

GPF meeting, 29 November 2016

Agenda Paper 2

# IFRS 13 *Fair Value Measurement*

Post-implementation Review—Phase 1 outreach

Contacts: Aida Vatrenjak, [avatrenjak@ifrs.org](mailto:avatrenjak@ifrs.org)

Mariela Isern, [misern@ifrs.org](mailto:misern@ifrs.org)

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.

- Purpose of the session
- Background information
- Scope of the Post-implementation Review (PIR) of IFRS 13
- US GAAP—equivalent requirements
- Feedback from outreach so far
- Questions for the GPF members
- Appendix 1: Main uses of fair value in IFRS Standards
- Appendix 2: Disclosure requirements in IFRS 13

# Purpose of the outreach

---

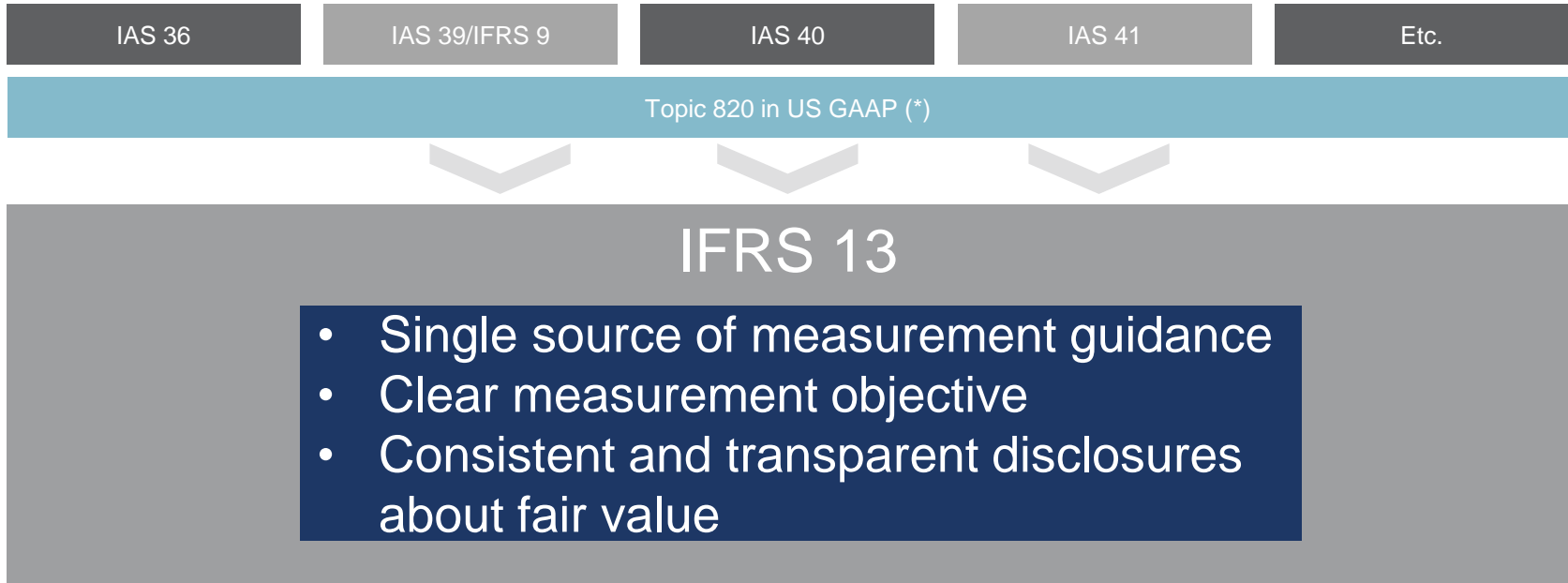
- Part of phase 1 of the PIR and aims to help the Board identify any major issues that entities encountered when implementing the Standard.
- The slides:
  - provide you with information about the PIR of IFRS 13 *Fair Value Measurement*.
  - ask you to describe any major issues which have made the implementation of IFRS 13 challenging.

- 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.

- The Due Process Handbook requires that the PIR considers the issues that were important or contentious during the development of the Standard as well as any issues that have come to the attention of the Board after the Standard was published.

# Background—why was IFRS 13 developed?

6



(\*): 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 *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.

# 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 pensions.

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



# Summary of outreach feedback so far

- 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).

- 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.

# Questions for the GPF members

---

- Is the feedback on IFRS 13 we have received so far consistent with the experience in your organisation? How pervasive are those issues, in your experience?
- What other experience do you have? Please describe and categorise the issues you have come across—see next slide

# Categories of identified IFRS 13 issues

1. which type of asset or liability (eg financial instrument related)?
2. measurement or disclosure related?
3. does the issue arise due to:
  - the requirements in IFRS 13, or
  - requirements that are missing from IFRS 13, or
  - the requirements in other IFRS Standards, or
  - another reason?
4. is the issue unique to a particular industry or economic environment?

- 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.

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

14

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).

# App 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

## IFRS 13 PIR Team

Aida Mariela  
[avatrenjak@ifrs.org](mailto:avatrenjak@ifrs.org) [misern@ifrs.org](mailto:misern@ifrs.org)

## Keep up to date



@IFRSFoundation



IFRS Foundation



[go.ifrs.org](http://go.ifrs.org)



IFRS Foundation

## Comment on our work



[go.ifrs.org/comment](http://go.ifrs.org/comment)