

ASAF meeting, 7 July 2017
Agenda Paper 7

Post-implementation Review of IFRS 13 *Fair Value Measurement*

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Agenda

- Questions for ASAF members
- Background
- Preliminary ASAF feedback on RFI
- Outreach strategy
- Next ASAF meeting

- Appendix 1: Material for users outreach
- Appendix 2: Additional information on PIR and IFRS 13
- Appendix 3: Feedback from previous discussions with ASAF
- Paper 7A: Questions included in the Request for Information

Questions for ASAF members

- We appreciate that at this time ASAF members will not have formulated official response. However, we would appreciate initial feedback on the topics in the RFI.
- Do you have any comments on our proposed outreach strategy?
- Are you proposing to undertake outreach to gather evidence in responding to the RFI?



Background: IFRS 13 Post-implementation Review (PIR)

- The Board undertakes Post-implementation Reviews (PIR) of major IFRS Standards after they have been applied internationally for at least two years.
- A PIR has two phases:
 - Phase 1: an initial assessment to establish the scope of the PIR
 - Phase 2: includes a Request for Information and assessment of matters
- IFRS 13 *Fair Value Measurement* PIR:
 - Phase 1: commenced autumn 2016
 - Phase 2: [Request for Information \(RFI\)](#) published 25 May 2017, deadline for responses 22 September 2017.

Focus areas for Phase 2

- RFI focuses on 4 main areas:
 - the usefulness of disclosures about fair value measurements;
 - the unit of account and fair value measurement of quoted investments;
 - the application of highest and best use when measuring the fair value of non-financial assets; and
 - the application of judgement in specific areas.
- We are also requesting information on the challenges of measuring fair value of some biological assets and unquoted equities.

Particular focus on usefulness of disclosures



ASAF preliminary feedback: Request for Information

PIR objectives

Area to assess further during phase 2 of the IFRS 13 PIR	Objective of further assessment
Disclosures about fair value measurements	To gain a deeper understanding of both users' and preparers' perspectives on the usefulness of fair value measurement disclosures.
Prioritising Level 1 inputs or the unit of account ('PxQ' issue)	To further assess the extent and effect of the issue, as well as current practice.
Application of the concept of the highest and best use when measuring the fair value of non-financial assets	To better understand the challenges when applying this concept, to assess how pervasive it is and whether further support could be helpful.
Application of judgement in specific areas	To assess the challenges in applying judgements in specific circumstances and whether further support could be helpful.


Request for Information includes specific questions in each of the areas of focus, as well as some general questions on the effects of IFRS 13.

Full set of questions from the RFI is included in paper 7A

In addition, the RFI also explores whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments.

Question 1 for ASAF

- We appreciate that at this time ASAF members will not have formulated official response. However, we would appreciate initial feedback on the topics in the RFI.



Strategy and working with NSS in phase 2 of the PIR

1. The objective of our outreach strategy is to:
 - Gain a deeper understanding of usefulness of disclosures relating to fair value measurements, in particular from users of financial statements
 - Gather evidence on pervasiveness of:
 - the unit of account and fair value measurement of quoted investments (the PxQ problem);
 - the application of highest and best use when measuring the fair value of non-financial assets; and
 - the application of judgement in specific areas;
 - the issues with measuring fair value of unquoted equities and biological assets

2. Our outreach approach:
 - recognises that phase 1 suggests IFRS 13 is working well;
 - will use information collected in phase 1;
 - will focus on users and disclosures; and
 - anticipate significant response to RFI.

3. Our outreach will be complemented with an academic literature review

- Your support in outreach most helpful if aligned with our strategy and areas of focus set out in the previous slides.
- Appendix 1 includes slides that could support your outreach with users, possibly complemented with real life examples of disclosures.
- PIR is not a standard-setting project so the Board is not seeking views on any potential standard-setting activities at this stage.

Question 2 for ASAF

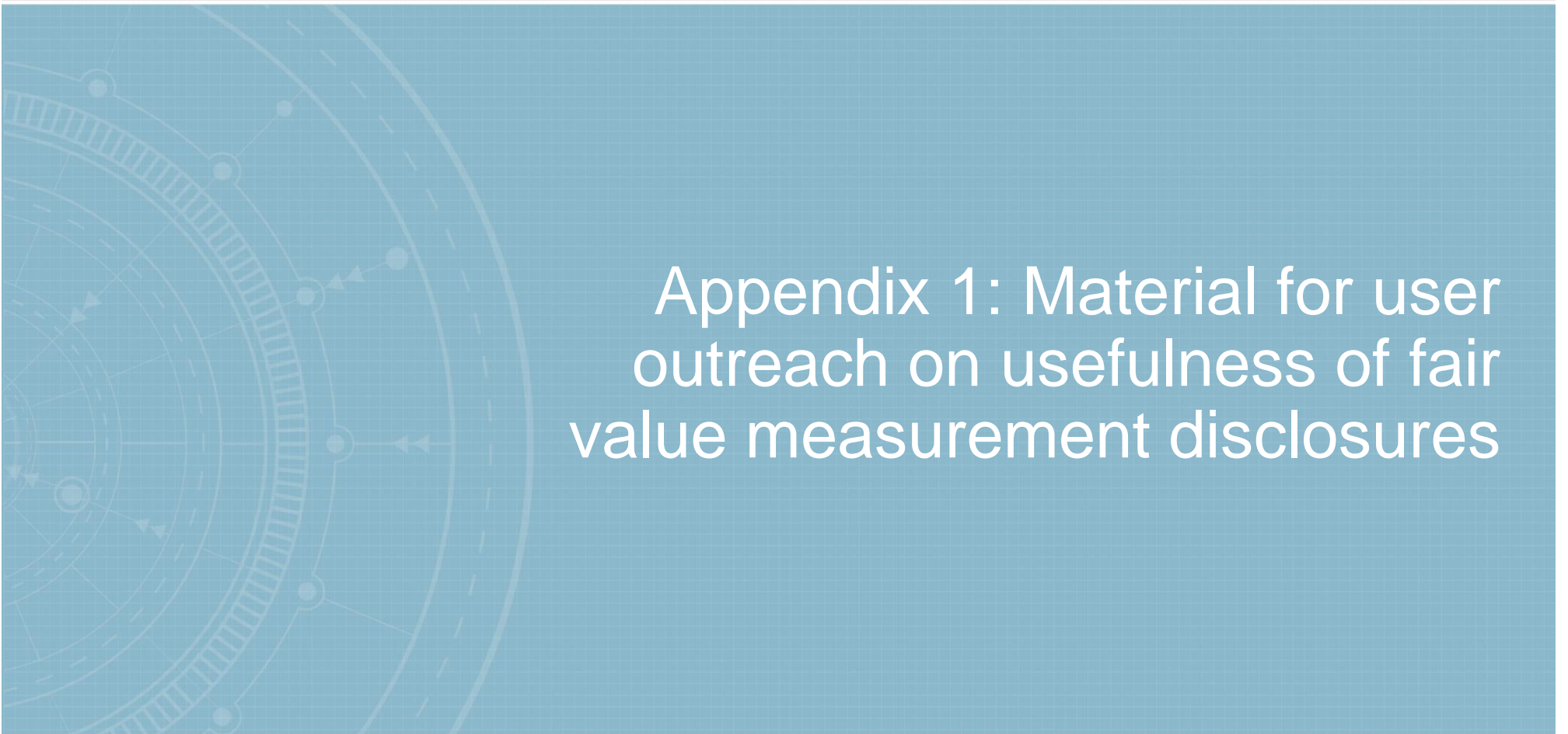
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- Do you have any comments on our proposed outreach strategy?
- Are you proposing to undertake outreach to gather evidence in responding to the RFI?

Next steps and next ASAF meeting

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- We plan to summarise the high-level feedback at next ASAF meeting on 28 September 2017 – the paper will be posted just before the meeting.
- The summary of responses and academic literature review to be presented to the Board end of the year or early 2018 – depending on how many responses we receive and on the completion of literature review.



Appendix 1: Material for user outreach on usefulness of fair value measurement disclosures

- The objective of fair value disclosures is to provide users of financial statements with information about:
 - the valuation techniques and inputs used to develop fair value measurements.
 - how fair value measurements using significant unobservable inputs affected profit or loss or other comprehensive income for a given period.
- In the phase 1 of the PIR, many stakeholders asked the Board to take a closer look at the disclosures:
 - Many users of financial statement said disclosures about fair values were important although they found many of the disclosures in financial statements to be generic, reducing the usefulness of the information.
 - Most preparers thought that some of the disclosure requirements for Level 3 fair value measurements were onerous and did not reflect the way entities manage their businesses. They questioned the usefulness of the disclosures for investors, especially when they are aggregated and cover a number of different assets or liabilities.


Information IFRS 13 requires entities to disclose

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. 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. FVM for assets held for sale and impaired assets are non-recurring.

- Usefulness of information:
 - what information provided about fair value measurement is useful, and why?
 - is the usefulness affected by the aggregation and generic disclosures, and if so how?
 - are there any other factors affecting the usefulness of the information you see, and what are they?
- Possible improvements:
 - do you have suggestions on how to make the information provided more useful?
 - is there information about fair value measurement that you think would be useful but is not disclosed?



Appendix 2: additional information on PIR and IFRS 13

- 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.

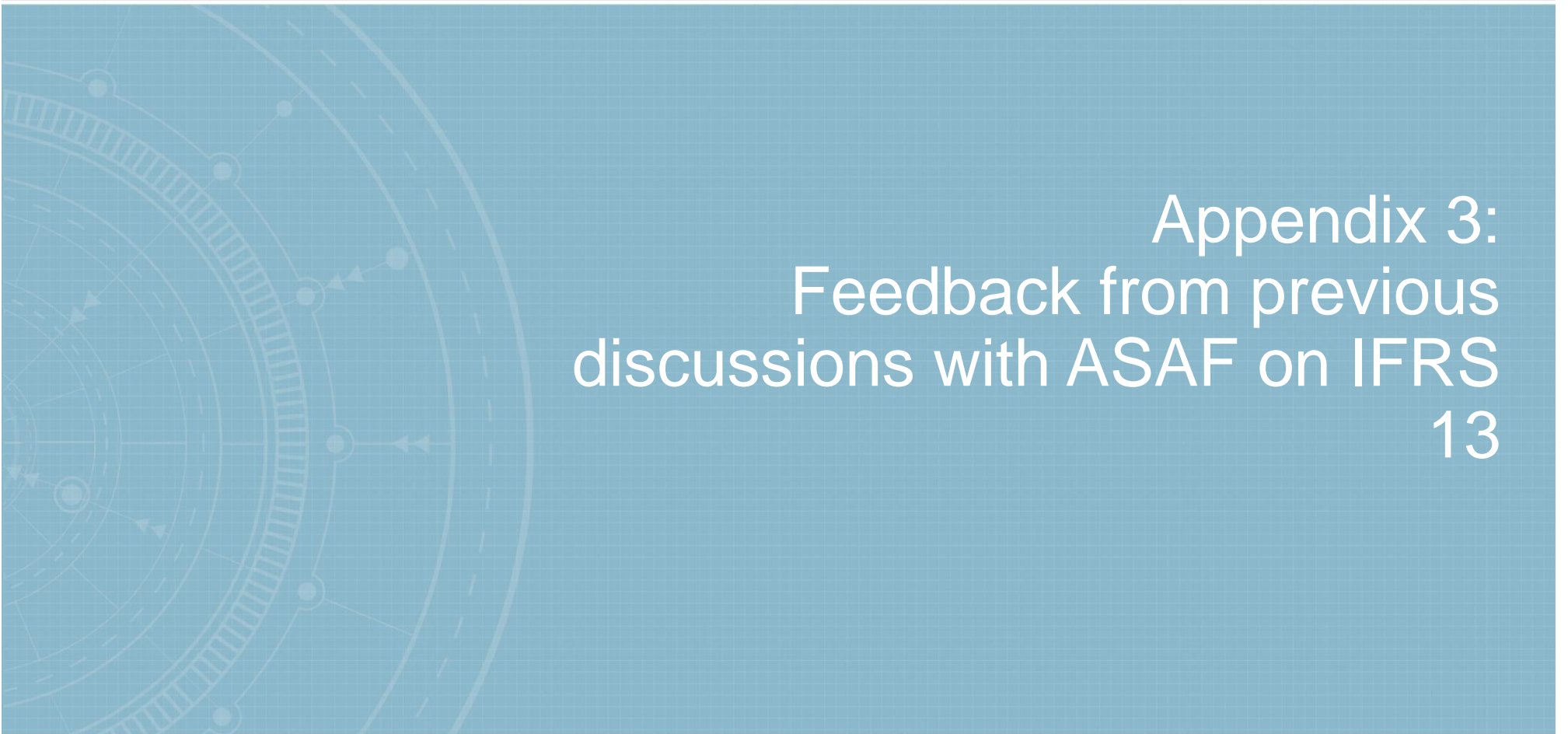
Main uses of fair value in IFRS Standards

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 for most assets	Yes	Yes

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

- Topic 820 *Fair Value Measurement* (Topic 820) 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.



Appendix 3:
Feedback from previous
discussions with ASAF on IFRS
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Feedback from previous discussions with ASAF

Month	Questions asked	Summary of feedback
December 2016	<p>The IASB staff summarised the feedback received during the outreach completed in Phase 1 of the PIR, noting that the overall messages received were consistent and that stakeholders said the Standard is working well and meets its objectives.</p> <p>ASAF members' advice was requested on the scope of the second phase of the PIR of IFRS 13.</p>	<p>Most ASAF members:</p> <ul style="list-style-type: none">(a) agreed with the feedback regarding the effectiveness of disclosures and the PxQ issue and suggested these areas be investigated further. Some ASAF members also said the use of judgement (in particular for determining when a market is active) and high and best use for non-financial assets should be investigated further.(b) expressed support for a public consultation in the form of the Request for Information (RFI) in Phase 2 of the PIR.(c) agreed with the staff that the RFI should target the most significant matters raised during Phase 1, and give respondents an opportunity to comment on other issues. <p>ASAF members provided advice on the next steps and activities during Phase 2 of the PIR.</p>

Feedback from previous discussions with ASAF - continued

Month	Questions asked	Summary of feedback
October 2015	ASAF members were asked to provide their views on the relevance of the proposed measurement included in the <i>Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value</i> ED and their assessment of the population of entities that may be affected by the proposals in the ED in their jurisdictions.	<ul style="list-style-type: none">• ASAF members noted that it was rare for investment entities to have quoted investments in subsidiaries but where they did exist the impact could be significant.• In relation to the relevance of fair value measurement of quoted investments is on the basis of P × Q; :ASAF members noted:<ul style="list-style-type: none">• P × Q resulted in a relevant measurement,• P × Q is not relevant, because it is not consistent with the unit of account being the investment as a whole.• P × Q was reliable, highly irrelevant and not consistent with the definition of fair value.• P × Q was irrelevant, because the price of one share cannot be used to measure a large shareholding.• P × Q is a relevant fair value measurement for quoted investments because they are generally not transferred to a third party on an aggregated basis; however, in instances in which quoted investments are disposed of as a block, the fair value measurement should be determined by applying a valuation technique or by adjusting Level 1 prices.

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IFRS 13 PIR project



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