Project	**Fair Value Measurement**
Topic	**Disclosures about fair value measurement – Sensitivity analysis**

Purpose of this paper

1. This paper is a follow-up to Agenda Paper 2A (IASB) / 6A (FASB). It addresses disclosure of a sensitivity analysis for **Level 3 fair value measurements**.

2. At their meeting on 22nd March, the boards asked the staff to perform additional analysis on the following approaches:

   (a) **Approach 1**: Include general guidance about *how to* perform a sensitivity analysis in a converged fair value measurement standard. Other standards would state whether such a disclosure is required for Level 3 fair value measurements and would include any specific guidance required for the particular assets and liabilities in question.

   (b) **Approach 2**: Require a sensitivity analysis disclosure about all Level 3 fair value measurements in the fair value measurement standard, unless another standard does not require such a disclosure. In other words, it is required unless it is scoped out of another standard.

3. This paper assumes that a sensitivity analysis disclosure, at least for financial instruments, is going to be proposed. The issue is whether that disclosure requirement should be in a converged fair value measurement standard or in another standard. Both of the approaches above would allow the boards to determine whether to require a sensitivity analysis disclosure for particular assets or liabilities and not for others. For example, the boards might determine

that although they want to require such a disclosure for financial instruments, they do not for, say, investment properties.

Staff recommendations

4. The staff recommends not proceeding with either of these approaches for the following reasons:

   (a) One of the benefits of the fair value measurement project is that it will harmonise disclosures about fair value measurements. This benefit cannot be realised if the boards need to revisit the disclosure requirements for each project that requires or permits fair value measurements. If the boards select either of the approaches, they will need to consider in each project whether to require a sensitivity analysis disclosure about fair value measurements. The benefits of harmonised disclosures also cannot be realised if the boards have inconsistent requirements about sensitivity analysis disclosures. That is, they would be mandatory for some Level 3 fair value measurements but not for others. The boards have not taken that approach for other fair value measurement disclosures, eg the Level 3 rollforward.

   (b) ‘How to’ guidance is likely to be too general. If the detailed guidance is in each standard, the guidance in the fair value measurement standard would be of little use to entities preparing the sensitivity analysis for a specific asset or liability.

5. Therefore, consistent with paragraph 28 in Agenda Paper 2A (IASB) / 6A (FASB), the staff recommends the following should be included within the fair value measurement standard:

   (a) require a sensitivity analysis disclosure only for Level 3 fair value measurements of financial instruments and derivatives

   (b) change the term ‘reasonably possible alternative assumptions’ to another term that more clearly conveys the objective, ie:

   (i) emphasise that it is meant to provide information about measurement uncertainty and

   (ii) clarify that it is not a worst-case scenario and is not forward looking

(c) specify that the sensitivity analysis disclosure should consider the effect of interdependencies or correlation when relevant.

6. If the boards do not agree with the staff recommendation, the staff suggests that:

(a) the IASB retains the sensitivity analysis disclosure in IFRS 7, with the modifications described in paragraph 5 above

(b) the FASB considers whether to require a sensitivity analysis disclosure in its Accounting for Financial Instruments project.

Question 1
Do you agree with the staff recommendations in paragraph 5? If not, what do you propose and why?