STAFF PAPER

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IASB Meeting

Project	**Post-implementation Review of IFRS 13**
Paper topic	Phase 1 outreach feedback

CONTACT(S)	Aida Vatrenjak	avatrenjak@ifrs.org	+44 (0) 20 7246 6456
	Mariela Isern	misern@ifrs.org	+44 (0) 20 7246 6483
	Michael Stewart	mstewart@ifrs.org	+44 (0) 20 7246 6922

Introduction

1. This paper summarises the activities and the feedback received during the first phase of the Post-implementation Review (PIR) of IFRS 13.

2. This paper also provides input for the Board to consider when planning next steps of the PIR (see Agenda Paper 7E).

3. The staff makes no recommendations in this paper and asks no questions for the Board.

Structure of this paper

4. The paper includes the following sections:

   (a) outreach conducted during Phase 1 (paragraphs 5-7);

   (b) key messages from stakeholders, including messages from the IFRS advisory bodies (paragraphs 8-19);

   (c) appendix 1 includes details on the outreach activities held; and

   (d) appendix 2 includes a matrix covering detailed feedback gathered from stakeholders on different areas of IFRS 13 on the basis of their experience with the Standard.

Outreach conducted during Phase 1

5. In the period from September to December 2016, the project team held almost 30 meetings, either in person or through conference calls, with stakeholders including preparers, auditors, investors, standard-setters, regulators and valuation professionals. This included sessions with the IFRS advisory bodies.

6. An overview of the meetings held is included in Appendix 1. At the time of preparing this paper, a couple of meetings had not yet taken place. We will provide the Board with an oral update of the results of these meetings at the Board meeting.

Approach to the meetings

7. We asked stakeholders to share their overall experience with implementing IFRS 13 and to prioritise matters they would think needed to be considered either by further research or other means. We also discussed possible next steps on the project and we specifically sought advice from the ASAF on activities during next phase of the Review.

Key messages learnt

8. Overall, many stakeholders noted that they thought IFRS 13 was working well and has brought in significant improvements to financial reporting. Several stakeholders gave specific examples of improvements they have seen since IFRS 13 came into effect, relating to consistency of measurement and disclosures provided. In the meetings, stakeholders shared their experience in implementing IFRS 13 and highlighted areas that may warrant attention.

9. The matrix in Appendix 2 includes details on the areas shared by stakeholders.[1] The matrix includes descriptions of the matters raised, the stakeholders that raised them and the staff's assessment of their priority.

[1] The matrix aims to portray a complete picture of the feedback received from stakeholders during Phase 1 of the PIR. When undertaking this exercise we have not included in the matrix low priority matters raised by single stakeholders.

10. Whilst some stakeholders shared a number of areas in which they have thought the application of IFRS 13 could be challenging at times, most gave a short and consistent list of areas they would like to see considered further during the PIR. When asked about which areas they would prioritise, the stakeholders generally listed one or more from the following areas:

(a) Disclosure effectiveness—this was an area highlighted by nearly all the stakeholders we spoke with. Specifically, most preparers questioned the usefulness of the disclosures for investors, especially because disclosures entail a large population of items that are presented in an aggregated manner. These preparers think this aggregated presentation may dilute the usefulness of the resulting information. Some investors said they found that the disclosures were often boilerplate and needed more granularity.

(b) Many stakeholders also referred to the topic considered in the Board's 'Measuring Quoted Investments in subsidiaries, Joint Ventures and Associates at Fair Value' project or commonly referred to as to 'P × Q' (see Agenda Paper 7A). Some, in particular preparers, noted that they do not think the measurement proposals arising from that project result in meaningful information and others (particularly securities regulators) asked for clarification on the measurement approach to follow.

(c) Several stakeholders (mainly accounting firms, some preparers and some securities regulators) thought that applying specific judgements required by IFRS 13 was another area worth considering further. For instance, determining when a market is 'active' and establishing when unobservable inputs are 'significant' were pointed out as areas in which entities have encountered challenges when implementing the Standard.

(d) Several stakeholders, in particular preparers and national standard-setters in Asia, thought that the application of the concept of highest and best use (HBU) for non-financial assets should be considered further. Those stakeholders were concerned about the implications of applying HBU in the measurement of operating assets (ie assets could be measured at nil when using a residual method for a group of assets).

11. In addition, several stakeholders, in particular in emerging markets, highlighted that fair value is very difficult to determine when markets are not active and even more so when there are no markets. The most common examples given were the fair value measurement of biological assets (in particular immature produce from bearer plants) and the fair value measurement of unquoted equity instruments. Whilst the staff thought the concerns raised were outside the scope of the PIR, we are highlighting them due to their importance for the stakeholders who raised them.

Key messages from the IFRS advisory bodies

ASAF

12. We met with ASAF members in December 2016. At that meeting, several ASAF members noted that they thought that the Standard was generally working well. Most of the members agreed with the effectiveness of disclosures and the 'P × Q' being the most significant matters worth considering further. Some members also thought that the use of judgement (in particular when determining whether a market is active) and HBU for non-financial assets should be considered further, as they have seen those issues in their jurisdictions.

13. With regards to next steps, most of the ASAF members expressed their support for a public consultation in the form of the Request for Information (RFI) as a next step in the PIR. Most of the ASAF members also agreed with the staff that the RFI should target the most significant matters raised during Phase 1, whilst allowing respondents an opportunity to comment on other issues as well.[2]

GPF

14. We met with GPF members in November 2016. At the GPF meeting, the GPF members noted that they also thought that the Standard was generally working well however they highlighted some matters. Several GPF members stated that the measurement of quoted investments by reference to the market price of the

[2] ASAF meeting papers and notes are available here.

individual instruments comprising the investment (ie apply the so-called P × Q approach), in some circumstances, was not relevant for the unit of account being measured at fair value. For these members the resulting measurement was not able to reflect the key features of the unit of account being fair valued (for example, the value of acquiring control in an investee would not necessarily be captured by the quoted price (P)). These GPF members stated that, in their experience, auditors and regulators tended to favour the P × Q approach and because of this they were of the view that there was no diversity in practice.

15. Several GPF members also questioned the effectiveness of the disclosures required under IFRS 13 (in particular the disclosures for items categorised within Level 3 of the fair value hierarchy) as in many instances the information was presented in a too aggregated manner for it to be useful in their opinion.[3]

EEG

16. The EEG met in November 2016. At their meeting, the EEG members stated that P × Q has become a key issue. They found it counterintuitive that Level 1 inputs could not be adjusted for, for example, a controlling premium, whilst this is permitted when the measurement falls within Level 3 of the fair value hierarchy.

17. Some EEG members also stated that there are differences in how entities apply IFRS 13 to produce of bearer plants which creates a concern. Many EEG members also stated that there is confusion in identifying an entity's principal market. Many EEG members pointed out their concern around determining HBU when there is volatility in the market. Some EEG members also shared concerns relating to the investment property and the use of fair value measurement hierarchy. Lastly, some EEG members stated that measuring contingent consideration at fair value in the context of business combination has been an issue for some entities.[4]

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[3] GPF meeting papers and notes are available here.

[4] EEG meeting papers are here.

CMAC

18. The CMAC met in November 2016. At the CMAC meeting, the majority of the CMAC members stated that the disclosures required by IFRS 13 were useful in their analysis of entities. They also highlighted that the hierarchy of fair value measurement levels and accompanying disclosures provide useful information as they give investors an insight into the valuations. The CMAC members specifically discussed sensitivity analysis disclosures for Level 3 instruments and whilst this was generally found useful, some members stated they would have preferred a disclosure showing the effect of measurement uncertainty. The CMAC members also indicated that they see boilerplate disclosures in practice and would like to see more granularity in disclosures provided with some asking for more disclosures for Level 2 measurements as well.[5]

The Interpretations Committee

19. The Interpretations Committee met in November 2016. At their meeting, some Interpretations Committee members stated that they generally thought that the Standard seems to be working in practice. Some members also stated that they see issues with IFRS 13 due lack of development of the valuation profession, especially in emerging markets, where valuations still present a challenge. Some members suggested that the Board consider how it can help these stakeholders implement the Standard, education materials were an option but caution was raised about being too specific in education and to allow the exercise of judgement. Many members also stated that the disclosures required in IFRS 13 were also seen as extensive with most significant items often being lost in a tick box approach to disclosures. Some Interpretations Committee members also stated that issues around the unit of account (P × Q) should be reconsidered.[6]

[5] CMAC meeting papers and notes are available here.

[6] IFRS IC meeting papers and notes are available here.

Appendix 1 – Overview of outreach meetings held during Phase 1

- Auditors
    - six large international audit networks
- Investors
    - CMAC
    - Investors group of the IFRS Advisory Council
    - Investor forums / representative organisations
- Preparers
    - GPF
    - Group of preparers from the financial services industry
    - Group of preparers based in Asia encompassing different industries
- Regulators
    - ESMA
    - IOSCO
    - Basel Committee
- Standard-setters
    - EEG
    - IFASS
    - AOSSG
    - FASB
    - ASAF
- Valuation professionals
    - IVSC
    - Other valuation professionals
- IFRS IC

Appendix 2 – Matrix of areas of experience with IFRS 13 shared by stakeholders – see separate file (print in A3 paper format for easier reading)