STAFF PAPER

16–17 September 2014

IFRS Interpretations Committee Meeting

Project	**New items for initial consideration**
Paper topic	IFRS 13 *Fair Value Measurement*—The fair value hierarchy when third-party consensus prices are used

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This paper has been prepared by the staff of the IFRS Foundation for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

Introduction

1. In August 2014, the IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify under what circumstances do prices provided by third parties (especially consensus prices) qualify as Level 1 input for the fair value hierarchy in IFRS 13 *Fair Value Measurement*.

2. The issue submitted focuses on what should be the fair value hierarchy in which debt securities should be classified when the securities are measured based on third-party pricing (in particular, consensus pricing).

3. The submitter notes that there are divergent views on the hierarchy in which fair value measurements based on prices received from third parties should be classified.

4. We performed outreach on this topic with the International Forum of Accounting Standard-Setters (IFASS), the largest accounting firms and a group of securities regulators in order to find out whether the issue raised by the submitter is widespread and whether significant diversity in practice exists. The results of this outreach are included as part of our analysis of this issue.

5. The submission is reproduced in full in **Appendix A** to this paper.

Purpose of the paper

6. The purpose of this paper is to:

   (a) provide a description of the issue raised in the submission;

   (b) provide a summary of the outreach results on the issue raised;

   (c) present staff analysis on the issue;

   (d) present an assessment of the issue against the Interpretations Committee’s agenda criteria; and

   (e) present a staff recommendation.

Submission description

7. The purpose of the submission received is to ask the Interpretations Committee what the correct fair value hierarchy level is for debt securities such as government bonds that are traded in active markets but are priced using third-party consensus prices.

8. The submitter states that vendor prices are based on algorithms that use a wide range of input parameters (ranging from actual trade data, to executable quotes, to indicative quotes and other market information). The submitter thinks that the application of IFRS 13 for determining the fair value hierarchy level of such debt securities does not seem to be straightforward, because in the case of the bond market there is a lack of trade dissemination (ie bonds are traded over the counter (OTC) and the activity of OTC markets must be gauged using aggregated surveys of trade activity) and there is a narrow price range for these debt securities.

9. The difficulties in applying IFRS 13 lead, according to the submitter, to the following two views:

   (a) View A: a fair value measurement based only on unadjusted prices from an active market for an identical instrument would be a Level 1 measurement. Prices from pricing services based on in-house models (consensus or evaluated prices) are to be qualified as Level 2 or Level 3 inputs.[1]

(b) View B: the fair value hierarchy in IFRS 13 focuses on the relative certainty of the fair value measurement as an exit price and also on the liquidity of an instrument. If the fair value measurement of a security with a verifiable high rate of market activity has been determined following appropriate due diligence, it should be categorised in Level 1 of the fair value hierarchy.

10. According to the submitter, the proponents of View A support their approach with the following arguments:

(a) An individual bid or ask price (quote) derived from a broker can qualify as Level 1 input, provided that the respective security is traded in an active market and the quote represents an observable price.

(b) Prices provided by a pricing service based on in-house models would result in Level 2 or Level 3 fair value measurements, depending on the observability and significance of the inputs used. A price based on an in-house model is an adjusted quoted price and, thus, can never be a Level 1 measurement. If the pricing service does not use legally binding quotes or observable prices, the fair value measurements derived from the consensus price would be Level 3 measurements. If the inputs to the price received from the pricing service are Level 1 or Level 2 inputs, the use of those prices will generally result in Level 2 fair value measurements.

(c) In-house models are alternative pricing methods that do not rely exclusively on quoted prices. In accordance with paragraph 79(a) of IFRS 13, an entity may, as a practical expedient, measure fair value using an alternative pricing method that does not rely exclusively on quoted prices, but this would result in fair value measurements categorised in a lower level of the fair value hierarchy.

[1] The submitter has included a description of consensus and evaluated prices in the submission.

11. According to the submitter, the proponents of View B support their approach with the following arguments:

    (a) Paragraph 70 of IFRS 13 defines fair value as the most representative value between the bid and the ask price. This would support the view that a consensus price is the most representative value between the bid and the ask price. In accordance with paragraph 70, such a price may be categorised in any level of the fair value hierarchy. In that respect, an evaluated price can qualify as a Level 1 input if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis.

    (b) Paragraph 71 of IFRS 13 does not preclude pricing conventions that are used by market participants for fair value measurements within a bid-ask spread.

    (c) The fair value for an OTC security that is based on a single broker quotation may be categorised as a Level 1 instrument. Its fair value level in the hierarchy may change, depending on the level of activity in the market.

    (d) Determining levels purely on the basis of the pricing source seems neither reasonable nor useful to a reader of financial statements. The determination of a fair value level should instead depend more on the liquidity of the underlying market and on whether market conditions have changed or not.

    (e) Evaluated pricing services have developed transparency data. This may qualify for disclosure as Level 1 if the entity knows that the valuation was mainly based on executable observations of identical securities that formed a robust and established pricing model. Robustness could be evidenced by a small standard deviation that would also be consistent with the entity's understanding of an acceptable bid-ask spread for the instrument.

Summary of outreach activities

12. We asked national standard-setters, the largest accounting firms and regulators the following questions:

    (a) **Question 1** (Q1): the most commonly observed classification within the fair value hierarchy for the measurement of debt securities when those securities are measured based on third-party pricing (for example, using consensus prices or evaluated prices); and

    (b) **Question 2** (Q2): the extent to which there is diversity in practice in respect to the issue submitted. We have also requested examples that provide evidence about the diversity observed and the basis on which the classification of the measurement of such debt securities within the fair value hierarchy has been undertaken in those specific examples.

Responses from national standard-setters, accounting firms and regulators

13. We received responses from:

    (a) 10 national standard-setters;

    (b) 6 large accounting firms; and

    (c) a securities regulator

14. We summarise the results of the outreach in the following paragraphs. The views expressed below are informal opinions from national standard-setters, accounting firms and regulators. They do not reflect the formal views of those organisations.

Responses received from national standard-setters

15. The geographical breakdown for the responses received from national standard-setters is as follows:

Geographical region	Number of respondents
Asia	2
Europe	3
Americas	2
Oceania	2
Africa	1
Total respondents	**10**

16. With respect to **Q1** the majority of the national standard-setters stated that View A prevails in their jurisdictions (ie most entities classify debt securities whose measurements are based on third-party prices as Level 2 or Level 3 measurements in the fair value hierarchy).

17. With respect to **Q2** the majority of national standard-setters were not aware of any significant divergence in practice. One respondent indicated that there could be diversity in practice in determining whether such instruments would be classified as either Level 2 or Level 3 in the fair value hierarchy One respondent indicated that Level 1 classification (ie View B) would be possible if the fair value is within the bid-ask spread.

Responses received from accounting firms

18. With respect to **Q1** the majority of the accounting firms stated that they have observed that most entities would classify debt securities whose measurements are based on third-party prices as Level 2 or Level 3 measurements in the fair value hierarchy.

19. With respect to **Q2** an audit firm stated that they have observed differences in the extent to which government bonds are classified as Level 1 or Level 2. However, the audit firm states that the underlying reasons to support that divergence are not always clear (ie whether this is due to differences in the specific instruments held, or to different views as to whether markets are active etc).

Responses received from regulators

20. With respect to **Q1**, a securities regulator observed that national enforcers had observed some diversity in practice noted that they had observed different approaches used for the classification of debt securities within the fair value hierarchy when their fair values are determined based on third-party pricing which is outlined below:

- In certain jurisdictions most corporate debt was classified as Level 2 and government debt as Level 1 regardless of the pricing source based on the perceived level of activity in the market;
- Certain jurisdictions noted that pricing information provided by electronic trading networks were generally considered Level 1 inputs when certain conditions are satisfied e.g. the presence of a certain number of contributors with executable offers characterised by bid-ask spreads falling within a given tolerance threshold;
- A few jurisdictions observed that the distinction between Level 1 and Level 2 depends on the variance in yields, bid/ask spreads and the level of liquidity.

21. With respect to **Q2**, the securities regulator observed that four jurisdictions would apply View A (mainly large banking and insurance entities) whilst two jurisdictions noted that there was some diversity in opinion regarding the classification of instruments within the fair value hierarchy. However, the regulator also noted that this was based on public disclosures only and no detailed basis on which the classification had been done had been disclosed.

Staff analysis

22. For the purposes of tackling the question submitted:

> What is the correct fair value hierarchy level for debt securities such as government bonds that are traded in active markets but are priced using third-party consensus prices?

we think that it is useful to highlight some key concepts in IFRS 13 that affect the classification of the measurements within the fair value hierarchy as Level 1 measurements.

23. IFRS 13 defines 'Level 1 inputs' as:

> Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

24. In addition, the Standard also defines 'active market' as follows:

> A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

25. When the fair value measurements are obtained by using more than one input, IFRS 13 states:

> 73 […] the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. […]

26. In addition, paragraph 75 of IFRS 13 states:

> 75 If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy. […]

27. The submission states that 'all consensus and evaluated prices are based on an algorithm and are, as such, theoretical values that cannot be executed. The respective input parameters vary and range from actual trade data to indicative quotes and other market information. The exact methodology of the calculation is proprietary for all consensus and evaluated prices, and only limited information is publicly available.'

28. For the purposes of reaching a conclusion on the question submitted (see paragraph 22), we think that an entity needs to evaluate and understand the inputs that a third party has used in determining the consensus pricing. For example, quotes that do not reflect the result of transactions, or that are only an indicative price, should receive a lower weight as an input to a fair value measurement when compared to other quotes that reflect the results of transactions or that represent binding offers (see paragraphs B46–B47 of IFRS 13).

29. The description of consensus prices included in the submission indicates that they are derived from in-house models that use a variety of inputs. Consequently, the categories of those inputs may range from Level 1 to Level 3. The final classification within the fair value hierarchy will depend on the significance of the particular inputs to the entire measurement. In the case that a consensus price that consists of trade data but also includes adjustments for market information which is not observable. Whilst that resulting measurement would be considered as the exit price it would not necessarily be classified as a Level 1 measurement in the fair value hierarchy. Paragraph 79(a) of IFRS 13, states that '[…] an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (eg matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy'.

30. The classification of the fair value measurement is determined by the inputs to the measurement as per the requirements in IFRS 13 rather than the level of activity of the market in which the instruments are traded or how liquid those instruments are. View B mainly bases its arguments on the relevance of these two features and on the due diligence followed to obtain the measurements to conclude that consensus prices may be categorised within Level 1 of the fair value hierarchy.

31. The level of transactions for the asset or liability to be measured at fair value, as View B argues, in the staff view would not affect the fair value hierarchy of its measurement if that measurement is based on consensus or evaluated prices that include adjustments that are based on unobservable parameters.

32. Paragraph 71 of IFRS 13 does not preclude pricing conventions such as the use of mid-market pricing as a practical expedient for fair value measurements. This practical expedient does not, however, mean that all measurements based on pricing conventions would result in Level 1 measurements. In addition transparent and robust pricing methodologies, although essential in determining fair values are not a driver of the classification of the measurements in the fair value hierarchy, but constitute instead good valuation practices.

33. On the basis of the requirements in IFRS 13 stated in paragraphs 23–26 and the arguments presented in paragraphs 22 to 32, the description of consensus price included in the submission and the analysis of the arguments offered by View B in paragraph 9(b), the staff do not agree with this view.

34. The arguments that View A uses to support Level 1 measurements are based on the observability of unadjusted prices for identical instruments. View A further states that prices provided by a pricing service based on in-house models would result in Level 2 or Level 3 fair value measurements, depending on the observability and significance of the inputs used.

35. The staff agrees with View A, because it represents the fair value measurement requirements and guidance in IFRS 13 more faithfully. Paragraph 37 includes our recommendation to the Interpretations Committee.

Agenda criteria assessment

36. The staff's assessment of the agenda criteria[2] is as follows:

[2] These criteria can be found in the *IFRS Foundation Due Process Handbook* as indicated in the following paragraphs.

Agenda criteria

We should address issues (5.16):	
that have widespread effect and have, or are expected to have, a material effect on those affected.	**No.** On the basis of our analysis of the feedback received in the outreach, we can conclude that the issue submitted does not appear to have widespread effect or material effect. Because the issue analysed is not widespread and diversity in practice seems to be limited, we do not think that the Interpretations Committee should add this issue to its agenda.
where financial reporting would be improved through the elimination, or reduction, of diverse reporting methods.	**N/A**
that can be resolved efficiently within the confines of existing IFRSs and the *Conceptual Framework for Financial Reporting*.	**N/A**
In addition:	
Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process that would be required when making changes to IFRSs (5.17)?	**N/A**
Will the solution developed by the Interpretations Committee be effective for a reasonable time period (5.21)? (The Interpretations Committee will not add an item to its agenda if the issue is being addressed in a forthcoming Standard and/or if a short-term improvement is not justified)...	**N/A**

Staff recommendation

37. On the basis of our assessment of the Interpretations Committee's agenda criteria, and also on our analysis in this paper and the feedback received from the outreach, we think that the Interpretations Committee should not take the issue analysed in this paper onto its agenda, because View A can be directly derived from the requirements and guidance in IFRS 13. See Appendix B for the tentative agenda decision.

Question for the Interpretations Committee

Question for the Interpretations Committee
Does the Interpretations Committee agree with the staff analysis (paragraphs 22-35 and with the staff's recommendation in paragraph 37 that we should not take this issue onto the agenda, because IFRS 13 provides sufficient guidance to derive a conclusion on the issue submitted?

Appendix A—Submission

A1 We received the following request. We have deleted details that would identify the submitter of this request.

Potential agenda item request: IFRS 13—The Fair Value Hierarchy—Using quoted prices provided by third parties

1 The Issue

IFRS 13 Fair Value Measurement defines fair value, sets out a framework for measuring fair value, and requires disclosures about fair value measurement. IFRS 13.72-90 define the concept of the fair value hierarchy (FVH) based on Level 1, 2, and 3 inputs. There are different views of how to place liquid debt securities in the Fair Value Hierarchy when the securities are measured based on third party pricing, especially consensus prices. These different views can be demonstrated by two simple examples: IFRS 13.IE60 generally puts "Risk-free government securities" in Level 1 of the FVH, whereas "Collateralised Debt Obligations" ("CDOs") based on consensus pricing of offered quotes are categorised in Level 3 of the FVH in example IFRS 13.IE63. What is the correct fair value hierarchy level for debt securities like government bonds that are traded in active markets but are priced using third party consensus pricing?

Reporting entities often price debt securities by using quotes from third party providers as they are not commonly traded on exchanges. Instead, the majority of debt securities is traded over-the-counter (OTC). Consequently, the OTC market is the principal market for these products. OTC markets are dealer markets in which multiple dealers quote bid and ask prices, representing the price at which the dealer is willing to buy and sell, respectively (IFRS 13.B34(b)).

Though dealers in the OTC bond market are not legally bound by the bid and ask prices they quote, market practice dictates that they provide accurate prices and stand ready to trade at those prices. Trade information and trade volume is publicly available only to a limited extent in specific asset categories. The global bond market's structure, specifically its lack of trade dissemination, does not imply that these OTC markets are inactive, but it does mean that market activity must be gauged using aggregated surveys of trade activity and market quotations which cannot be provided by exchanges.

Based on available market data, pricing services like Bloomberg or Thomson Reuters daily publish broker/dealer quotes, or consensus prices, or evaluated prices. A broker/dealer quote is understood as based on a single source, whereas a consensus or evaluated price is based on multiple sources (generic term "composite price").

A price quotation from a broker/dealer to a client (financial reporting entity) provided as a courtesy, represents the broker's/dealer's best estimate of fair value at the close of business on the date requested. Such prices are often accompanied by a disclaimer that the price is not an offer to buy or to sell, and it is not legally binding.

Consensus prices represent the (weighted) average of quotes from multiple subscribers who each submit quotes to the pricing service. The calculation methodology and nature of input parameters vary among the pricing services and depend on the consensus price category, the availability of underlying market information, and the respective financial instrument. Commonly used consensus prices are e.g. MarkIT, R RICs by Thomson Reuters, Bloomberg Generic (BGN), Bloomberg CBBT.

Evaluated prices are often based on a combination of directly observable price information and theoretical model-based prices. Therefore, such prices are not solely based on a model in order to derive a fair value but also on up-streamed algorithms which assess and rank the available direct prices indication. Examples of commonly used evaluated prices are Bloomberg Valuation (BVAL) and Reuters Evaluated Price.

All consensus and evaluated prices are based on an algorithm and are, as such, theoretical values that cannot be executed. The respective input parameters vary and range from actual trade data to indicative quotes and other market information. The exact methodology of the calculation is proprietary for all consensus and evaluated prices, and only limited information is publicly available.

Large institutions may have significant holdings in liquid debt instruments like government, government agencies and certain corporate bonds that need to be classified within the FVH of IFRS 13. In practice, financial statement preparers make use of third party provided pricing, especially consensus pricing, for measurement purposes of these instruments. As all vendor prices are based on algorithms with a wide range of input parameters (reaching from actual trade data, to executable quotes, to indicative quotes and other market information), the requirements for Level 1 of the FVH (IFRS 13.76) on unadjusted quoted prices when read in conjunction with IFRS 13.70, 71, 79, B45-47 leave room for interpretation. The application of IFRS 13 for determining the fair value hierarchy level of such debt securities does not seem to be straight forward given the breadth of market activity and narrow price range for these debt securities.

2 The Question

Under which circumstances do third party provided prices (especially consensus prices) qualify as Level 1 input of the fair value hierarchy of IFRS 13?

3 The Views

3.1 View A

If prices from pricing services are *unadjusted* quoted prices from an active market for an identical instrument, a fair value measurement based only on that price would be a Level 1 measurement. Prices from pricing services based on in-house models (consensus and evaluated prices) are to be qualified as Level 2 or 3 inputs.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date (IFRS 13.76, IFRS 13.A).

When quoted prices are provided by third parties, e.g. a broker or a pricing service, the entity must understand the source of the inputs used by the third party in order to properly categorise any fair value measurement based on those inputs (IFRS 13.B45).

Proponents of this view A argue that an individual bid or ask price (quote) derived from a broker can qualify as Level 1 input, provided that the respective security is traded in an active market and the quote represents an observable price. Similarly, if a pricing service provides an *unadjusted* quoted price from an active market for an identical instrument, a fair value measurement based only on that price would be a Level 1 measurement. Otherwise, if the pricing service provides prices based on in-house models (consensus price algorithm or evaluated price model), any resulting fair value measurement would be a Level 2 or Level 3 measurement, depending on the observability and significance of the inputs used (IFRS 13.73, IFRS 13.A). A price based on an in-house model is an *adjusted* quoted price and, thus, can never be a Level 1 measurement (IFRS 13.76, IFRS 13.A). An entity cannot enter into a transaction for the asset at this price at the measurement date (IFRS 13.78(b)).

The standard sets out that an entity shall not make an adjustment to a Level 1 input except in certain circumstances that are listed in IFRS 13.79. According to IFRS 13.79(a), an entity may, as a practical expedient, measure fair value using an alternative pricing method that does not rely exclusively on quoted prices. However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy. In-house models, as described above, are alternative pricing methods that do not rely exclusively on quoted prices.

If the estimates provided to the pricing service do not represent legally binding quotes and are not based on observable prices, a fair value measurement derived from the consensus price would be a Level 3 measurement. (In this context, we refer to IFRS 13.IE63, where offered quotes as input factors to consensus pricing are treated as unobservable inputs.) However, if the inputs to the price received from the pricing service are Level 1 or Level 2 inputs, the use of those prices will generally result in a Level 2 measurement (IFRS 13.73).

Against this background, any prices based on in-house models (consensus and evaluated prices) are to be qualified as Level 2 or 3 inputs.

3.2 View B

IFRS 13 allows certain adjustments to quoted prices – even for Level 1 inputs. The main focus and key aspect of the FVH is on the relative certainty of the fair valuation as an exit price and on the liquidity of an instrument. It is assumed that a third party price is determined by the reporting entity following appropriate due diligence as a practical expedient for fair value measurement within a bid-ask spread. If such a security had a verifiable high market activity, it should be categorised in Level 1 of the FVH.

Proponents of this view B would base their rationale on paras. 70 and 71 of IFRS 13. Firstly, IFRS 13.71 does not preclude pricing conventions that are used by market participants for fair value measurements within a bid-ask spread. Further, IFRS 13.70 defines fair value as the most representative value between the bid and the ask price. It seems common under-standing that a consensus price is most representative of a fair value. Secondly, as IFRS 13.70 clarifies that such a price may be categorised in any level of the FVH, an evaluated price is necessarily to be seen as an "adjusted" price in the sense of IFRS 13.76 and can, consequently, qualify as a Level 1 input – if transactions occur with sufficient frequency, volume and pricing consistency on an ongoing basis, i.e. are traded in an active market.

An OTC security, which is traded on an active market, with a single trade or broker quote may be classified as a Level 1 instrument. However, if the same security were categorised as a Level 2 instrument - at best - when using consensus pricing, this outcome would be inconsistent. Furthermore, the fair value for a security that is based on a single broker quotation may be categorised in any level and may also change its level from quarter to quarter de-pending on the level of activity in the market. On the other hand, a preparer would need to classify a security whose fair value is based on a consensus price in Level 2, regardless of whether the underlying market being more or less liquid and not taking into account whether market conditions have changed or not.

Levelling determinations based purely on the pricing source seems neither reasonable nor useful to a reader of financial statements, since it encourages the use of smaller amounts of market data. We refer to the appendix of this request for an overview regarding the use of Level 1 for liquid debt securities.

Evaluated pricing services have developed transparency data to allow reporting entities understand whether the data used is executable or indicative and how many pieces of data are used, as well as how old these observations are. Consensus prices accompanied by data transparency based on evaluated pricing services may qualify for disclosure as Level 1, if the reporting entity knew that the valuation was mainly based on executable observations of identical securities that formed a robust and established pricing model as defined by a small standard deviation, consistent with the reporting entity's understanding of an acceptable bid-ask spread for the instrument (IFRS 13.70, 71).

4 Reasons for the IFRS Interpretations Committee to address the issue

4.1 Is the issue widespread and has, or is expected to have, a material effect on those affected?

Yes. Large institutions in the banking and insurance business rely heavily on very liquid debt securities priced by third party pricing providers like Bloomberg or Thomson Reuters - for some entities up to a three digit billion Euro amount**.** The hierarchy level classification of these instruments according to IFRS 13 is not consistent between different preparers. Some follow view A, some view B. Depending on the IFRS IC's conclusion, reporting entities might need to (re-)classify a significant portion of their investment portfolios. We are also aware of diversity in practice between industries and jurisdictions.

4.2 Would financial reporting be improved through the elimination, or reduction, of diverse reporting methods?

Yes. Comparable and consistent FVH information is an important factor in analysing and interpreting financial statements.

4.3 Can the issue be resolved efficiently within the confines of IFRSs and the Conceptual Framework for Financial Reporting?

Yes. It might be sufficient to develop additional guidance within the confines of IFRS 13 on how to determine whether consensus or evaluated prices (being third party prices) are level 1 inputs or not.

4.4 Is the issue sufficiently narrow in scope that the Interpretations Committee can address this issue in an efficient manner, but not so narrow that it is not cost-effective for the Interpretations Committee to undertake the due process?

Yes, the question raised is fairly narrow in scope. Only a few paragraphs in IFRS 13 deal with "third-party pricing" services and "adjustments" in fair value measurement. With the clarification of the interrelation between maximising market data and price adjustments by pricing vendors as related to levelling determinations, the Interpretations Committee should be able to solve the issue in short time.

4.5 Will the solution developed by the Interpretations Committee be effective for a reasonable time period?

Yes. The questions raised relate to a fundamental issue, which is of importance for the application of IFRS 13 now and in the foreseeable future.

Appendix B—Tentative agenda decision

A1. We propose the following wording for the tentative agenda decision:

IFRS 13 *Fair Value Measurement*—The fair value hierarchy when third-party consensus prices are used

The IFRS Interpretations Committee (the Interpretations Committee) received a request to clarify what the correct fair value hierarchy level is for debt securities such as government bonds that are traded in active markets but are priced using third-party consensus prices.

The submitter states that the difficulties in applying IFRS 13 lead to the following two views:

(a) View A: a fair value measurement based only on unadjusted prices from an active market for an identical instrument would be a Level 1 measurement. Prices from pricing services based on in-house models (consensus or evaluated prices) are to be qualified as Level 2 or Level 3 inputs; or

(b) View B: the fair value hierarchy in IFRS 13 focuses on the relative certainty of the fair value measurement as an exit price and also on the liquidity of an instrument. If the fair value measurement of a security with a verifiable high market activity has been determined following appropriate due diligence, it should be categorised in Level 1 of the fair value hierarchy.

The Interpretations Committee noted that when instruments are priced on the basis of third-party consensus prices, the final classification of those measurements within the fair value hierarchy will depend on the inputs used to derive the consensus prices. Consensus prices are derived using a variety of inputs that may range from Level 1 to Level 3. The Interpretations Committee noted that if the fair value measurements are based on quoted prices which have been adjusted for market information that is not observable, the fair value measurements would not be classified within Level 1 of the fair value hierarchy.

The Interpretations Committee observed that the issue analysed is not widespread. It also observed that the guidance in IFRS 13 is sufficient to draw an appropriate conclusion on the issue submitted. Consequently, the Interpretations Committee [decided] not to add this issue to its agenda.