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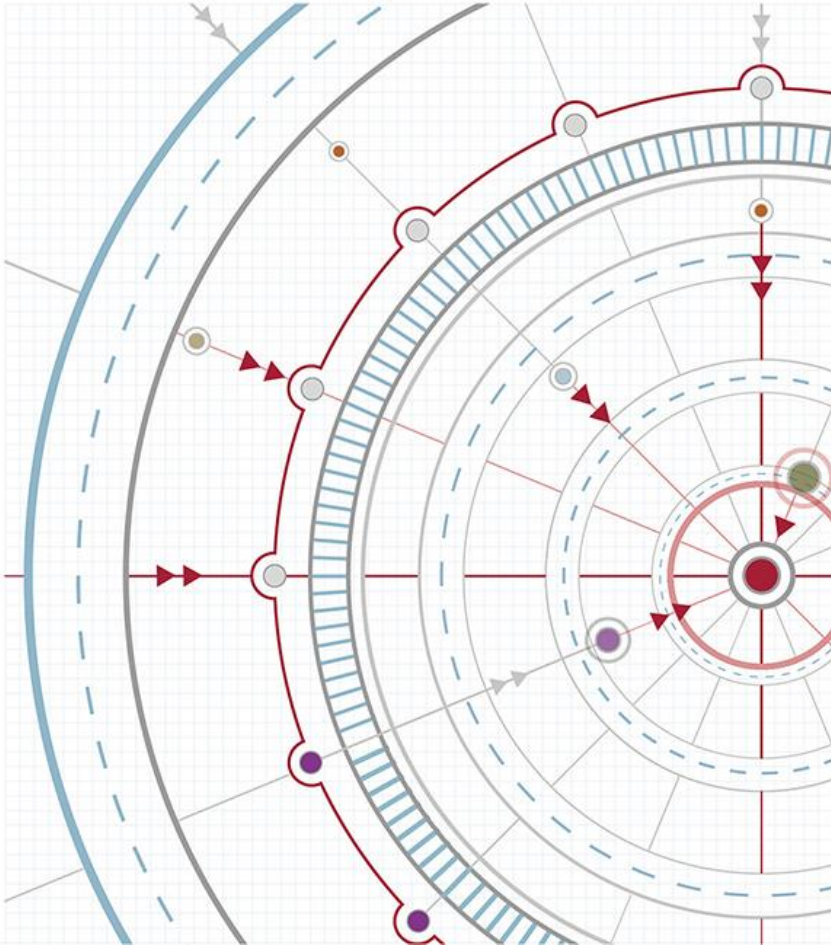

Joint CMAC-GPF meeting, 15-16 June 2017

Agenda Paper 4

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

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Agenda

- Purpose of the session – slide 3
- Background: IFRS 13 Post-implementation Review (PIR) – slides 4-7
- Break-out discussion: usefulness of fair value disclosures – slides 8-10
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- Appendix – additional information on PIR and IFRS 13 – slides 12-15

Purpose of the session

- Obtain input to supplement the Request for Information on IFRS 13 Post-implementation Review
- Break-out sessions focus on usefulness of disclosures
  - The objective of the break-out is to gain a deeper understanding of both users' and preparers' perspectives on the usefulness of fair value measurement disclosures.

Background:
IFRS 13 Post-implementation Review (PIR)

IFRS 13 PIR overview

- The Board reviews major standards after they have been applied internationally for at least two years.
- Two phases – initial scoping then analysis of areas of focus.
- IFRS 13 PIR began in autumn 2016.
- Initial phase included meetings with CMAC and GPF.
- Phase 2 launched with Request for Information published on 25 May, deadline for responses 22 September.
- Four main areas of focus, in particular the usefulness of disclosures.

Focus areas in the PIR

- The Board decided to focus the research in phase 2 of the PIR on the following:
  - the effectiveness of disclosures about fair value measurements;
  - the unit of account and fair value measurement of quoted investments;
  - the application of judgement in specific areas; and
  - the application of highest and best use when measuring the fair value of non-financial assets.
- We will also research challenges with measuring fair value of some biological assets and unquoted equities.
- Particular focus on usefulness of disclosures.

Objectives of phase 2 of PIR

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.

Focus of the break-out discussion: usefulness of fair value measurement disclosures

Fair value 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.

Questions for GPF and CMAC members

- 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?
- Cost of providing information:
  - which information provided about fair value measurement disclosures do you think is the most costly to prepare and why? Please consider costs due both to complexity and volume.
- 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: additional information on PIR and IFRS 13

Background—PIR

- 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 *Business Combinations*	**Required**, with some exceptions	Yes	No
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Threshold**, required if fair value less costs to sell is lower than the carrying amount	Yes	Yes
IFRS 9 *Financial Instruments*	**Required**, depending on the business model	Yes	Yes*
IAS 16 *Property, Plant and Equipment*	**Optional**, accounting policy choice	Yes	Yes
IAS 19 *Employee Benefits*	**Required**, for pension plan assets only**	Yes	No
IAS 36 *Impairment of Assets*	**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 *Intangible Assets*	**Optional**, accounting policy choice	Yes	Yes
IAS 40 *Investment Property*	**Optional**, accounting policy choice	Yes	Yes*
IAS 41 *Agriculture*	**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).

**The requirement relating to pension plan assets and specifically qualifying insurance policies that exactly match the amount and timing of some or all of the benefits payable under the plan, the fair value of those insurance policies is deemed to be the present value of the related obligations per IAS 19.115.

US GAAP—equivalent requirements

- 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.

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