

# STAFF PAPER

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## IASB Meeting

Project	Post-implementation Review of IFRS 13 Fair Value Measurement		
Paper topic	Scoping review of the academic research		
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## Purpose of this paper

1. The purpose of this scoping review is to map the existing academic literature around IFRS 13 in terms of the volume, nature, and characteristics of the questions asked that are relevant to the PIR. This paper is for information only and does not ask the Board to make any decisions.
2. A scoping review is more appropriate than a systematic literature review for the purposes of the first phase of the PIR, because it provides an overview of a large and diverse body of academic literature pertaining to the broad topic of fair value measurement<sup>1</sup>. In contrast to the scoping review, the purpose of a systematic literature review is to sum up the best available research on a specific question<sup>2</sup>, which is more in line with the objectives of the second phase of the PIR.
3. During the next phase of the PIR, we<sup>3</sup> will undertake a focussed literature review on specific research questions emerging from the broader assessment of the PIR.

<sup>1</sup> Higgins and Green, 2011

<sup>2</sup> Campbell Collaboration, 2013

<sup>3</sup> With the help from the academic community.

## Conclusion

4. From this scoping review of academic literature no material issues emerged regarding IFRS 13 specifically. However, we present main results in paragraph 13 based on studies, directly and indirectly, attributable to IFRS 13 to provide an overview of a large and diverse body of academic literature pertaining to the broad topic of fair value measurement.
5. Studies directly attributable to IFRS 13 are those that explicitly refer to IFRS 13 (very few studies). Studies indirectly attributable to IFRS 13 encompass studies regarding individual standards that require or permit fair value measurement applicable prior to IFRS 13, studies regarding SFAS 157 *Fair Value Measurement* and studies that examine auditor's perspective on the use of judgement in fair value estimates and on the fair value disclosure requirements as well as other general studies listed in paragraph 26.
6. Academic studies regarding individual standards that require or permit fair value measurement (eg financial instruments) that employ data prior to the effective date of IFRS 13 can be still relevant to the PIR providing IFRS 13 requirements did not override the specific standards' requirements. We have therefore considered those studies in the analysis.
7. The majority of studies identified are indirectly attributable to IFRS 13. Therefore most of the indirectly attributable to IFRS 13 studies employed fair value related data from periods prior to the effective date of IFRS 13. Considering that the more years of panel sample data are used to test the research questions, the more statistically robust their findings are, academic papers employing data only after 01/01/2013, ie the effective date of IFRS 13, were difficult to find during October and November 2016. This is understandable considering that the more years of panel sample data are used to test the research questions, the more statistically robust the findings and considering that fair value was in use in the IFRS Standards (and US GAAP) prior to IFRS 13 being issued.
8. The studies were generally instrument specific and covered various financial and non-financial instruments measured at fair value. However we have not identified any studies relating to biological assets. The vast majority of academic studies considered some aspects of the effectiveness or impact of the fair value

measurement disclosures. There were also a number studies relating to the impact of applying judgement in measuring fair value.

## Method

9. The scoping review examined 51 academic studies relevant to IFRS 13.

10. We initially identified 71 relevant papers as follows:

- (a) by searching for published studies including the terms ‘fair value’ and ‘IFRS 13’ either in their abstract or in their title available on electronic databases accessed via the internet (Google Scholar, Elsevier, Science Direct and EBSCO); and
- (b) by applying two key filters to increase the relevance of the studies:
  - (i) First we selected papers published in peer review journals during the period 2015-2016 taking into account the long process of publishing an academic paper. We selected this time window because the sample data used in the non-literature review studies need to reflect the implementation of IFRS 13 (the effective date of IFRS 13 was on 1 January 2013). The objective was to capture the studies, which included panel data including at least two years since the effective date of IFRS 13.
  - (ii) Secondly, we focussed on papers published in journals ranked as A\*, A or B, according to Australian Business Deans Council Journal Rankings List November 2013 (ABDC 2013) as a proxy for quality.
- (c) In addition, a few ad hoc academic working papers were also added to our list as relevant to IFRS 13 as they appeared to identify specific questions worth considering, eg the impact of convergence on the consistency and

comparability of fair value measurement and the funding value of the funding value adjustments (FVAs).

11. From 71 academic studies, we scoped out 20 studies that:
  - (a) permit or require fair value measurement but are outside the scope of IFRS 13, eg IFRS 2 *Share-based payments*; or
  - (b) are not directly attributable to IFRS 13 and refer to the history of fair value measurement, suitability of fair value accounting in emerging markets, the relative advantages and disadvantages of fair value over other measurement methods, the extent of fair value use all over the world and the role of consumer behaviour in determining fair value prices; or
  - (c) were case studies with no specific results.
12. The academic studies identified so far can be classified:
  - (a) By the research approach chosen:
    - (i) The majority of papers have a mainly empirical and archival approach, making use of published financial data from annual reports and databases;
    - (ii) Some studies based on survey research, theoretical modelling and case studies.
  - (b) Based on specific accounting standard examined:
    - (i) relevant IFRS Standards (ie IAS 36 *Impairment of Assets*, IAS 38 *Intangible Assets*, IAS 39 *Financial Instruments: Recognition and Measurement*, IAS 40 *Investment Property*, IFRS 3 *Business Combinations* and IFRS 9 *Financial Instruments*) to which IFRS 13 applies (some studies); or
    - (ii) relevant US GAAP guidance (ie SFAS 133 *Accounting for Derivative Instruments and Hedging Activities*, SFAS 141(R) *Business*

*Combinations, SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities and SFAS 161 Disclosures about Derivative Instruments and Hedging Activities*), to which SFAS 157 applies respectively (most studies).

Fair value measurement hierarchy and fair value or standard-specific disclosure requirements are extensively analysed in most standard-specific studies (ie 12(b)(i) and 12(b)(ii)).

(iii) interaction between IFRS 13 or SFAS 157 and Conceptual Framework as well as the convergence between IFRS 13 and SFAS 157 (few studies).

(c) By geography with sample data from:

- (i) firms applying US GAAP (most studies);
- (ii) groups of EU countries (some studies);
- (iii) a group of non-EU countries applying IFRS (Australia, Bahrain, Bangladesh, Bermuda, Canada, Chile, Hong Kong, Jordan, Kuwait, Nigeria, Oman, Pakistan, Philippines, Republic of South Korea, Saudi Arabia, Singapore, South Africa, Sri Lanka, Switzerland, Taiwan and United Arab Emirates) (a few studies); and
- (iv) individual countries (a few studies eg China and Canada).

## Results

13. From the scoping study the following three questions emerged as most relevant to IFRS 13:

- (a) Do fair value measurement or/and disclosure requirements for financial instruments convey useful information to users of financial statements?
- (b) Do fair value measurement and disclosure requirements for non-financial assets/liabilities (eg business combinations

and investment property) convey useful information to users of financial statements? and

- (c) What is the impact of the use of judgement in determining the fair value, of the involvement of valuation specialists and of the fair value measurement disclosures on audit fees and on audit processes in general?

It should be noted that a common characteristic of the 13(a)-13(c) questions identified by the nature of asset or liability is the role of disclosure requirements prescribed either by specific standards or by IFRS 13 or SFAS 157.

### ***Financial instruments***

14. 18 out of 50 finally examined studies pertain to financial instruments measured either at fair value through profit or loss (FVPL) or at fair value through other comprehensive income (FVOCI).
15. With regard to the types of financial instruments examined, some studies are derivative-specific (both hedging and non-hedging), some refer to private loan contracts, private equity (eg reliability of level 2 valuation techniques) and available for sale portfolios and a few to financial instruments in general. The key issues emerged from these financial instrument-specific studies are:
  - (a) the predictive value of fair value adjustments recorded in OCI;
  - (b) the usefulness of credit risk information to the users of financial statements as derived from the credit risk adjustments in OCI under the fair value option for liabilities and the implications of this accounting choice about firms' credit risk profile and profitability;
  - (c) the verifiability of fair value estimates;
  - (d) the disclosure requirements of levels 1, 2 and 3 estimates;
  - (e) the reliability of level 2 valuation techniques;

- (f) the impact of fair value definition on comparability; and
- (g) whether unrealised gains or losses are used for valuation purposes.

16. Most of these studies used data from periods prior to the effective date of IFRS 13, prepared in accordance with applicable financial instruments guidance. In addition, most of studies used panel data of firms applying US GAAP.

### ***Non-financial assets and liabilities***

17. 14 out of 50 studies explore the fair value measurement and disclosure implications for non-financial assets and liabilities, mostly as relating to investment properties and assets and liabilities acquired in business combinations.
18. A couple of investment property-specific studies explore the usefulness of fair value recognition versus disclosures about investment properties in investor's equity valuation.
19. Furthermore, a few studies explore the fair value measurement of non-financial assets in general:
- (a) when the market is illiquid; and
  - (b) when fair value as prescribed by IFRS 13 is in effect unknowable.
20. A few studies also explore factors determining the choice between fair value model and cost model for property, plant and equipment (PPE) and investment properties.
21. A few studies are business combination-relevant. Areas examined include:
- (a) the information usefulness of purchase price allocations that involve fair value estimation of acquired assets and liabilities after a business combination;
  - (b) the fair value of a contingent claim; and
  - (c) the association of bargain purchase gains, ie the excess of the fair value estimation of the net assets acquired over the amount paid, with earnings management.

***The impact of applying judgement in fair value measurement on audit fees and audit processes***

22. 12 out of 50 studies focus on the use of judgement in fair value measurement from an auditors' perspective. This third category of academic studies explains how important fair value disclosures are for auditors when applying judgement in fair value measurement, ie what the impact is on their audit processes, eg on consulting with valuation specialists, and how the existence of fair value disclosures affects the size of audit fees.
23. Most studies in this category analyse the impact of the use of judgement on audit fees. Areas of use of judgement for fair value measurement examined in those studies are the use of significant unobservable inputs in measurement of non-financial assets, as well as discretionary loan loss provisions.
24. A few studies also examine the involvement of valuation specialists in fair value measurement and the effect of this involvement on the audit processes (further investigation needed) and on the audit fees.
25. These studies are indirectly attributable to IFRS 13 because they examine auditor's perspective on fair value measurement and disclosures mostly through experimental data prior to IFRS 13. However, the use of judgements in fair value estimates and the fair value disclosures seem to highly influence auditors' decisions before and after the effective date of IFRS 13.

***General studies***

26. 7 out of 50 studies refer to fair value measurement in general and discuss the following common themes:
  - (a) fair value hierarchy;
  - (b) investor's assessments of management stewardship based on fair value information;
  - (c) factors that affect fair value reliability; and
  - (d) asset measurement from a valuation perspective.



**Appendix A—List of academic research identified**

Anderson, S.B. et al., (2015) The effect of alternative accounting measurement bases on investors' assessments of managers' stewardship, *Organizations and Society*

Andersen, L.B.G., et al., (2016), Funding Value Adjustments, SSRN preliminary draft paper

Ball, R. et al., (2015) Contractibility and transparency of financial statement information prepared under IFRS: Evidence from debt contracts around IFRS adoption, *Journal of Accounting Research*

Barker, R. and Shulte, S., (2015) Representing the market perspective: Fair value measurement for non-financial assets, *Accounting, Organizations and Society*

Bens, D.A., et al., (2015), The impact of SEC disclosure monitoring on the uncertainty of fair value estimates, *The Accounting Review*

Bhat, G. and Ryan, S.G., (2015) The impact of risk modelling on the market perception of banks' estimated fair value gains and losses for financial instruments, *Accounting, Organizations and Society*

Botosan, C.A. and Huffman, A.A., (2015) Decision-useful asset measurement from a business valuation perspective, *Accounting Horizons*

Bratten, B. et al., (2016), Usefulness of fair values for predicting banks' future earnings: evidence from other comprehensive income and its components, *Review of Accounting Studies*

Brink, A.G., et al., (2016) The impact of estimate source and social pressure on auditors' fair value estimate choices, *Behavioural Research in Accounting*

Campbell, J.L. et al., (2015) Do sophisticated investors use the information provided by the fair value of cash flow hedges? *Review of Accounting Studies*

Campbell, J.L., (2015) The fair value of cash flow hedges, future profitability, and stock returns, *Contemporary Accounting Research*

Cataldo, J.M., (2015) A framework for assessing comprehensive income risk exposure over varying time horizons, *Review of Quantitative Finance and Accounting*

Chen, F., et al., (2015) Auditor conservatism and banks' measurement uncertainty during the financial crisis, *International Journal of Auditing*

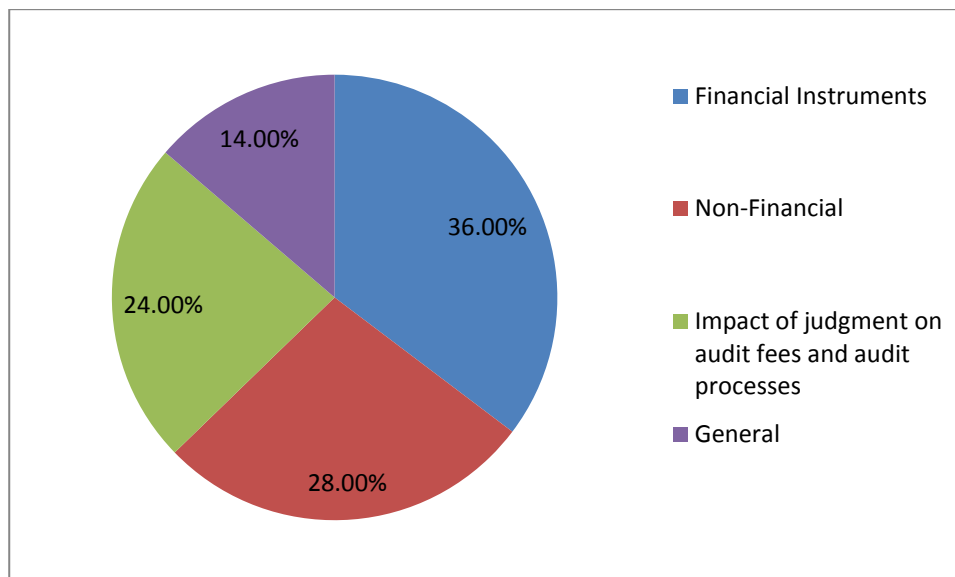
- Choi, J.J., et al., (2014) Earnings Management and Derivative Hedging with Fair Valuation: Evidence from the Effects of FAS 133, *The Accounting Review*
- Christensen, H.B. and Nikolaev, V.V., (2013) Does fair value accounting for non-financial assets pass the market test?, *Review of Accounting Studies*
- Cullinan, C.P., et al., (2016) Size variables in audit fee models: An examination of the effects of alternative mathematical transformations, *Auditing: A Journal of Practice & Theory*
- Demerjian, P.R., (2016) Fair value accounting and debt contracting: Evidence from adoption of SFAS 159, *Journal of Accounting Research*
- Dunn, K., et al., (2015) Bargain purchase gains in the acquisitions of failed banks, *Journal of Accounting, Auditing & Finance*
- Elbannan, M.A., (2015) Information content of SFAS 157 fair value reporting, *Journal of International Accounting, Auditing and Taxation*
- Filip, A. et al., (2015) Using Real Activities to Avoid Goodwill Impairment Losses: Evidence and Effect on Future Performance, *Journal of Business, Finance & Accounting*
- Frahm, G., (2016) Pricing and valuation under real world measures, SSRN, Helmut Schmidt University
- Fredstad, D. and Beisland, L.A. (2014) Hedge effectiveness testing as a screening mechanism for hedge accounting: Does it work?, *Journal of Accounting, Auditing & Finance*
- Gaharan, C., (2015) Reporting standards for bargain purchase gain: Is the objective achieved? *Journal of Accounting and Finance*
- Goh, B.W., et al., (2015) Market pricing of banks' fair value assets reported under SFAS 157 since the 2008 financial crisis, *Journal of Accounting and Public Policy*
- Griffith, E.E., et al., (2015) Auditor mind-sets and audits of complex estimates, *Journal of Accounting Research*
- Griffin, J.B., (2014) The effects of uncertainty and disclosure on auditor's fair value materiality decisions, *Journal of Accounting Research*

- Griffiths, E.E., and Hammersley, J.S., (2015) Audits of complex estimates as verification of management numbers: How institutional pressures shape practice, *Contemporary Accounting Research*
- Habib, A. (2015), The New Chinese Accounting Standards and Audit Report Lag, *International Journal of Auditing*
- Haslam, C., et al. (2015) Real Estate Investment Trusts (REITS): A new business model in the FTSE100, *Accounting Forum*
- Huang, H.W., et al., (2016) Corporate governance, SFAS 157 and cost of equity capital: Evidence from US financial institutions, *Review of Quantitative Finance and Accounting*
- Huang, H.W., et al., (2015) The volatility of other comprehensive income and audit fees, *Accounting Horizons*
- Israeli, D. (2015) Recognition versus disclosure: evidence from fair value of investment property, *Review of Accounting Studies*
- Kimbrow, M.B. and Xu, D., (2016) The accounting treatment of goodwill, idiosyncratic risk, and market pricing, *Journal of Accounting, Auditing & Finance*
- Kohlbeck, M.J. and Smith, T.J. (2015) A gain by any other name: Accounting for a bargain purchase gain, *Issues in Accounting Education*
- Lachmann, M. et al., (2015) Fair value accounting for liabilities: Presentation format of credit risk changes and individual information processing, *Accounting, Organizations and Society*
- Lawrence, A., et al. (2015), Who's the fairest of them all? Evidence from closed-end funds, *The Accounting Review*
- Magnan, M. et al., (2015) Fair value accounting: information or confusion for financial markets?, *Review of Accounting Studies*
- Lin, S., et al (2016), Relative effects of IFRS adoption and IFRS convergence on financial statement comparability, *Florida International University*
- Mäki, J., et al.,(2016) Ownership structure and accounting method choice: A study of European real estate companies, *Accounting in Europe*
- Manchiraju, H. et al., (2016) Fair value gains and losses in derivatives and CEO compensation, *Journal of Accounting, Auditing & Finance*

- McDonough, R.P. and Shakespeare, C.M., (2015) Fair value measurement capabilities, disclosure, and the perceived reliability of fair value estimates: A discussion of Bhat and Ryan (2015), *Accounting Organizations and Society*
- Müller, M.A., et al., (2015) Recognition versus disclosure of fair values, *The Accounting Review*
- Ow Yong, K., et al., (2013) The effect of statement of financial accounting standards No. 157 Fair Value Measurements on analysts' information environment, *Conference Paper*
- Palea, V. and Miano, R., (2013) Private equity fair value measurement: a critical perspective on IFRS 13, *Australian Accounting Review*
- Paugam, L., et al. (2015) Accounting for business combinations: Do purchase price allocations matter? *Journal of Accounting and Public Policy*
- Salzsieder, L., (2015) Fair value opinion shopping, *Behavioural Research in Accounting*
- Siekkinen, J., (2016) Value relevance of fair values in different investor protection environments, *Accounting Forum*
- Wu, W., et al., (2016) An option for lemons? The fair value option for liabilities during the financial crisis, *Journal of Accounting, Auditing & Finance*
- Xie, B. (2016), Does fair value accounting exacerbate the procyclicality of bank lending?, *Journal of Accounting Research*
- Yao, D.F.T., et al., (2015) Fair value accounting for non-current assets and audit fees: Evidence from Australian companies, *Journal of Contemporary Accounting & Economics*

## Appendix B—Analysis of relevant academic literature identified

### Literature identified by nature of topics researched



### Literature identified by accounting standards

