use a tabular format, but a table is one way of disclosing the information. Because of this, the staff thinks this is better suited to implementation guidance.

Questions for the Board

9 **Does the Board agree:**

a **to require entities to disclose fair value measurement information by class of asset or liability rather than by major category?**

b **not to differentiate between recurring and non-recurring fair value measurements?**

c **to require disclosure of purchases, sales, issues and settlements separately for Level 3 assets and liabilities?**

d **to remove the reference to realised and unrealised gains or losses?**

e **to amend IAS 34 to require entities to provide updated interim fair value disclosures if, for example, there is a significant change in the business or economic circumstances? If the Board agrees, the staff will consider the wording for this in drafting.**

f **to provide the disclosure examples in implementation guidance rather than in application guidance?**

10 **Does the Board agree with the proposed disclosures in the table on pages 3-5?**

a **If not, what additional disclosures would you like to propose in the exposure draft?**

b **Are there disclosures you think are not necessary?**