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International Accounting Standards Board

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting:	**22 January 2009, London**
Project:	**Improving Disclosures about Financial Instruments (proposed amendments to IFRS 7)**
Subject:	**Proposed amendments on fair value disclosures (Agenda paper 14A)**

BACKGROUND TO APPROACH USED FOR FAIR VALUE MEASUREMENT DISCLOSURES PROPOSED IN THE ED

1. At the September 2008 meeting, the Board considered proposing disclosures using the fair value hierarchy set out in SFAS 157 *Fair Value Measurements* (with expanded disclosures on Level 3 items).

2. However, because the fair value measurement project is not yet completed, the Board decided to propose a fair value hierarchy for disclosures that is similar to that in SFAS 157 but that uses IAS 39 *Financial Instruments: Recognition and Measurement*/IFRS 7 terminology.

3. In proposing such an approach, the Board was aware of possible inconsistencies with SFAS 157 and hence possible confusion among some constituents. However, the Board decided that the advantages of proposing such an approach included:

a) that there was no risk of changing the fair value *measurement* of financial instruments before concluding the deliberations in the fair value measurement project;

b) codifying current practice among some entities (notably financial institutions) who use a three-level hierarchy in making IFRS 7 fair value measurement disclosures (and hence increasing convergence);

c) maintaining the link between measurement using the IAS 39 hierarchy and disclosures; and

d) minimising possible confusion should the Board eventually use wording different from SFAS 157 in the fair value measurement project.

4. Further details on the different approaches considered by the Board can be found in agenda paper 2B of the September 2008 Board meeting.

5. As discussed in the following section, most respondents were confused about the fair value measurement hierarchy proposed in the ED.

OVERVIEW OF COMMENTS RECEIVED ON THE ED

(Appendix A contains the relevant paragraphs from the ED.)

6. Overall, respondents support enhanced fair value disclosures. However, there was a wide spectrum of views regarding the nature, scope and timing of the proposed amendments:

a) ***Nature* -** there was confusion among respondents whether the proposed fair value disclosure hierarchy is:

1. consistent with the current measurement hierarchy in IAS 39 *Financial Instruments: Recognition and Measurement*;
2. consistent with the disclosure hierarchy in FASB Statement157 *Fair Value Measurements*; or
3. a hierarchy specific to IFRS 7.

b) ***Scope* -** some respondents believe that enhanced disclosures should *only* focus on financial instruments whose values are determined using significant unobservable inputs (Level 3). These respondents believe that in light of the current market conditions, this information is most useful.

c) ***Timing***- some respondents believe that any fair value disclosure proposals are premature and should *only* be considered after completion of the fair value measurement project. These respondents believe that the current disclosure proposed in this ED pre-empts the outcome of the fair value measurement project.

7. Specific issues raised by respondents relating to proposed fair value disclosures include:

a) Potential application and interpretation issues resulting from inconsistencies between the proposed three-level fair value disclosure hierarchy, measurement hierarchy in IAS 39 and the disclosure hierarchy in SFAS 157.

b) Cost-benefit considerations and application issues of some of the expanded fair value disclosures, in particular:

(i) disclosure of reconciliation of beginning and ending balances of instruments in Level 3 of the fair value hierarchy;

(ii) disclosure of movements between the different levels of the hierarchy; and

(iii) stratifying by level of hierarchy the disclosure of the fair values of financial instruments that are not measured at fair value in the statement of financial position.

c) Usefulness of some proposed disclosures.

ANALYSIS OF RESPONSES TO THE QUESTIONS SET OUT IN THE ED

8. The ED invited responses to four questions on the proposed fair value disclosures. A summary of the responses to each question is presented below.

Fair value disclosures

Question 1 of the ED

Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

Question 2 of the ED

Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

9. Most respondents support the proposal to disclose the fair value of financial instruments using a fair value hierarchy. However, they disagreed about whether the three-level hierarchy set out in paragraph 27A of the ED was appropriate.

10. Respondents that support disclosure using a three-level fair value hierarchy do so for different reasons. For example, respondents believe that such a hierarchy:
    a) is a structured approach and provides sufficient granularity;
    b) enhances comparability among entities;
    c) is consistent with US GAAP– hence resulting in greater convergence;
    d) is consistent with existing best practice – many entities are familiar with these disclosures and some entities already voluntarily adopt similar disclosures (because they are consistent with SFAS 157).

11. However, based on comments received, the staff notes there is confusion among respondents relating to the interaction between the current IAS 39 measurement hierarchy, the proposed fair value disclosure hierarchy and the SFAS 157 disclosure hierarchy.

12. Many respondents noted inconsistencies between these three hierarchies. The following inconsistencies were cited by these respondents.

13. *IAS 39 measurement hierarchy v proposed fair value disclosure hierarchy*

a) IAS 39 provides for a two-, three- or five-level (comments varied between respondents) measurement hierarchy while the ED proposes a three-level disclosure hierarchy[1].

b) IAS 39 appears to use a broader definition of an active market (Level 1) than the proposed disclosure hierarchy. For example, IAS 39.AG73 in the active market (Level 1) section of application guidance includes instruments where a rate (rather than a price) is quoted in an active market. This indicates that instruments such as plain vanilla OTC derivatives might be treated as Level 1 for measurement purposes. However, under the proposed disclosure hierarchy such instruments would be disclosed in Level 2 solely because their price is not quoted in an active market and their value are determined through valuation techniques.

c) Under the IAS 39 measurement hierarchy, many instruments on which a day one gain or loss cannot be recognised because there is *at least one* unobservable input is used in its valuation are considered Level 3 instruments (the implied Level 3 as described in the footnote to paragraph 13(a) of this paper). However, under the proposed IFRS 7 fair value disclosure hierarchy, such instruments might be disclosed in Level 2 of the disclosure hierarchy if the unobservable component is not significant in relation to the instrument's overall value. As IFRS 7.28 currently requires an entity to disclose a reconciliation of deferred day one gain or loss, it becomes confusing to compare the Level 3 amount disclosed in the proposed hierarchy to the overall day one gain or loss deferral disclosed under paragraph 28 of IFRS 7. Some stated that overall deferred day one gain or loss amounts will appear to be artificially inflated when compared to the Level 3 amount as some of the deferral relates to items disclosed in Level 2 of the proposed IFRS 7 hierarchy.

[1] The staff notes that IAS 39 has an explicit 2 level measurement hierarchy, 'active market: quoted price' (AG71-73) and 'no active market: valuation technique' (AG74-79). However, a further distinction is made between fair values determined using a valuation technique based on assumptions that are supported by available observable market data (an implied Level 2) and fair values determined using a valuation technique based on assumptions that are not those that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data (an implied Level 3). This implied Level 3 is the subset of instruments that is also defined in paragraph 27(c) of IFRS 7.

14. Respondents believe that the ‘disconnect’ between measurement and disclosure has several drawbacks. Most importantly, respondents were concerned that such a disconnect would be confusing to users and posed the risk of misinterpreting the information in the financial statements. Another concern is that the disconnect may result in diversity in practice arising as a result of application and interpretation issues of both IAS 39 and IFRS 7. Although paragraph BC6 of the ED states that the recognition of gains and losses at inception should not change as a result of the proposed fair value disclosure hierarchy, some respondents also believe that the proposed hierarchy might be wrongly applied to interpret measurement guidance in IAS 39.

15. Some respondents further note that the distinction between active and inactive markets is not clearly defined within measurement guidance. Thus, the proposed allocation between levels is unlikely to be achieved without diversity in practice.

16. *Proposed fair value disclosure hierarchy v SFAS 157 disclosure hierarchy*

a) Terminology and wording of the proposed hierarchy differs subtly from that of SFAS 157.

b) Measurement of day one gain or loss differs between IAS 39 and SFAS 157. Hence, even if the proposed fair value disclosure hierarchy is consistent with the SFAS 157 disclosure hierarchy, the resulting disclosures would disguise measurement differences and still could not ensure comparability.

c) SFAS 157 does not explicitly define how significance should be judged i.e. with respect to profit or loss or the statement of financial position. However, the proposed IFRS 7 disclosure hierarchy states that significance should be judged against profit or loss or total assets or total liabilities.

17. Moreover, some respondents believe that as drafted, ‘significant to the fair value measurement in its entirety’ in paragraph 27A can be interpreted in a

number of ways given the absence of guidance (guidance accompanies SFAS 157). For example, they stated that it is unclear whether significance relates to the importance of the input to the pricing of a financial instrument rather than materiality of its effect on the value of class of instruments as a whole.

18. Paragraph BC5 of the ED states that the Board considered the fair value hierarchy set out in SFAS 157 but, pending completion of its fair value measurement project, decided proposing a fair value disclosure hierarchy that is similar to that in SFAS 157 using terminology in IAS 39 and IFRS 7. As set out above, this contributed to the uncertainty among respondents whether the proposed hierarchy reflects the implied fair value hierarchy in IAS 39 (discussed in the footnote to paragraph 13(a), is the same as that in SFAS 157, or is something different.

19. In highlighting these inconsistencies, respondents proposed various approaches:
    a) Do not go forward with the proposed three-level fair value disclosure hierarchy, but mandate disclosures to provide additional information about the extent and sensitivity of valuations using significant unobservable inputs (Level 3) at this time.
    b) Amend IAS 39 to ensure consistency with the proposed fair value disclosure hierarchy (in particular, address the issue on day one gain or loss).
    c) Amend the hierarchy in the ED to conform to the implied fair value measurement hierarchy in IAS 39.
    d) Provide some form of mapping between the IAS 39 measurement hierarchy and proposed IFRS 7 hierarchy.
    e) Align wording in proposed amendments with that in SFAS 157.
    f) Explicitly state in the Basis for Conclusions that the proposed fair value hierarchy is to be applied and interpreted consistently with SFAS 157.

20. Moreover, some respondents believe that the proposed description of Level 2 in paragraph 27A should be clarified. These respondents noted that as drafted, any measurement based on quoted prices in active markets for ‘similar assets and liabilities’ might be disclosed in Level 2 of the hierarchy. However, these respondents believe that if prices require significant adjustment to reflect differences between the subject instrument and the quoted instrument, such measurements should be classified as Level 3 unless the adjustment is also based on observable market data.

Staff recommendation

21. The staff recommends approach a) in paragraph 19 of this paper.

22. That is, not to go forward with the proposed three-level fair value disclosure hierarchy but focus on the implied Level 3 of IAS 39 – the subset of instruments that are already defined in paragraph 27(c) of IFRS 7. That subset is comprised of those instruments whose fair values are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data.

Staff analysis

23. The staff thinks that although many respondents agree with a three-level fair value disclosure hierarchy, respondents in fact agree with ‘different’ hierarchies. For example, some respondents believe that that the wider definition of ‘active market’ in IAS 39 will result in more instruments being allocated in Level 1 under the proposed disclosure hierarchy than under the SFAS 157 disclosure hierarchy. This indicates that such respondents believe the proposed disclosure hierarchy should be applied consistently with the IAS 39 measurement hierarchy. However, some other respondents believe that the proposed hierarchy is entirely consistent with SFAS 157. These

respondents assume that resulting disclosures are comparable to those disclosed by entities applying US GAAP.

24. The staff agrees that the proposed fair value disclosure hierarchy is largely similar to that in SFAS 157. However, the staff notes that the proposed disclosure hierarchy is neither consistent with IAS 39 nor with SFAS 157. As demonstrated in responses to the ED, such inconsistencies might result in application and interpretation issues and diversity in practice. The staff notes that even inconsistencies perceived as minor in terms of the difference between the wording or structure of requirements can have a significant impact on the disclosure in financial statements, e.g. disclosure of many non-exchange traded derivatives as Level 1 or Level 2 fair values.

25. The staff recommends the Board does not move forward with a short-term disclosure hierarchy that will be applied inconsistently as the comparability and usefulness of resulting disclosures are questionable. The staff thinks that such a hybrid hierarchy leads to confusion among preparers, auditors and users and will possibly *increase* divergence between IFRS and US GAAP.

26. The staff further notes that any use of the SFAS 157 hierarchy will result in incorporating SFAS 157 by reference into IFRS 7. The staff urges the Board to consider the possible consequences and conflicts between IFRS 7, IAS 39 and SFAS 157 before directly importing SFAS 157 into IFRS 7.

27. Moreover, the staff thinks that in the light of current market conditions, the main objective of the proposed fair value disclosures is to provide users with additional information about the extent and sensitivity of valuations using unobservable inputs (implied Level 3 of IAS 39). This was also the focus of the discussions of the IASB Expert Advisory Panel. This information can be provided without requiring an analysis in accordance with a three-level hierarchy.

28. The staff believes it is more appropriate to include the proposed three-level fair value disclosure hierarchy in the forthcoming ED on fair value

measurement. The staff thinks that proposed disclosures will be more comprehensible when considered along with proposed measurement requirements.

29. In addition, the staff notes that IFRS 7 requires entities to disclose additional information that they deem useful to users. Entities that currently voluntarily disclose the fair value of financial instruments using a three-level fair value hierarchy can continue that practice irrespective of the amendments to IFRS 7. Moreover, the Expert Advisory Panel Document provides best practice guidance for fair value disclosures. This guidance further encourages entities to disclose fair values using a three-level hierarchy.

30. The staff suggests that the Board adopt an approach that in the near term focuses on fair value disclosures regarding the implied Level 3 of IAS 39.

31. However, if the Board disagrees with the staff recommendation, the staff thinks that the Board should consider some of the following approaches:
    a) Amending IAS 39 to align measurement requirements with disclosure requirements. This includes addressing issues relating to day one gains or losses; or
    b) Explicitly aligning the proposed fair value disclosure hierarchy with the SFAS 157 disclosure hierarchy. This includes:
        1. Providing additional guidance
        2. Mapping the proposed disclosure hierarchy levels to measurement levels in IAS 39
        3. Resolving the conflict relating to selection and application of accounting policies in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

Question to the Board

32. Does the Board agree with the staff recommendation as set out in paragraph 21 of this paper? If not, why? What does the Board propose instead, and why?

Question 3 of the ED

Do you agree with the proposals in:

a) paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?

b) paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

33. Overall, respondents support expanded fair value disclosures, particularly those relating to Level 3. Almost all respondents agree that expanded Level 3 disclosures provide useful information in the light of current market condition.

34. However, a small number of respondents were concerned about the overstatement of the subjectivity of Level 3 measurements in situations where Level 3 instruments are hedged by Level 1 or Level 2 instruments. These respondents believe that expanded Level 3 disclosures might be misleading.

35. Moreover, many respondents believe that there are potential application issues and that the cost of applying some of the proposed disclosures outweighs the benefits Specifically, many respondents disagreed with proposals in paragraph 27B(c) and paragraph 27C of the ED).

Proposed requirements in paragraph 27B

36. Paragraph 27B(b)(i) requires entities to provide a reconciliation of Level 3 balances separately disclosing changes attributable to total gains and losses for the period (realised and unrealised) recognised in profit or loss.
Paragraph 27B(c) requires a separate disclosure of the total amount of *unrealised* gains or losses for the period in paragraph 27B(b)(i) included in

profit or loss for those assets and liabilities still held at the end of the reporting period.

37. Respondents provided the following reasons for disagreeing with the requirement in paragraph 27B(c):

a) Application issues:

1. information is difficult to collect and would require complex tracking (particularly for derivative instruments with daily settlements).
2. similar disclosures in SFAS 157 have resulted in implementation issues and diversity in application in the US that diminishes the comparability and usefulness of these disclosures.
3. there is no realised and unrealised concept defined in IFRSs, which would result in different entities determining these amounts differently.
4. it diverges from existing practice as entities generally do not make a distinction between realised and unrealised gains and losses.

b) Usefulness and relevance of disclosed information:

1. separate disclosure of unrealised gains or losses implies that *unrealised* gains and losses are of a lower quality (and hence undermines the relevance of fair value measurement).
2. there appears to be no rationale for requiring a disclosure only for items included in profit or loss.

Proposed requirements in paragraph 27C

38. Paragraph 27C requires that for financial instruments that are not measured at fair value in the statement of financial position an entity disclose the fair value by level of the fair value hierarchy into which such instruments are categorised in their entirety.

39. Respondents provided the following reasons for disagreeing with the requirement in paragraph 27C:

    a) this disclosure is not required under SFAS 157 and hence the requirement is divergent from US GAAP.
    b) information disclosed is irrelevant as these instruments are not measured in the statement of financial position at fair value and hence do not affect an entity's performance.
    c) cost versus benefit – an onerous additional requirement.

40. Moreover, some respondents believe that paragraph 27C and paragraph 29(a) are inconsistent. These respondents note that although paragraph 29(a) exempts disclosure of fair value when the carrying amount is a reasonable approximation of fair value, paragraph 27C implies that disclosure of fair values by level of the fair value hierarchy is required for *all* financial instruments. Respondents question whether instruments that fall under paragraph 29(a) are included in the scope of paragraph 27C.

41. Other issues identified by respondents relating to expanded fair value disclosures include:

    a) paragraph 27B(d) requires disclosure of the effect, for fair value measurements classified in Level 3, of changing one or more of the significant unobservable inputs used in the fair value measurement to another reasonably possible alternative assumption. Some respondents requested expansion of the requirement to include disclosure of how the effect is calculated.
    b) paragraph 27B(e) requires disclosure of any movements between the levels of the fair value hierarchy and the reasons for these movements. Most respondents agree with that disclosure of movements into and out of Level 3. However, some respondents argue that quantitative disclosures of movements into and out of Level 1 and 2 are unduly onerous and provide information of limited value, hence are not cost beneficial.
    c) Some respondents requested clarification on whether non-recurring measurements recorded at fair value upon occurrence of a triggering

event are required to be disclosed under paragraph 27B or paragraph 27C. For example, impaired assets measured using the practical expedient in paragraph AG 84 of IAS 39, which are recorded at fair value upon occurrence of impairment.

d) Some respondents noted that the example in paragraph IG13A provides disclosures by *category* while IFRS 7 requires disclosures by *class* of financial instruments.

e) Some respondents requested additional examples in the implementation guidance.

42. In identifying these issues respondents proposed the following approaches to address them:

a) Eliminate the requirement in paragraph 27B(c) to disclose unrealised gains or losses.

b) Eliminate the requirement to disclose the fair value of financial instruments that are not measured at fair value in the statement of financial position by level of the fair value hierarchy into which such instruments are categorised in their entirety as required in paragraph 27C or only require such disclosures for reclassified financial assets i.e. instruments reclassified out of held for trading and available for sale.

c) Limit expanded fair value disclosures in paragraph 27 to Level 3 items i.e. requiring disclosure of movements between levels of the fair value hierarchy required in paragraph 27B(e) to Level 3 items only.

d) Clarification of drafting.

43. In addition, a small number of respondents (notably some users) proposed:

a) Expanding some of the requirements in paragraph 27B to levels 1 and 2.

b) Expanding disclosures to require inclusion of ‘any other relevant information’.

Staff recommendation

44. The staff recommends the following:

a) Re-draft paragraph 27B(c) so as to require disclosure of *total* gains or losses for the period included in profit or loss for those assets and liabilities still held at the end of the reporting period instead of *total unrealised* gains or losses.

b) Expand requirement in paragraph 27B(d) to include disclosure of how the effect of changing one or more of the significant unobservable inputs used in the fair value measurement of Level 3 financial instruments to another reasonably possible alternative assumption is calculated.

c) Eliminate the requirement in paragraph 27C to stratify the fair value of financial instruments that are not measured at fair value in the statement of financial position by level of the fair value hierarchy into which such instruments are categorised in their entirety. Instead, keep the existing requirement to disclose which of these fair values fall into the implied Level 3 of IAS 39.

d) Limit the requirement in paragraph 27B(e) so as to disclose movements and reasons for these movements to items in the implied Level 3 of IAS 39 only.

e) Clarify that expanded Level 3 disclosures apply to items in Level 3 as implied in IAS 39 (as set out in paragraph 27(c) of IFRS 7) - i.e. fair values determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data.

f) Other drafting clarifications.

Staff analysis

45. The staff thinks that the requirement in paragraph 27B(c) should be re-drafted to exclude reference to *unrealised* gains or losses. The staff believes that as drafted the requirement is confusing and will result in application issues as highlighted by some respondents.

46. The staff recommends eliminating paragraph 27C because disclosure of fair values of financial instruments that are not measured at fair value in the statement of financial position is already required by IFRS 7. IFRS 7.25 requires an entity to disclosure the fair value of each class of assets and liabilities in a way that permits it to be compared with its carrying amount. IFRS 7 applies to recognised and unrecognised financial instruments (IFRS 7.4).

47. Moreover, the staff notes that if the Board agrees with the staff recommendation in paragraph 21 of this paper, the additional requirement in paragraph 27C to disclose the fair values of unrecognised financial instruments by level of the fair value hierarchy becomes unnecessary. Instead, the existing requirement of IFRS 7.27(c) to disclose which fair values that are disclosed (only) are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data should be retained.

48. In addition, the staff recommends limiting the requirement in paragraph 27B(e) to items in the implied Level 3 of IAS 39 only. The staff agrees with cost-benefit concerns raised by respondents (especially in disclosing movements between levels 1 and 2).

49. Although the staff notes that if the Board agrees with the staff recommendation in paragraph 21 of this paper, the requirement to disclose movements between levels becomes unnecessary, the staff thinks that information about movements into and out of the implied Level 3 of IAS 39 is useful.

50. Moreover, this recommendation is in line with the staff's suggestion to adopt an approach that focuses on fair value disclosures regarding the implied Level 3 of IAS 39 in the near term. The staff believes movements between

other levels can be addressed when the Board finalises its disclosure proposals in the fair value measurement ED.

51. In addition, the staff recommends that the Board explicitly state that the proposed fair value disclosures related to the implied Level 3 of IAS 39 and not to the Level 3 of SFAS 157. The staff believes this clarification ensures a link between measurement requirements in IAS 39 and disclosure requirements in IFRS 7. This clarification will also ensure consistent application of the proposed expanded fair value disclosures among IFRS preparers.

52. The staff notes minor drafting clarifications proposed by respondents. The staff will consider these drafting suggestions in finalising the amendments. If the Board agrees with the staff recommendations set out in this paper, the staff will present a draft of the finalised amendments to the Board following this Board meeting.

53. Appendix B provides a summary of the staff's recommendations.

Questions to the Board

54. Does the Board agree with the staff recommendation to:

a) Amend paragraph 27B(c) of the ED so as to require disclosure of *total* gains or losses instead of *total unrealised* gains or losses?

b) Expand paragraph 27B(d) to require disclosure of how the effect of changing one or more of the significant unobservable inputs used in the fair value measurement of Level 3 financial instruments to another reasonably possible alternative assumption is calculated?

c) Eliminate the requirement in paragraph 27C of the ED to stratify the fair value of financial instruments that are not measured at fair value in the statement of financial position by level of the fair value hierarchy into which such instruments are categorised in their entirety and instead keep the existing requirement that is limited to the implied Level 3 of IAS 39?

d) Clarify that that expanded Level 3 disclosures apply to items in Level 3 as implied in IAS 39?

e) Limit the requirement in paragraph 27B(e) of the ED so as to disclose movements and reasons for these movements to items in the implied Level 3 of IAS 39 only?

Appendix A – EXTRACT FROM ED

Fair value

25 Except as set out in paragraph 29, for each class of financial assets and financial liabilities (see paragraph 6), an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount.

26 In disclosing fair values, an entity shall group financial assets and financial liabilities into classes, but shall offset them only to the extent that their carrying amounts are offset in the statement of financial position.

27 An entity shall disclose for each class of financial instruments~~:~~

~~(a)~~ the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates. If there has been a change in valuation technique, the entity shall disclose that change and the reasons for making it.

~~(b) whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique (see paragraphs AG71 AG79 of IAS 39).~~

~~(c) whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (ie without modification or repackaging) and not based on available observable market data. For fair values that are recognised in the financial statements, if changing one or more of those assumptions to reasonably possible alternative assumptions would change fair value significantly, the entity shall state this fact and disclose the effect of those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.~~

~~(d) if (c) applies, the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.~~

27A To make the disclosures required by paragraphs 27B and 27C an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

(a) quoted prices in active markets for the same instrument (ie without modification or repackaging) (Level 1);

(b) quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data (Level 2); and

(c) valuation techniques for which any significant input is not based on observable market data (Level 3).

For the purposes of the fair value hierarchy, a significant input is an input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input requires judgement.

27B For fair value measurements recognised in the statement of financial position an entity shall disclose for each class of financial instruments:

(a) the level in the fair value hierarchy into which the fair value measurements are categorised in their entirety.

(b) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period (realised and unrealised) recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income;

(ii) total gains or losses recognised in other comprehensive income;

(iii) purchases, sales, issues and settlements (net); and

(iv) transfers into and/or out of Level 3 (eg transfers attributable to changes in the observability of market data).

(c) the total amount of unrealised gains or losses for the period in (b)(i) included in profit or loss for those assets and liabilities still held at the end of the reporting period and a description of where those unrealised gains or losses are presented in the statement of comprehensive income.

(d) for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those changes for each class of financial instrument. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(e) any movements between the levels of the fair value hierarchy (in addition to those disclosed to comply with paragraph 27B(b)(iv)). The entity shall also disclose the reasons for all movements between any of the levels of the hierarchy.

An entity shall provide the information required by this paragraph in tabular format unless another format is more appropriate. In addition, an entity shall also disclose any other information that is necessary for users to evaluate the quantitative information disclosed (eg information about those instruments in one level of the hierarchy that are hedged by instruments in another level of the hierarchy).

27C An entity shall disclose the fair value, by level of the fair value hierarchy into which the financial instruments are catergorised in their entirety, of the financial instruments or the classes of financial instruments that are not measured at fair value in the statement of financial position.

28 If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:

(a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and

(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

29 Disclosures of fair value are not required:

(a) when the carrying amount is a reasonable approximation of fair value, for example, for financial instruments such as short-term trade receivables and payables;

(b) for an investment in equity instruments that do not have a quoted market price in an active market, or derivatives linked to such equity instruments, that is measured at cost in accordance with IAS 39 because its fair value cannot be measured reliably; or

(c) for a contract containing a discretionary participation feature (as described in IFRS 4) if the fair value of that feature cannot be measured reliably.

30 In the cases described in paragraph 29(b) and (c), an entity shall disclose information to help users of the financial statements make their own judgements about the extent of possible differences between the carrying amount of those financial assets or financial liabilities and their fair value, including:

(a) the fact that fair value information has not been disclosed for these instruments because their fair value cannot be measured reliably;

(b) a description of the financial instruments, their carrying amount, and an explanation of why fair value cannot be measured reliably;

(c) information about the market for the instruments;

(d) information about whether and how the entity intends to dispose of the financial instruments; and

(e) if financial instruments whose fair value previously could not be reliably measured are derecognised, that fact, their carrying amount at the time of derecognition, and the amount of gain or loss recognised.

Appendix B – SUMMARY OF STAFF RECOMMENDATION

ED paragraph	Staff recommendation
27(b)-(d) [Deleted]	Retain 27(b)-(d)
27A	Delete 27A
27B(a)	Delete 27B(a)
27B(b)(i)	Delete '(realised and unrealised)'
27B(c)	Delete 'unrealised'
27B(d)	Add requirement to disclose how the effect is calculated
27B(e)	Amend to require disclosure for movements into and out of Level 3 and reasons for those movements