Project **Fair Value Measurement**

Topic **Scope of disclosures about fair value measurements**

Purpose of this paper

1. This paper addresses the scope of the disclosures about fair value measurements.
2. This paper asks the boards to decide whether the disclosures about fair value measurements should be required for:
    (a) plan assets measured at fair value in IAS 19 *Employee Benefits*; and
    (b) impaired assets with a recoverable amount based on fair value less costs to sell in IAS 36 *Impairment of Assets*.
3. Agenda Paper 2B for the December 2010 IASB-FASB joint meeting addresses disclosures about assets or liabilities measured at fair value with modifications (eg fair value less costs to sell), such as in IAS 41 *Agriculture* and IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.[1]
4. The appendix to this paper summarises the forthcoming disclosure requirements about fair value measurements given the Board's decisions so far in this project.

[1] Fair value less costs to sell will be defined as 'the price that would be received to sell an asset or cash-generating unit in an orderly transaction between market participants at the measurement date, less the costs of disposal'.

Staff analysis

Plan assets in IAS 19

5. The exposure draft *Fair Value Measurement* proposed requiring the fair value measurement disclosures for each category of plan assets except when using the deferred recognition model. If an entity uses the deferred recognition model to recognise changes in the value of plan assets, the entity discloses the gains or losses on plan assets but does not need to distinguish between the amounts recognised in profit or loss from the amounts recognised in other comprehensive income. Such information is required for other fair value measurements.

6. The IASB has decided in the project to amend IAS 19 to require an entity to disaggregate the fair value of the plan assets into classes that distinguish the risk and liquidity characteristics of those assets, subdividing each class of debt and equity instruments into those that have a quoted market price in an active market and those that do not.

7. In developing the exposure draft *Defined Benefit Plans*, the Board concluded that disclosures about the fair value of plan assets, such as those proposed in its 2009 exposure draft *Fair Value Measurement*, are not necessary because the entity does not hold those assets directly. Because information on the fair value of plan assets is typically provided to an entity by the plan, the entity itself does not have information about the assumptions, inputs and valuation techniques that were used in the measurement when that measurement is not determined on the basis of a quoted price in an active market for the identical asset.

8. The conclusion reached by the IASB is different from the conclusion reached by the FASB in Topic 715 *Compensation—Retirement Benefits*. Topic 715 requires disclosure of the following information about the fair value of plan assets:

   (a) the level in the fair value hierarchy;

   (b) a reconciliation of the beginning and ending balances of Level 3 plan assets; and

(c) information about the valuation techniques and inputs used in the fair value measurement.

9. Those disclosures are required by Topic 715, not Topic 820 *Fair Value Measurements and Disclosures*.

10. There are also practical considerations. The IASB is currently in the process of amending IAS 19. If the Board decides that IAS 19 should remain within the scope of the disclosures required in the final IFRS on fair value measurement, entities might need to make significant changes to their systems to provide those disclosures. However, entities would be required to change their systems again once the amendments to IAS 19 become effective. This would result in two changes in a short space of time for entities applying IAS 19.

11. As a result, the staff thinks that plan assets measured at fair value in IAS 19 should be excluded from the scope of the fair value disclosure requirements.

Asset impairments in IAS 36

12. When developing the exposure draft, the Board concluded that it was not necessary to distinguish between recurring and non-recurring fair value measurements. This is because IFRSs do not have any non-recurring fair value measurements—even for impairments, assets are measured at their recoverable amount, which is the higher of fair value less costs to sell and value in use. Furthermore, the Board concluded that the disclosures about impaired assets, when recoverable amount is based on fair value less costs to sell, are sufficient and there might be unintended consequences if the Board required more disclosures about fair value less costs to sell than about value in use.

13. Some of the comment letters received asked the Board to ensure that the same disclosures about the fair value of impaired assets are required under both IFRSs and US GAAP. For example, they thought that it would not be appropriate for an entity to provide the level within the fair value hierarchy in which the fair value measurement has been categorised for US GAAP, but not for IFRSs.

14. The staff has analysed the differences between IAS 36 and Topic 350 *Intangibles-Goodwill and Other,* Topic 360 *Property, Plant, and Equipment* and Topic 820 (including amendments to Topic 820 that will result from the joint fair value measurement project—see the appendix to this paper).

15. The following table compares the disclosure requirements about the fair value of impaired assets in US GAAP with those in IFRSs.

Disclosure requirement	**IFRSs**	**US GAAP**	
	IAS 36	**Topic 350, Topic 360**	**Topic 820[2] (non-recurring)**
Amount of the fair value measurement			✓
Level within fair value hierarchy	Must disclose whether fair value less costs to sell is determined using price in active market		✓
Valuation technique used in measuring fair value	✓	✓	✓
Changes to valuation techniques and reasons for changes			✓
*Qual*itative description of key/significant inputs used in measuring fair value	✓		✓
*Quant*itative information about key/significant inputs used in measuring fair value	✓ Some information is required, some is encouraged (eg if fair value less costs to sell is determined using cash flows, entity must disclose forecast period, growth rate and discount rate)		✓ For Level 3
Reasons for selecting the inputs used in the measurement	✓		
Reasonably possible change in key assumptions would cause carrying amount to exceed recoverable amount	✓		
Disclosure by class of asset	✓	✓	✓

[2] Including amendments (see appendix to this paper).

16. It is clear from the table above that some information that is required in US GAAP is not required in IFRSs and vice versa. As a result, the staff thinks that the following information should be required when the recoverable amount of an asset (or a group of assets) is determined on the basis of fair value less costs to sell (in addition to what is currently required in IAS 36):

    (a) amount of the fair value measurement;

    (b) level of the fair value measurement within the fair value hierarchy;

    (c) changes to valuation techniques and reasons for changes;

    (d) quantitative information about significant inputs used in measuring fair value; and

    (e) whether the highest and best use of the asset measured at fair value differs from the current use of the asset (and if so, why).

17. The staff notes that (b), (c) and (e) would not be required when an asset's recoverable amount is determined on the basis of value in use. The staff thinks that such information would not be necessary because:

    (a) with respect to (b), value in use is measured on the basis of the present value of future cash flows and as a result would be a Level 3 fair value measurement.

    (b) with respect to (c), value in use is measured using an income approach (discounted cash flow model).

    (c) with respect to (e), value in use is measured on the basis of the asset's use in the entity's business, which would reflect the asset's current use.

Staff recommendation

18. The staff recommends that the Board:

    (a) should exclude plan assets measured at fair value in IAS 19 from the scope of the fair value disclosure requirements. Disclosures about the fair value of plan assets would be addressed in IAS 19;

(b) should require the following information for impairment testing in IAS 36 when the recoverable amount of an asset (or a group of assets) is determined on the basis of fair value less costs to sell (in addition to what is currently required in IAS 36):

   (i) amount of the fair value measurement;

   (ii) level of the fair value measurement within the fair value hierarchy;

   (iii) changes to valuation techniques and reasons for changes;

   (iv) quantitative information about significant inputs used in measuring fair value; and

   (v) whether the highest and best use of the asset measured at fair value differs from the current use of the asset (and if so, why).

Question 1
Does the Board agree with the staff recommendations in paragraph 18? If not, what do you propose and why?

Appendix: Forthcoming disclosure requirements for fair value measurements

1. For each class of assets and liabilities measured at fair value **either** in the statement of financial position **or** disclosed:

   (a) Fair value measurement at the reporting date.

   (b) Level of the fair value measurement within the fair value hierarchy (Level 1, 2 or 3).

   (c) For Levels 2 and 3, the valuation techniques and inputs used and any changes in valuation techniques and the reasons for the changes.

2. For each class of assets and liabilities measured at fair value in the **statement of financial position**:

   (a) Any transfers between Levels 1 and 2 and the reasons for those transfers.

   (b) For Level 3:

      (i) A roll-forward of the fair value measurement disclosing separately:

         (1) Total gains or losses for the period recognised in profit or loss and a description of where they are presented;

         (2) Total gains or losses for the period recognised in other comprehensive income and where they are presented;

         (3) Purchases, sales, issues, and settlements (each disclosed separately); and

         (4) Amounts of any transfers into or out of Level 3 (disclosed separately) and the reasons for those transfers.

(ii) Amount of total gains or losses for the period included in profit or loss that result from changes in unrealised gains or losses and a description of where they are presented.

(iii) Quantitative disclosure of the unobservable inputs and assumptions used.

(iv) Description of the valuation control processes in place.

(v) Discussion of the sensitivity of the fair value to changes in unobservable inputs and any inter-relationships between those inputs that magnify or mitigate the effect on the measurement.

3. Policy for determining when transfers between levels are recognised.

4. If applicable, reasons that a non-financial asset is being used in a manner that differs from its highest and best use.

5. If applicable, accounting policy decision to measure the fair value of financial instruments on the basis of the entity’s net risk exposure.