

ASAF meeting  
8 December 2016

# IFRS 13 *Fair Value Measurement*

Post-implementation Review—Phase 1

ASAF agenda paper 2

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

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# Purpose of the meeting

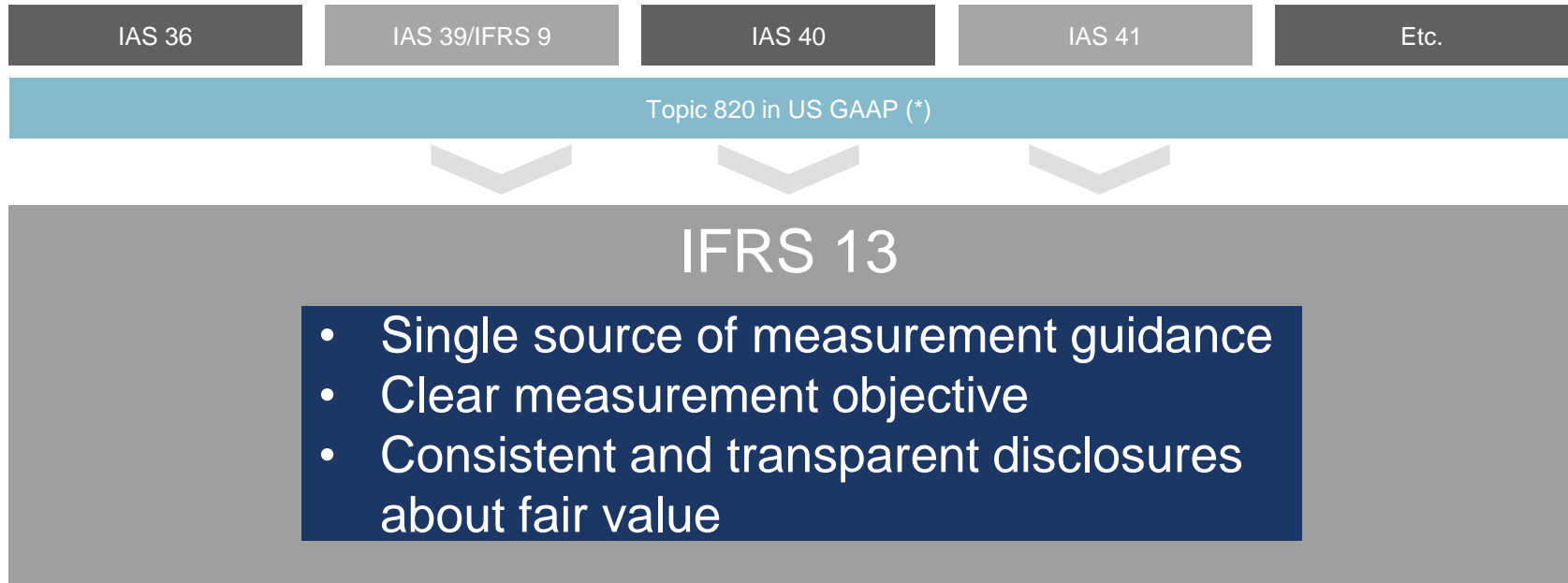
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- This meeting forms part of phase 1 of the PIR of IFRS 13 *Fair Value Measurement* and aims to help the Board identify any major issues that entities encountered when implementing the Standard.
- The slides:
  - provide you with information about the PIR of IFRS 13;
  - summarise the most significant issues the team has learnt so far; and
  - ask you to comment on the list of issues identified and provide advice on next steps.

- The Board’s due process requires a review of new standards after they have been applied internationally for two years.
- The PIR involves:
  - an initial identification and assessment of the matters to be examined; and
  - a public consultation by the Board in the form of a Request for Information (RFI), including review of academic literature and other evidence gathering as appropriate.
- The PIR concludes with a Feedback Statement that presents the Board’s findings and sets out the steps it plans to take, if any, as a result of the review.

# Background—why was IFRS 13 developed?

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(\*): Topic 820 codified FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*.

- IFRS 13 applies when another IFRS Standard requires or permits fair value measurements (FVM) or disclosures about FVM.
- The requirements in IFRS 13 set out how to measure fair value and what information to disclose in relation to fair value.
- Only IFRS 13 requirements are under review—ie the *principles and methods of FVM and disclosures about FVM, not what* assets and liabilities should be measured at fair value and *when* to measure them, both of which are addressed in other Standards.

# Activities held during phase 1

- Outreach meetings held with a wide range of stakeholders:
  - National standard-setters
  - Accounting firms
  - Securities and banking regulators
  - Preparers including the Global Preparers Forum
  - Investors including the Capital Markets Advisory Committee
  - Valuation specialists
  - Other IFRS Foundation bodies (members of the Advisory Council, Interpretations Committee)
- Scoping academic and non-academic literature review.

# Summary of outreach feedback

- Several stakeholders said the Standard is generally working well and providing useful information.
- However, many stakeholders have expressed concerns about fair value disclosures:
  - Many questioned the quality and some, in particular preparers, also questioned usefulness of the information disclosed for some Level 3 disclosures, specifically; quantitative information about significant unobservable inputs, reconciliation of changes in the Level 3 instruments and sensitivity disclosures.
- Many stakeholders have mentioned the tension between the unit of account and the Level 1 inputs when measuring the fair value of quoted investments (ie P x Q). (The issue was discussed by the Board and ASAF in past, see appendices 3 and 4).



- Several stakeholders have stated entities face challenges when exercising judgement in specific areas (eg fair value hierarchy categorisation, assessing whether a market is active).
- Several stakeholders in specific jurisdictions think that the concept of highest and best use may result in counter-intuitive outcomes and that clarification of the accounting treatment would be helpful (The issue was discussed by the Interpretations Committee, see appendix 4)

- In line with the Due Process, the Board will consider the feedback from initial assessment and decide:
  - whether it has sufficient information to establish scope of the review;
  - what matters to examine further in a formal public consultation;
  - which additional information and evidence gathering activities to conduct; and
  - timing of the review and other activities.

- Is the feedback on IFRS 13 we have received so far consistent with the experience of stakeholders in your jurisdictions?
  - What other experiences are you aware of?
- What follow-up work, including through an RFI, would you advise the Board to conduct? Please consider this for each of the matters described in slides 8 and 9 (and any others you are aware of), and take into account what the Board has already learnt.

# Appendix 1: Main uses of fair value in IFRS Standards

IFRS Standard	How is fair value used?	IFRS 13 measurement applies	IFRS 13 disclosures apply
<b>IFRS 3</b> <i>Business Combinations</i>	<b>Required</b> , with some exceptions	Yes	No
<b>IFRS 5</b> <i>Non-current Assets Held for Sale and Discontinued Operations</i>	<b>Threshold</b> , required if fair value less costs to sell is lower than the carrying amount	Yes	Yes
<b>IFRS 9</b> <i>Financial Instruments</i>	<b>Required</b> , depending on the business model	Yes	Yes*
<b>IAS 16</b> <i>Property, Plant and Equipment</i>	<b>Optional</b> , accounting policy choice	Yes	Yes
<b>IAS 19</b> <i>Employee Benefits</i>	<b>Required</b> , for pension plan assets only	Yes	No
<b>IAS 36</b> <i>Impairment of Assets</i>	<b>Threshold</b> , required if fair value less costs of disposal is lower than the carrying amount and higher than value in use	Yes	No
<b>IAS 38</b> <i>Intangible Assets</i>	<b>Optional</b> , accounting policy choice	Yes	Yes
<b>IAS 40</b> <i>Investment Property</i>	<b>Optional</b> , accounting policy choice	Yes	Yes*
<b>IAS 41</b> <i>Agriculture</i>	<b>Required</b> , fair value less costs to sell	Yes	Yes

\* FVM disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40).

# Appendix 2: Disclosure requirements in IFRS 13

Disclosure requirements	Item measured at fair value						Item measured at cost, fair value disclosed		
	Recurring			Non-recurring			L1	L2	L3
	L1	L2	L3	L1	L2	L3			
Fair value at end of reporting period	✓	✓	✓	✓	✓	✓	✓	✓	✓
Reasons for the measurement				✓	✓	✓			
Level within fair value hierarchy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers between the levels in the hierarchy	✓	✓	✓						
Policy for determining when transfers between hierarchy have occurred	✓	✓	✓						
Description of valuation technique and inputs used		✓	✓		✓	✓		✓	✓
Changes to valuation technique and reasons		✓	✓		✓	✓		✓	✓
Quantitative information about significant unobservable inputs			✓			✓			
Reconciliation of opening and closing balance (including information on transfers in or out)			✓						
Unrealised gains/losses recognised in profit or loss			✓						
Description of valuation processes and policies			✓			✓			
Sensitivity to changes in unobservable inputs (narrative)			✓						
Sensitivity to reasonably possible change in assumptions (quantitative, for financial instruments only)			✓						
If highest and best use differs from current use, reasons why (non-financial assets only)	✓	✓	✓	✓	✓	✓	✓	✓	✓
If portfolio exception in paragraph 48 of the standard is applied (financial instruments only)	✓	✓	✓						

**Recurring:** IFRS Standards require or permit FVM at the end of each reporting period ie; FVM for financial instruments, property, plant & equipment, intangible assets, investment property and agricultural assets carried at fair value are recurring

**Non-recurring:** IFRS Standards require or permit FVM in particular circumstances ie: Fair value measurement for assets held for sale and impaired assets are non-recurring

## Appendix 3: Items discussed with ASAF members

- ASAF members discussed the measurement proposals included in the ED *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* at their October 2015 meeting.<sup>(1)</sup>
- In addition, ASAF members provided the staff with input that was incorporated in the research of the proposals in the ED (ie P x Q). This input was reported to the Board in November 2015.<sup>(2)</sup>

(1): See Agenda Paper discussed at the October 2015 ASAF meeting and meeting summary at: <http://www.ifrs.org/Meetings/Pages/ASAF-meeting-October-2015.aspx>

(2): See Agenda Paper 6B discussed at the November 2015 Board meeting at: <http://www.ifrs.org/Meetings/MeetingDocs/IASB/2015/November/AP06B-Fair-Value-Measurement.pdf>

# Appendix 4: Interpretations Committee work on IFRS 13

- Agenda decision: May 2015 - Fair value hierarchy when third-party consensus prices are used;
- Issues referred to the IASB:
  - May 2013 The interaction between Level 1 inputs the portfolio exception; considered as a part of the IASB's unit of account project.<sup>1</sup> The project was later stopped by the IASB and awaiting findings from the PIR.
  - April 2012 Valuation of biological assets (highest and best use). The project stopped and awaiting findings from the PIR. Noted the issue did not seem widespread.
- Annual improvements:
  - 2010-2012 short term receivables and payables
  - 2011-2013 scope of paragraph 52 (portfolio exception)

Note 1 The Board discussed this issue along with the interaction between the unit of account and the fair value measurement of quoted investments and quoted cash-generating units (the [Unit of account](#) project). The Board included an example illustrating the application of the portfolio exception in its Exposure Draft (ED) published in September 2014. The comments received on the example did not reveal significant diversity in practice. Accordingly, the Board decided that it was unnecessary to publish the proposed illustrative example in IFRS 13 as a separate document.

- Topic 820 in US GAAP converged with IFRS 13
- The US Financial Accounting Foundation (FAF) completed its PIR of Topic 820 in 2014. Among its findings were:
  - Topic 820 met its objectives and provided decision-useful information to investors;
  - the benefits exceeded the costs; but
  - some stakeholders questioned the adequacy and completeness of disclosures and the Standard’s relevance to certain types of entities.
- The FASB responded that it would address some points identified in the PIR in its disclosure-related projects and in its research on pensions.
- Project **Disclosure Framework—Disclosure Review: Fair Value Measurement** currently in progress

(\*): Paragraphs BC237–238 of IFRS 13 describe the differences between IFRS 13 and Topic 820.



# Contact us

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