STAFF PAPER

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IASB Meeting

Project	**Post-implementation Review of IFRS 13 *Fair Value Measurement***
Paper topic	Feedback summary: Request for Information on IFRS 13 Post-implementation Review

CONTACT(S)	Aida Vatrenjak	avatrenjak@ifrs.org	+44 (0)20 7246 6946
	Ashley Carboni	acarboni@ifrs.org	+44 (0)20 7246 6905

Introduction and purpose

1. This paper provides a summary of key messages from comment letters and other feedback on the Request for Information (RFI) on the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement* (IFRS 13), including feedback from the Board's consultative bodies.

2. The RFI focussed on the following areas of IFRS 13:

   (a) disclosures about fair value measurements (in order to gain a deeper understanding of both users' and preparers' perspectives on the usefulness of fair value measurement disclosures).

   (b) whether to prioritise Level 1 inputs or the unit of account (in order to further assess the extent and effect of the issue as well as current practice).

   (c) application of the concept of the highest and best use when measuring the fair value of non-financial assets, (in order to better understand the challenges when applying this concept and whether further support could be helpful).

   (d) application of judgement in specific areas (in order to assess the challenges and whether further support could be helpful).

3. In addition, this RFI explored whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments. The RFI also included questions on the effects of IFRS 13 and on any other matters not covered by specific questions.

4. The RFI was issued on 25 May 2017 and the deadline for responses was 22 September 2017. The Board received 67 comment letters. Staff held 24 meetings with various stakeholders.

5. Agenda paper 7F for this meeting analyses feedback received for each of the questions in the RFI and summarises the profile of respondents and the outreach conducted. Agenda paper 7F also repeats some of the summaries included in this paper, to facilitate reading through the analysis.

6. The paper does not ask the Board any questions and is intended for discussion only.

7. Appendix A includes summaries from discussions with IFRS consultative bodies (Accounting Standards Advisory Forum, Capital Markets Advisory Committee and Global Preparers Forum).

Key messages heard

8. The main message the staff heard during phase 2 of the PIR is that IFRS 13 works well and has achieved its objectives. The messages on areas of concern were consistent with what we heard during phase 1 of the PIR with most suggestions relating to disclosures and to the unit of account (the PxQ issue). Preparers and users of financial statements had different views in both of these areas.

9. During this phase of the PIR, the staff heard fewer concerns about highest and best use, although this remains an area of concern for some. The feedback included many requests for additional support/education/guidance in various areas including application of judgements and measurement of biological assets and unquoted equity instruments, with questions raised as to what that guidance should entail and who should provide it. Users of financial statements expressed little concern in these areas.

10. There were no major differences in feedback between regions except that it seemed emerging markets had more issues than more developed markets with measurement of biological assets.

Users

11. Users of financial statements were mostly interested in improving the disclosures about fair value measurements, with the main suggestions as follows:

    (a) ensuring appropriate disaggregation so that assets and liabilities with different characteristics are not presented together;

    (b) improving consistency of presentation and classification; and

    (c) improving transparency by requiring additional disclosures for Level 2 measurements.

12. Users also said that they wanted the Board to resolve the PxQ issue, with most suggesting the measurement should be based on the quoted price, regardless of the unit of account.

Regulators

13. Regulators asked for the PxQ issue to be clarified and indicated some other areas to address or monitor, including disclosure effectiveness, assessment of whether a market is active, use of valuation adjustments, and classification by levels of the hierarchy. In preparing its feedback, European Securities and Markets Authority prepared a comprehensive review in their jurisdiction, the report on which can be found here.

Preparers, national standard-setters, accounting firms and accountancy bodies

14. Most preparers thought that fair value measurement disclosures were excessive and that usefulness of some disclosures did not justify the cost of their preparation, in particular for the reconciliation from opening to closing balance and quantitative sensitivity analysis. Preparers also asked for the PxQ question to be clarified, all of them asking for the measurement to be based on the unit of

account. Some preparers asked for further guidance in the areas where they have concerns, mostly:

(a) application of judgements, including those made in applying the fair value hierarchy and in identifying highest and best use for non-financial assets;

(b) how to measure fair value of biological assets, and

(c) to a lesser extent, how to measure fair value of unquoted equity instruments.

15. Some national and regional standard-setters expressed views similar to preparers although many included feedback from their stakeholders, which included different views between preparers and users, particularly on the topics of disclosures and the unit of account.

16. Accounting firms expressed views similar to preparers although, in relation to disclosures, their feedback mainly related to improving their usefulness and not reducing the requirements.

Summary of feedback by areas of focus in the RFI

Summary of feedback on disclosures relating to Level 3 fair value measurements

17. The question on the usefulness of fair value measurement disclosures was discussed by almost all respondents to the RFI. Most respondents considered the information provided about Level 3 measurement disclosures to be useful although some disclosures were seen as more useful than others and different views were expressed on the usefulness of quantitative sensitivity analysis and on the reconciliation from the opening balance to the closing balance, with the views split between users and preparers.

18. Most respondents indicated that the most useful disclosures about Level 3 measurements were those about valuation techniques and inputs, quantitative significant unobservable inputs and the fair value hierarchy.

19. Most respondents to the question on the effect of aggregation and generic information said they both reduced the usefulness of disclosures. Almost all of those respondents discussed aggregation; some provided comments on generic information as well. The users, however, said generic information is sometimes useful to confirm their expectations.

20. In other factors affecting usefulness, respondents mostly discussed the tick-box approach to providing disclosures, resulting in disclosure of immaterial information, with some saying that they expect the Board's newly issued Practice Statement 2: *Making Materiality Judgements* will help resolve this. A few respondents said that tabular presentation might be misleading because it might wrongly imply no judgement is involved in classification within particular rows or columns.

21. Many respondents provided suggestions on how to improve usefulness of disclosures about fair value measurements, including both those who thought disclosures were already useful and those that did not, with suggestions coming from all stakeholder types.

22. The suggestions on how to improve disclosures included:

    (a) providing more guidance and examples to ensure appropriate aggregation, make sure only material information is disclosed, and help with some of the individual disclosures relating to Level 3 assets and liabilities;

    (b) leveraging the work on the Disclosure Initiative, in particular the Principles of Disclosures project; and

    (c) removing some of the more onerous requirements around sensitivity analysis and reconciliation.

23. Most respondents to the RFI said the disclosures for assets and liabilities measured within Level 3 of fair value hierarchy were costly to prepare. Many of those identified disclosures that were particularly costly to prepare (such as the reconciliation), with a few saying the additional fees incurred in relation to valuation and audits were the main cost driver.

24. Respondents expressed mixed views as to whether additional disclosures would be useful. Many respondents stated that the current disclosure requirements were comprehensive, sufficient and gave useful information. Many other respondents, however, said that additional disclosures would be useful.

25. Their suggestions for additional disclosures included:

    (a) explanation of assumptions;

    (b) improvements to disclosures about inputs and sensitivity analysis;

    (c) more information about Level 2 measurements;

    (d) use of valuation specialists and valuation standards;

    (e) expanding scope of disclosures to include initial measurement for non-recurring measurements;

    (f) policy for determining whether a market is active; and

    (g) primary valuation technique.

26. Users were most interested in additional disclosures for Level 2 measurements.

Summary of feedback on unit of account

27. Most respondents to the RFI answered the questions relating to the unit of account. A majority of them said the unit of account issue as described in the RFI was not applicable to them because either:

    (a) there are no level 1 inputs that could be used in the measurement (for example shares of subsidiaries tested for impairment as a single or a part of cash-generating unit are usually not quoted in an active market); or

    (b) the investments, even if quoted, are not measured at fair value (for example investments in associates and joint ventures were measured using the equity method).

28. However, many respondents said that although the issue does not occur frequently, it can have a material effect when it occurs.

29. Some respondents provided further comments, and mostly:

(a) referred to the Board's 2014 Exposure Draft on this issue and their comment letters;

(b) stated that the measurement should be for the investment as a whole, adjusting PxQ for the value of control, value of synergies, market liquidity as applicable; and

(c) urged the Board to clarify the Standard in this regard and provide application guidance to ensure consistency of application.

30. This feedback differs from the feedback the staff has received in outreach with users of financial statements, most of whom supported measurement on the basis of PxQ, because:

(a) it is verifiable; and

(b) in the view of some, better represents fair value of the investment in question.

31. A few users said during outreach meetings that they were supportive of measuring the fair value for the unit of account as a whole, provided an explanation is given of any difference between the resulting measurement and the amount based on PxQ.

Summary of feedback on the application of highest and best use

32. Many respondents commented on the application of HBU, with most saying they had experience with it and found it challenging to apply. They said that most challenges arise when assessing whether an alternative use is legally permissible. Many respondents also commented that they disagreed with the concept of HBU because it did not reflect the business model of the entity.

33. Some respondents commented that the application of the concept was not challenging because, in their experience, the current use of an asset is also its HBU. A few respondents indicated circumstances when the HBU of an asset differs from its current use, mostly noting this is not a common occurrence.

34. A few respondents discussed the use of the residual method and said they found its outcome counter-intuitive because it can result in understatement of the cost of inventories sold.

35. The respondents had mixed views on whether there is diversity in the application of the HBU.

36. The users that provided feedback during outreach meetings said they were generally satisfied with the concept of the HBU.

Summary of feedback on the application of judgement

37. Many respondents discussed application of judgement. Most of those respondents found challenging the assessments of both whether a market is active and whether an unobservable input is significant and asked the Board to provide further guidance on these assessments. The respondents mostly referred to assessments relating to financial instruments, with a few comments relating to property.

38. A few respondents said that, although the assessments are challenging, additional guidance would not be helpful and that the Standard should remain principle-based.

39. A large majority of those who said the assessments were not challenging stated this was because they either had developed internal guidance or used industry level guidance for the assessments.

40. Some respondents said there is a bias towards classification within Level 2 of the hierarchy because disclosure requirements are more extensive for Level 3 measurements.

Summary of feedback on fair value measurement of biological assets and unquoted equity instruments

Biological assets

41. Some respondents to the RFI had experience with biological assets. Most of them said fair value measurement of biological assets was challenging, with many of them asking for additional guidance and/or changes to IAS 41 *Agriculture*.

42. Most respondents to the question said measuring biological assets at fair value was challenging when there is no active market, with growing produce often mentioned as an example. Some specific growing produce mentioned in the letters included: fruit, fish, palm oil, tea leaves and crops such as wheat or corn.

43. Although many respondents to this question asked for additional help, they expressed different views on what that help should entail. Some questioned whether providing that help is a job for the Board or for the valuation profession.

Unquoted equity instruments

44. Most respondents to the RFI did not respond to the questions on unquoted equity instruments or said they had no experience in this area. Of those that did respond, most said they were familiar with the education material *Unquoted equity instruments within the scope of IFRS 9 Financial Instruments*. Some of those respondents noted they were also using guidance prepared by industry groups, with most quoting the International Private Equity and Venture Capital Valuation Guidelines.

45. Many of those who responded to the questions said additional guidance was needed. Those respondents included several accounting firms, preparers, standard-setters and a user. Those respondents provided example of the areas in which guidance was most sought, including valuation of early stage entities, determining cost of capital and various premiums and discounts as well as more guidance on restrictions.

46. Some respondents, including several standard-setters and preparers, said additional guidance was not needed. Some respondents, including standard-setters and preparers, said that valuation profession should develop any additional guidance, and not the Board.

47. A few respondents said IFRS 9 *Financial Instruments* requires all unquoted equity instruments to be measured at fair value and asked the Board to reconsider this.

Summary of feedback on effects and convergence

48. Most respondents commented on the effects of IFRS 13 and on convergence. Most respondents stated that the ability to assess future cash flows as well as the comparability of financial statements had increased. Some respondents indicated that comparability increased only for individual entities over time but not across industries. Many respondents stated that IFRS 13 had increased compliance costs but some respondents indicated that the benefits outweighed the cost. Almost all

respondents stated that maintaining convergence with US Generally Accepted Accounting Principles was important to them and that this convergence is a main driver of the increased comparability globally.

Summary of other feedback

49. Other matters mentioned by respondents, and not covered by specific questions in the RFI, included:

(a) some respondents reported a perception that the fair value hierarchy implies that information about items on Level 1 or Level 2 is more relevant than information about Level 3. They indicated that this perception puts pressure on classification. They also said that this perception is mistaken.

(b) some respondents stated that the requirements for fair value disclosures for financial instruments in interim reports are costly and they questioned the usefulness of this information.

(c) a few respondents discussed blockage factors.

(d) a few respondents referred to diversity in practice with respect to valuation adjustments in measurement of financial instruments.

(e) a few respondents asked the Board to reconsider accounting for a blockage factor, with a regulator asking for guidance in distinguishing between blockage factor and liquidity discount.

(f) a few respondents indicated issues in practice with assessment of whether transaction price equals fair value and whether any day one gains or losses are to be recognised in profit or loss.

(g) a few respondents had challenges with the following:

(i) the lack of a practical expedient to use net asset value for measuring the fair value of an investment in an investment company;

(ii) how to consider tax in fair value measurement; and

(iii) how to measure fair value of liabilities.

Appendix A—Meeting summaries from meetings with the Board's consultative bodies

A1. Following are the official meeting summaries from the following meetings:

a. Joint CMAC and GPF meeting in June 2017;

b. ASAF meeting in July 2017;

c. CMAC meeting in October 2017; and

d. ASAF meeting in December 2017 (Draft).

Joint CMAC and GPF meeting in June 2017

A2. The purpose of this session was to obtain CMAC and GPF members input to supplement the feedback received on the Request for Information (RFI) on IFRS 13 Post-implementation Review.

A3. CMAC and GPF members discussed users' and preparers' perspectives on the usefulness of fair value measurement disclosures, including usefulness, cost and possible improvements to fair value measurement disclosures.

Usefulness of information

A4. CMAC and GPF members found tables on reconciliation from opening to closing balances and sensitivity analysis for Level 3 measurements most helpful, and these were the starting point for analysis by CMAC members. The next information CMAC members said they used in their analysis was the narrative description of the valuation techniques. Many CMAC members indicated that materiality is a factor when reviewing the Level 3 fair value disclosures, the most useful disclosures being those focussing on high level messages.

A5. Some CMAC and GPF members described the narrative included in disclosures, for example describing valuation techniques, to be boilerplate, with narrative disclosures in general described as long and unsuited for an average user of financial statements.

A6. As a part of the session, the members completed an online survey on the Level 3 fair value measurements with the following results:

a. Most CMAC and GPF members thought that the level of disaggregation in fair value measurement disclosures provided by entities is appropriate, with the rest almost equally divided between those who thought there was too much or too little disaggregation. In discussion, some members questioned whether the manner in which the information was disaggregated provided useful information.

b. The most useful disclosures about Level 3 instruments were indicated as the following:

   i. description of valuation technique and inputs used;

   ii. quantitative information about significant unobservable inputs;

   iii. reconciliation of changes in the FVM from beginning to end of reporting period;

   iv. description of sensitivity to reasonably possible change in assumptions;

   v. the methods and assumptions used in preparing the sensitivity analyses;

   vi. quantitative information about transfers between Level 3 and Level 2 of FVM hierarchy; and

   vii. description of changes to valuation technique and reasons.

Cost of providing information

A7. GPF members indicated that the concern is not so much about the cost of providing the fair value disclosures, but the risk that disclosure of, for example assumptions and sensitivities, could lead to lawsuits for an entity or show commercially sensitive information, for example for assets held for sale.

A8. Some GPF members said that sometimes information required for disclosures about investments measured at fair value may not be available to an entity.

A9. Some CMAC and GPF members also questioned whether any cost is justified when preparing fair value disclosures for property, plant and equipment as fair value disclosure for these types of assets are not seen as useful.

Possible improvements

A10. CMAC and GPF members thought that entities could improve the presentation of information about fair value measurement by using more tables and possibly even graphs, focussing on material items. The members thought that guidance on better communication in the Principles of Disclosures project might help.

A11. Some CMAC and GPF members indicated that there are not enough Level 2 disclosures and that adding further disclosure in this area would be helpful for analysis.

A12. Some CMAC members suggested that the Board should improve disclosure requirements on sensitivity analysis to provide more information about the range of values that was possible, which would help users understand where the value chosen by the entity is in the range, as is the case for disclosures currently provided to bank regulators.

A13. Some CMAC and GPF members thought that labels of Level 1, 2 and 3 measurements could be improved to make them easier to understand.

ASAF meeting in July 2017

A14. The staff updated ASAF members on the recent publication of the Request for Information (RFI) for the Post-implementation Review (PIR) of IFRS 13. The staff also informed the ASAF members of the focus areas and the outreach plan for phase 2 of the PIR. ASAF members provided initial feedback received on the focus areas of the RFI and any outreach plans they have for the consultation.

A15. Generally, all of the ASAF members agreed with the focus areas of the RFI, with many members noting that outreach activities with stakeholders are just commencing.

A16. Several ASAF members provided initial feedback about the disclosure of the quantitative sensitivity analysis for significant unobservable inputs in Level 3 measurements. Members' comments included:

a. the ASBJ representative questioned usefulness and comparability of this disclosure as it is not required under US GAAP;

b. the AOSSG's representatives said the preparers reported that this disclosure was complex, confusing and costly to prepare; and

c. the GLASS representative noted that users in South America do not seem to use this information in analysis of financial statements. Thus the representative questioned its purpose.

A17. In response the staff said many users had stated this disclosure is very useful. The staff suggested further discussions with users to better understand how this information is used.

A18. ASAF members provided further feedback and outreach plans as follows:

a. the EFRAG representative stated that they have launched two questionnaires on the impact of IFRS 13; one for users and another one for general stakeholders. The questionnaires and various outreach will also investigate whether it is feasible to simplify IFRS 13. The EFRAG representative stated the feedback received so far includes suggestions for expanding the scope of the unrealised gains and losses disclosures so that they also apply to Level 1 and Level 2 measurements. The EFRAG representative also stated that stakeholders are questioning both the application of judgements in making valuation adjustments and the quality of information disclosed about these adjustments;

b. the FASB representative stated that they have already completed a substantial amount of outreach in their review as a part of the disclosure framework work, which included fair value measurement disclosures, and offered for the FASB staff to share their findings. The FASB representative also offered to share experience with the use of examples in outreach; and

c. the AASB/NZASB representative stated that since fair value measurements are commonly used in the public sector in her jurisdiction, stakeholders have a lot of experience with this. She said that outreach being undertaken by the AASB will also include review of restricted assets and obsolescence in relation to fair value measurements.

A19. In its written comments the CASB stated it has already completed outreach on fair value, and believed the topics in the RFI are relevant. It requested the IASB provide solutions on a timely basis.

CMAC meeting in October 2017

A20. The purpose of this session was to share preliminary feedback from investors on the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*, and to discuss investors' suggestions for improvements relating to fair value measurement and its presentation. The staff mentioned that the analysis of responses to the Board's Request for Information is still in progress.

A21. CMAC members discussed the suggestions from investors relating to disclosures about fair value measurements, including:

a. removing the requirement for reconciliation of changes to Level 3 fair value measurements;

b. expanding disclosures for Level 1 and Level 2 fair value measurements to include unrealised gains/losses recognised in profit and loss;

c. improving disclosures about valuation techniques and inputs; and

d. various suggestions related to analysis of the sensitivity of Level 3 fair value measurements to reasonably possible changes in significant unobservable inputs.

A22. CMAC members expressed the following views:

a. a lack of support by many for reducing disclosures relating to Level 3 fair value measurements, because of their importance in less stable financial times. Several CMAC members found the reconciliation of changes in Level 3 fair value measurements useful, as it helps identify changes that could be concerns.

b. some members found 'sensitivity analysis' to be a misleading term. They preferred 'uncertainty analysis'—that is, the range of possible outcomes.

c. one member said that at times, reconciliation and numerical sensitivity analysis may not be material and that in such circumstances, the requirement to provide them could be removed.

d. one member noted that Level 2 currently accounts for 70% of fair value measurements and has always been the largest category. The member suggested requiring additional disclosures for Level 2 fair value measurements, similar to those currently required for Level 3.

e. one member said that whilst supporting expanding disclosures for Level 1 and Level 2 fair value measurements to include unrealised gains/losses recognised in profit and loss, they would also recommend presenting changes in Level 3 fair value measurements in ‘Other Comprehensive Income’.

f. some members presented examples where an item labelled as ‘other’ represented the largest item in a note. They asked for more disaggregation in such situations.

g. some members noted that disaggregation by asset types is more useful than disaggregation by measurement basis.

A23. Members also discussed feedback on the unit of account and fair value measurement. Most members, like most other investors consulted by the staff, thought that fair value measurement for assets for which a price of an individual share is available in an active market, should always be equal to the product of share price and the number of shares, even if the unit of account for those assets is not an individual share. Members also pointed out that there were no new arguments made during the discussion.

ASAF meeting in December 2017 (Draft notes)

A24. At this meeting, ASAF members received an overview of the feedback on the Request for Information (RFI) for the Post-implementation Review (PIR) of IFRS 13 Fair Value Measurement (IFRS 13). ASAF members commented on the RFI feedback and provided advice on how the Board could respond to that feedback.

A25. ASAF members agreed with the feedback that IFRS 13 is generally working well in practice.

A26. ASAF members recommended that the Board do more work on disclosures (AASB, AcSB, ASBJ, CASC, DRSC, EFRAG). Some ASAF members stated the future work on the Disclosure Initiative project and the application of the Materiality Practice Statement should be considered when reviewing disclosure issues relating to IFRS 13. The AcSB member suggested that the disclosures required by IFRS 13 could be good examples for the Disclosure Initiative to review.

A27. The FASB member commented that investors' suggestions on IFRS 13 disclosures were consistent with feedback the FASB received in its PIR. The FASB is considering whether to require disclosure of gains and losses for Level 1 and Level 2 fair value measurements and whether to require disclosure of weighted averages for unobservable inputs. The FASB member also noted that it is simplifying reconciliation requirements for private entities, but is keeping the full reconciliation requirements for public entities because investors find the reconciliation useful.

A28. ASAF members recommended that the Board continue work on a solution to the unit of account or 'PxQ' issue—how to measure fair value when Level 1 inputs do not correspond to the unit of account (AcSB, DRSC, EFRAG, SAFRC). ASAF members indicated that while this issue rarely occurs in practice, it is material when it does occur. ASAF members commented that finding a solution for this issue would require more research. The DRSC member recommended the Board consider allowing the investments to be measured as a single unit of account and requiring a disclosure between that amount and the result of a PxQ calculation. Other members recommended that the Board consider looking into more examples to identify what factors might cause differences from a PxQ calculation. The EFRAG member stated that the issue should be addressed at the point of recognition. The OIC member stated that in 2014, OIC reviewed over 200 public offers and noted a significant difference between PxQ just before the transaction and the subsequent price paid. The OIC suggested, but could not verify, that the difference is due to a control premium, not an overpayment.

A29. Other RFI topics include the application of the highest and best use for non-financial assets, application of judgement, fair value measurement of biological assets and unquoted equity instruments. Many ASAF members advised the Board not to consider further work on those topics immediately. The CASC member commented that the stakeholders in their jurisdiction would like more guidance on assessing whether markets are active and on measuring the fair value of biological assets.