

CMAC meeting, 3 November 2016
Agenda paper 2

IFRS 13 *Fair Value Measurement*

Post-implementation Review—Phase 1

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.

Agenda

- Purpose of the session
- Background—why was IFRS 13 developed?
- Main uses of fair value in IFRS Standards
- Fair value disclosures
- US GAAP—equivalent requirements
- Questions for investors

Purpose of the session

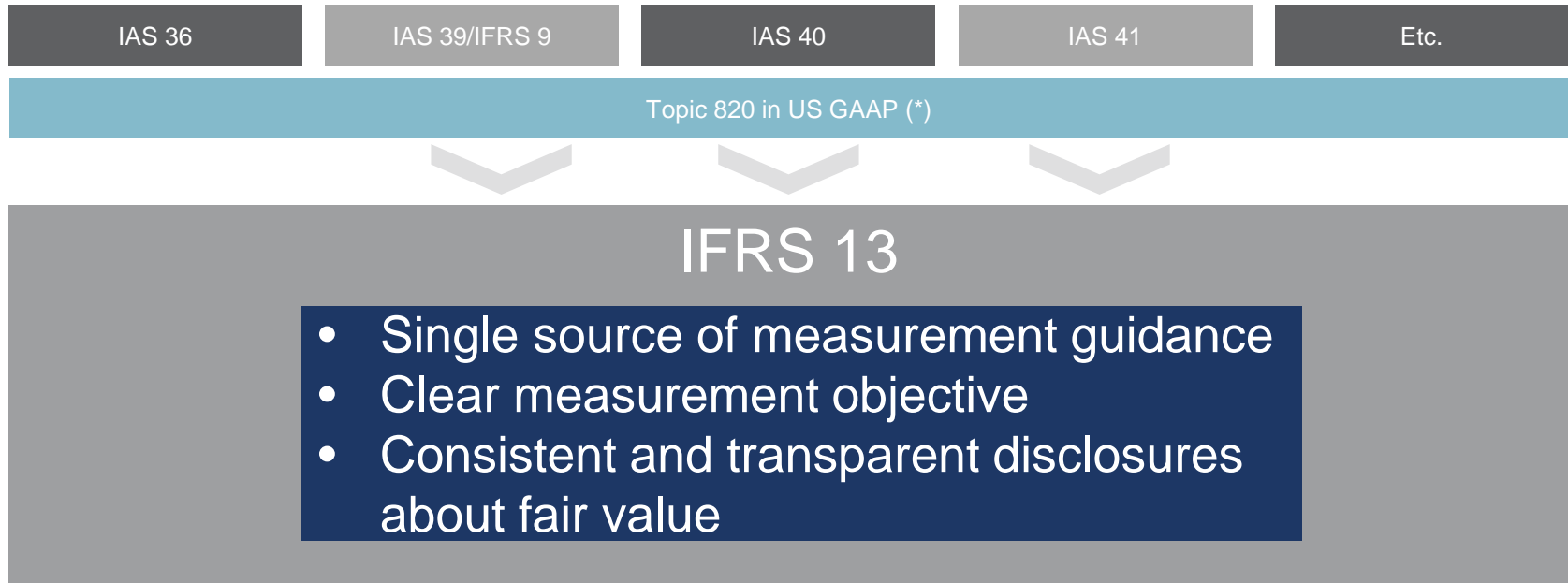
- This session forms part of phase 1 of the Post-Implementation review (PIR) of IFRS 13 *Fair Value Measurement* and aims to help the Board identify any major issues that entities encountered when implementing the IFRS 13
- The purpose of this session is to identify any major issues regarding fair value measurements that investors encounter when analysing financial statements.

Post-implementation Review Process

- The Board's due process requires it to 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 in the PIR (phase 1);
 - publication of a Request for Information (RFI); and
 - consideration of the evidence and presentation of findings.
- 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 PIR.

Background—why was IFRS 13 developed?

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

- 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 *FVM* and *disclosures* about fair value, *not what* assets and liabilities should be measured at fair value and *when* to measure them, both of which are addressed in other Standards.

Main uses of fair value in IFRS Standards

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

* IFRS 13 disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40).

Fair value 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 vs non-recurring note:

Fair value measurements for financial instruments, property, plant & equipment, intangible assets, investment property and agricultural assets carried at fair value are recurring

Fair value measurement for assets held for sale and impaired assets are non-recurring

US GAAP—equivalent requirements

- Topic 820 *Fair Value Measurement* is substantially the same as 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 accounting for pensions.

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

1. Do you receive sufficient information in relation to assets and liabilities measured at fair value, and the related impact on financial performance, for your analysis?
 - If the information received is not sufficient, please explain why.
 - Is there any information that you receive about fair value that you do not find useful? If so please explain why.
2. In your analysis, do you make any adjustments to fair value measurements or would you like to make adjustments if you had more information? Please explain.
3. In your analysis, have you noted any inconsistencies in how fair value measurement is applied (or disclosed)?

When responding to questions please clarify if any issues are specific (eg to a type of item measured or an industry or a jurisdiction)

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