



# Fair Value Measurement

Proposed measurement uncertainty  
analysis disclosure

The views expressed in this presentation are those of the presenter,  
not necessarily those of the IASB or IFRS Foundation

# Agenda

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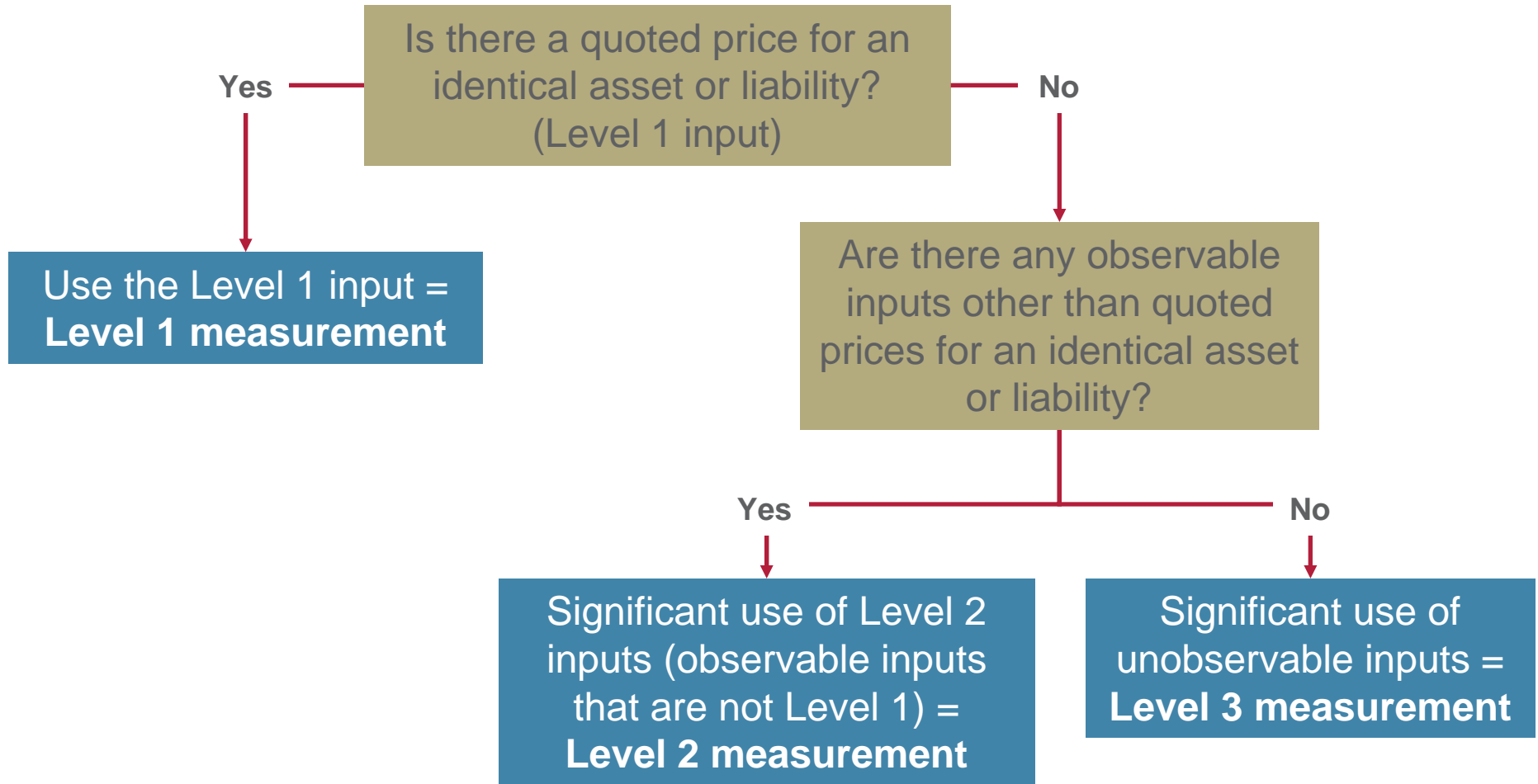
- Overview of proposed disclosure requirements
- Summary of comments received
- Discussion points for EBWG

# The proposal (1)

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- An entity shall disclose **for each class of assets and liabilities** measured at fair value a **measurement uncertainty analysis** for fair value measurements categorised within **Level 3** of the fair value hierarchy...

# What is 'Level 3'?



# The proposal (2)

- An entity shall disclose the effect of changing one or more of the unobservable inputs used in a fair value measurement to **a different amount that could have reasonably been used in the circumstances** if such changes would have resulted in a **significantly higher or lower fair value measurement**.
- An entity shall take into account **the effect of correlation** between unobservable inputs if such correlation is relevant when estimating the effect on the fair value measurement of using those different amounts.

# How is this different from IFRS 7?

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## Sensitivity analysis

Current IFRS 7  
requirement

- Increase or decrease in fair value as a result of changing (to a similarly reasonable amount) each key unobservable input in isolation

## Measurement uncertainty analysis

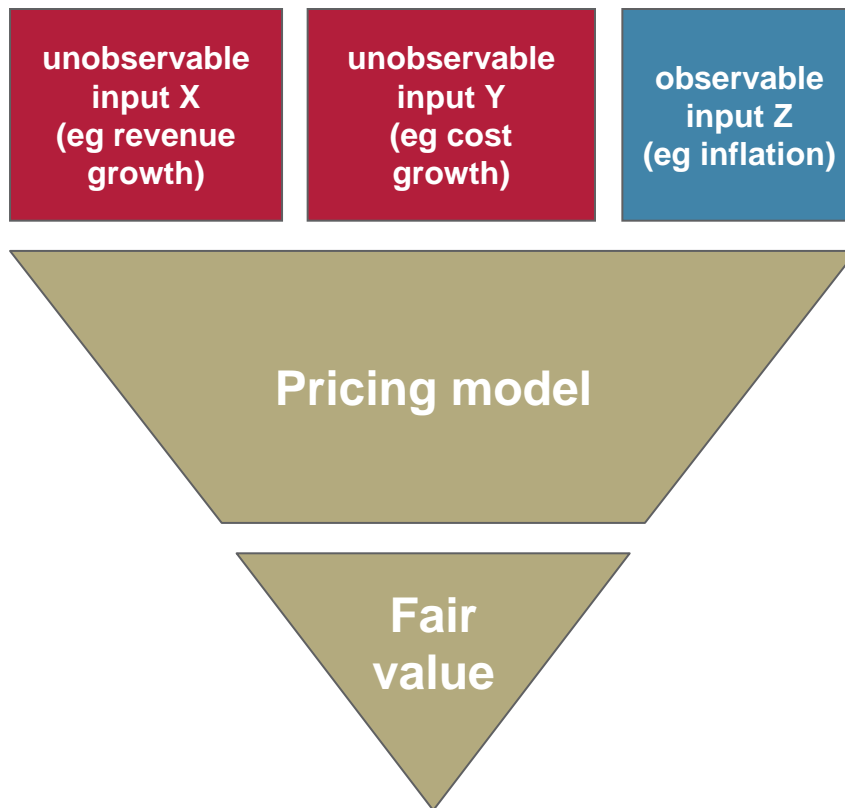
FVM proposal

- Range of fair values that a result of changing (to a similarly reasonable scenario) all interrelated unobservable inputs at the same time

# The measurement uncertainty analysis...

- ✓ Provides information about the relative subjectivity of Level 3 fair value measurements
- ✓ Is required unless scoped out in another standard (would not be in IAS 19)
- ✓ Requires an entity to take into account interrelationships (correlation) between unobservable inputs
- ✗ Does not take into account interrelationships between observable inputs
- ✗ Does not require a statistical analysis

# How does it work?



## Questions to ask:

1. Given observable input Z, what could unobservable inputs X and Y reasonably have been?
2. If you were to change unobservable input X, would there be an effect on unobservable input Y?



- Current IFRS disclosure for financial instruments is important
- Interrelationship between inputs is necessary for the disclosure to be meaningful
- Not necessary to require for all assets and liabilities
  - most important for financial instruments,
  - least important for specialised, operating PP&E
- Very good idea in theory... but the practical application will be difficult

- What exactly is the objective of the disclosure?
  - to assess management’s judgement in determining Level 3 fair value measurements?
  - to assess the sensitivity of Level 3 fair value measurements to changes in the most significant unobservable inputs?
  - to provide a range of reasonable exit prices that could have resulted from using alternative assumptions?
- How does it work when management did not perform a valuation (eg NAV, third party pricing services, external valuers)?

- Unclear how to include effect of correlation
  - when is correlation ‘relevant’?
  - how do you know which inputs are correlated?
  - portfolio or individual item level?
  - why limit to unobservable inputs?
  - is it a statistical analysis?
- What about items in Level 3 that are offset by items in Levels 1 and 2?
- How is ‘significant’ different from ‘material’?
- Isn’t estimation uncertainty covered in IAS 1?

- Alternative disclosures suggested:
  - standardise the disclosure by requiring a +/- X standard deviation or percentage change in key inputs
  - retain current ‘sensitivity analysis’ instead (excluding interrelationships between inputs)
  - provide more information about inputs used in the valuation

- How meaningful would a measurement uncertainty analysis be for defined benefit obligations?
- How meaningful is a sensitivity analysis that does not take into account interrelationships between inputs?

# Questions or comments?

Expressions of individual views by members of the IASB and its staff are encouraged. The views expressed in this presentation are those of the presenter. Official positions of the IASB on accounting matters are determined only after extensive due process and deliberation.

