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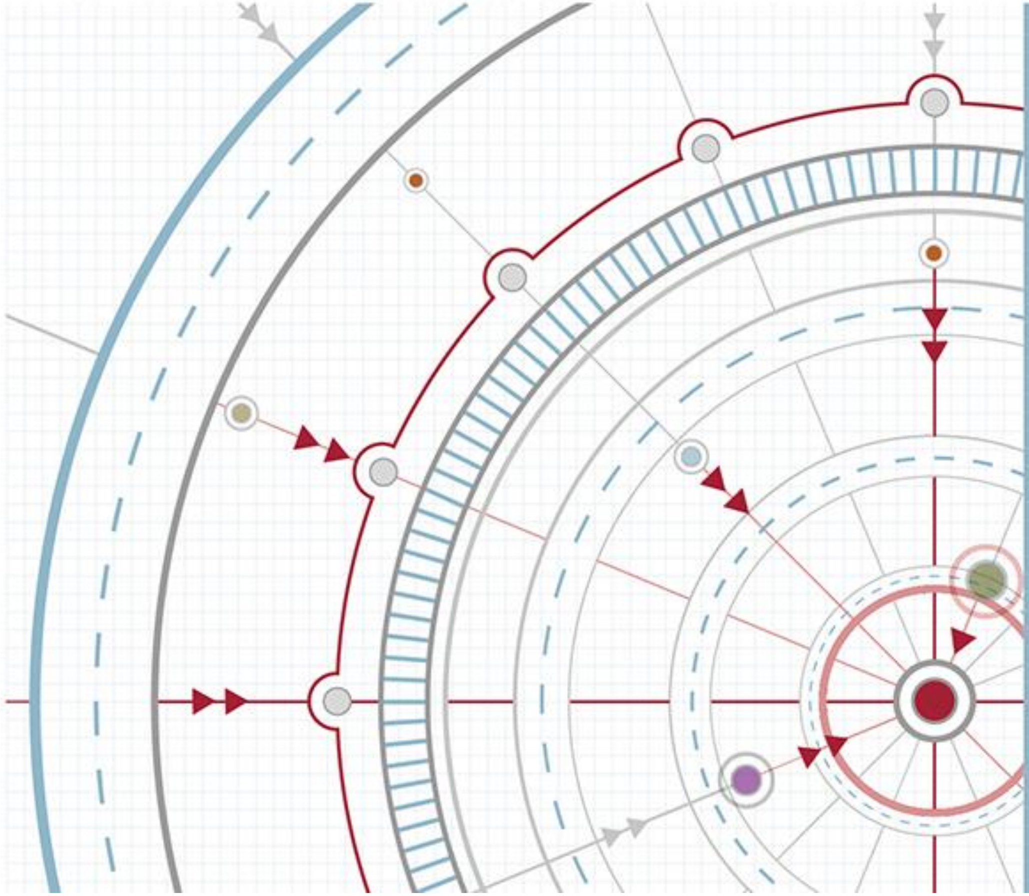

ITCG call

Wednesday 11 July 2018

Common practice analysis—IFRS 13 *Fair Value Measurement*

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board or IFRS Foundation.

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Overview

The questions for the ITCG are on slides 18, 26, 33, 40 and 47

	Discussed at April & June ITCG meetings	To discuss at 11 July ITCG call	Slides
1. Sensitivity analysis			
1.1. Create separate table for the sensitivity analysis	✓		11
1.2. Add 'Significant unobservable inputs' axis and members	✓		12-13
1.3. Add line items to quantify the change in unobservable input used in fair value measurement	✓	follow-up	14-18
1.4. Add line items for change in fair value to distinguish between increase and decrease in inputs	✓		19-20
1.5. Add line items for change in fair value to distinguish between effect on profit/loss & OCI	✓		21-23
1.5.1 Add line items for effect on profit/loss & OCI that distinguish between before/after tax	✗	new topic	24-26
2. Disclosure of significant unobservable inputs			
2.1. Add new elements for significant unobservable inputs	✓	✓	29
2.2. Change from line items to dimensional modelling	✓	follow-up	30-33
3. Other disclosures			
3.1. Add members for valuation techniques used in the fair value measurement	✓		35-37
3.2. Add members to 'Classes of liabilities' axis	✗	new topic	38-40
3.3. Add line items for exchange differences—reconciliation from opening to closing balance	✓	follow-up	41-47
3.4. Add line items for transfers between levels of the fair value hierarchy	✓		48-49

Timeline

July- August | **September**

IFRS Taxonomy Review Panel
5 & 11 July

IFRS Taxonomy Review Panel reviews Proposed Taxonomy Update

ITCG call 11 July to discuss follow-up issues

ITCG review proposed IFRS Taxonomy files

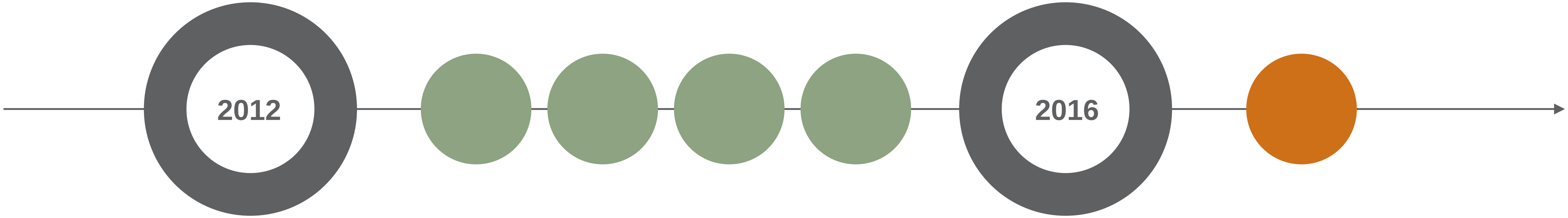
Staff prepare draft of materials for review

Staff finalise drafting of Proposed Taxonomy Update & IFRS Taxonomy files

Publish Proposed IFRS Taxonomy Update, IFRS Taxonomy Files & supporting materials

- webinar highlighting proposed changes
- elements with documentation labels in Excel file
- IFRS Taxonomy Illustrated in PDF and HTML
- comparison between IFRS Taxonomies

IFRS 13 CP—Background



Start of common practice projects

Activity-based common practice projects

IFRS 13 *Fair value measurement* common practice project, aligned with IFRS 13 Post-Implementation Review

- **IFRS 13 PIR conclusion:** In March 2018, the Board concluded that IFRS 13 is working as intended and no major changes are needed.

IFRS 13 CP—Background

- To reflect the disaggregation of disclosures required by IFRS 13, the IFRS Taxonomy includes separate line items for each IFRS 13 disclosure for assets, liabilities and an entity’s own equity instruments. For example:

Interest rate, significant unobservable inputs, assets
Interest rate, significant unobservable inputs, liabilities
Interest rate, significant unobservable inputs, entity's own equity instruments

- All suggestions to add line items in this paper are modelled for assets, but in each case we would add equivalent line items for liabilities and an entity’s own equity instruments.

1. Sensitivity analysis

IFRS 13 disclosure requirements

	Applicable to	Disclosure requirement
IFRS 13 para. 93(h)(i)	**All** recurring level 3* fair value measurements	**Narrative** description of sensitivity of fair value measurement to changes in unobservable inputs
IFRS 13 para. 93(h)(ii)	Recurring level 3* fair value measurements—**Financial instruments only****	**Quantitative** sensitivity analysis of fair value measurement to changes in unobservable inputs

*Refer to Appendix A1 for a description of the IFRS 13 fair value hierarchy
**The staff note that some companies voluntarily provide quantitative analyses for non-financial assets or liabilities (eg for investment properties)

Current IFRS Taxonomy elements

Narrative sensitivity analysis	
Description of sensitivity of fair value measurement to changes in unobservable inputs, assets	Line item, Text
Quantitative sensitivity analysis	
Increase (decrease) in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	Line item, Monetary
Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	
Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	
Description of how effect on fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions was calculated, assets	Line item, Text

Slide 9 shows an example of tagging of a quantitative analysis using the current modelling.
See Appendix B1 for an example of tagging of a narrative sensitivity analysis using the current modelling.

Example—Tagging quantitative sensitivity analysis using current modelling

Asset/ liability class	Increase in fair value due to changes in input(s)	Decrease in fair value due to changes in input(s)	Description of how effect was calculated
Asset class A	CU3,000	(CU3,000)	'Discount rate was changed by +/- 5%'
Asset class B	…		
Liability class C	…		
Liability class D	…		

Increase in fair value measurement due to change in one or more unobservable inputs […], assets

Decrease in fair value measurement due to change in one or more unobservable inputs […], assets

Description of how effect on fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions was calculated, assets

Classes of assets [axis]

Asset class A [member]

Summary of suggested changes—sensitivity analysis

	Analysis of common reporting practice	Suggested change	Slides
1.1.	Entities commonly disclose the sensitivity analysis separately from other disclosures related to fair value measurement.	Create separate table for the sensitivity analysis	11
1.2.	Entities commonly disclose quantitative and narrative sensitivity analyses disaggregated by input.	Add ‘Significant unobservable inputs’ axis and members	12-13
1.3.	Entities commonly quantify the change in inputs used to calculate the effect on fair value.	Add line items to reflect such disclosure	14-18
1.4.	When quantitative sensitivity analyses are disaggregated by input, entities commonly disclose whether the change in fair value is due to an increase or decrease in input.	Add line items to reflect such disclosure	19-20
1.5.	Entities commonly make a distinction between the effect of the change in fair value on either profit or loss or OCI.	Add line items to reflect such disclosure	21-26

- All suggested changes are largely consistent with similar sensitivity analyses in IAS 19 *Employee Benefits* and IFRS 17 *Insurance Contracts* (any small differences are highlighted on the appropriate slides)
- We are not suggesting to remove or replace any elements—applying suggestions 1-5, all of the existing elements on slide 8 would be retained

Change 1.1—Separate table for sensitivity analysis

What is the issue?

- The existing line items for the sensitivity analysis are included in the general 'Disclosure of fair value measurement of assets' table, together with many other disclosures.
- However:
  - Entities commonly report the sensitivity analysis in the format of a table or under a separate heading within their disclosures on fair value measurement.
  - The IAS 19 and IFRS 17 sensitivity analyses are included in a separate table.

Staff suggestion:

- Create new table and related text block element and add all the existing (slide 8) and new elements (next slides) related to the sensitivity analysis.
  - Would support text block tagging which in turn would permit a user of the tagged data to more easily extract the disclosures related to the sensitivity analysis.
  - Would add to the size of the IFRS Taxonomy, but it would be easier for preparers to navigate the IFRS Taxonomy and locate the elements related to the sensitivity analysis.

Change 1.2—What is the issue?

- Entities commonly report both the narrative and quantitative sensitivity analyses **disaggregated by unobservable input**, eg:

Asset/ liability class	Unobservable input	Increase in fair value due to change in input	Decrease in fair value due to change in input	Description of how effect was calculated
Asset class A	Unobservable input Y	CU3,000	(CU3,000)	'Input Y was changed by +/- 5%'
	Unobservable input Z	CU2,000	(CU2,000)	'Input Z was changed by +/- 10%'
Asset class B	…	…		
Liability class C	…	…		
Liability class D	…	…		

Cannot be tagged using the IFRS Taxonomy without using extensions to reflect the disaggregation by input Y and Z

Change 1.2—Staff suggestion

The staff suggest:

- Adding a new '**Significant unobservable inputs' axis** to tag information disaggregated by unobservable input.
- Using the existing line items on slide 28 as members for the axis.

  The existing line items for significant unobservable inputs in the IFRS Taxonomy are intended for tagging the disclosure of the value of significant unobservable inputs used in fair value measurement (IFRS 13.93(d)).

Appendix B2 shows an example of tagging using the suggested 'Significant unobservable inputs' axis for a narrative sensitivity analysis

Change 1.3—What is the issue? (1/2)

- Entities commonly **quantify** the change in unobservable inputs, eg:

Asset/ liability class	Unobservable input	Change in unobservable input	Effect on fair value
Asset class A	Unobservable input Y	Increase by 5%	(CU3,000)
		Decrease by 5%	CU3,000
	Unobservable input Z	Increase by 10%	CU2,000
		Decrease by 10%	(CU2,000)
Asset class B	…	…	…
Liability class C	…	…	…
Liability class D	…	…	…

- The IFRS Taxonomy currently only contains the text element 'Description of how effect on fair value measurement […] was calculated' (see slide 8). Consequently, the staff suggests to also include numerical line items to reflect such disclosure.

Change 1.3—What is the issue? (2/2)

- Our analysis of common reporting practice has shown that a change in unobservable inputs can be expressed in different ways:

		Change in input	
		‘**Absolute**’ changes (in the same unit as the input)	‘**Relative**’ changes (in percentages)
Value of input	in a unit *other than a percentage* (eg expected cash flows, in EUR)	Eg an increase in expected cash flows of 2 million EUR **Not common**	Eg an increase of expected cash flows by 5% **Common**
	a percentage (eg discount rate)	Eg a 2% increase (ie 200 basis points) in an 8% discount rate to a discount rate of 10% **Common**	Eg a 2% increase in an 8% discount rate to a discount rate of 8.16% (ie multiplied by 1.02) **Could not identify common practice***

* Note: For some entities (>10%), the reported changes could not be identified as either ‘absolute’ or ‘relative’.

Change 1.3—Possible approaches

- **Approach A—**The staff suggested to the ITCG in April 2018 to add the following elements that distinguish between absolute and relative changes:

'Absolute' changes (see previous slide)	
Reasonably possible **increase** in unobservable input, assets	Decimal item type
Reasonably possible **decrease** in unobservable input, assets	Decimal item type

'Relative' changes (see previous slide)	
Percentage of reasonably possible **increase** in unobservable input, assets	Percent item type
Percentage of reasonably possible **decrease** in unobservable input, assets	Percent item type

Appendix B4 shows an example of tagging using the suggested elements

- **Approach B—**Alternatively, we could create only percent item type elements to tag both absolute and relative changes:

Percentage of reasonably possible **increase** in unobservable input, assets	Percent item type
Percentage of reasonably possible **decrease** in unobservable input, assets	Percent item type

Change 1.3—Possible approaches

Arguments in favour of Approach A (and against Approach B)	Arguments against approach A (and in favour of Approach B)
• Would require entities to specify which type of change they are disclosing, thereby eliminating any confusion for users of the data. • To respond to ITCG concerns, the staff suggest to clarify when to use which element in implementation notes and the Preparer's Guide. → **This is still the staff's preferred approach.**	• ITCG suggested that Approach A is complex and counterintuitive—it would require tagging the most common percentage change in input with a decimal item type element. • The staff found no conclusive evidence that companies commonly disclose changes in inputs using both ways (see slide 15). • The decimal item type elements under Approach A are inconsistent with data modelling for IFRS 17 and IAS 19—consequential amendments to IFRS 17 and IAS 19 modelling may be needed.

Possible Implementation notes

- **Decimal elements**: Use this element for changes not expressed as a percentage and for percentage point changes—for example a 2% increase in an 8% discount rate to a discount rate of 10%.
- **Percentage elements**: Use this element for changes expressed as a percentage. When the input itself is expressed as a percentage (eg a discount rate), use this element only for relative changes—for example a 2% increase in an 8% discount rate to a discount rate of 8.16% (ie multiplied by 1.02). For percentage point changes—for example a 2% increase in an 8% discount rate to a discount rate of 10%—use the 'Reasonably possible increase in unobservable input' element instead.

Question 1 for ITCG members

- Do you agree with suggested change 1.3.:
  - use the modelling suggested at the April ITCG meeting (Approach A on slide 16), distinguishing between absolute and relative changes; and
  - use implementation notes to clarify how these elements should be used, as suggested on slide 17?

Change 1.4—What is the issue?

- When the sensitivity of the fair value measurement is calculated by changing one unobservable input at a time, entities commonly disclose whether the change in fair value is due to an increase or decrease in unobservable inputs.
- In other words, they specify the direction of the relationship between the change in input and the change in fair value measurement. For example:
  - A significant **increase** in unobservable input Y would **decrease** fair value by CU3,000
  - A significant **decrease** in unobservable input Y would **increase** fair value by CU3,000
- The existing line items for tagging the change in fair value measurement (see slide 8) do not capture such information:

Increase (decrease) in fair value measurement due to **change in one or more** unobservable inputs (..), assets	Monetary

- This is because, when multiple inputs are changed at a time, each input could change in a different direction—for example, a simultaneous **increase** in unobservable input X and **decrease** in unobservable input Y would decrease fair value by CU3,000.

Change 1.4—Staff suggestion

- **The staff suggest:** Adding line items to capture the direction of the relationship between change in input and change in fair value when the sensitivity is calculated by changing **one** input at a time:

Increase (decrease) in fair value measurement due to reasonably possible **increase** in unobservable input, assets	Monetary
Increase (decrease) in fair value measurement due to reasonably possible **decrease** in unobservable input, assets	Monetary

Appendix B3 compares tagging using existing and suggested elements

- However, the staff have also observed entities commonly calculate the effect on fair value by changing **multiple** inputs simultaneously, in which case the **existing** line items on slide 8 should be used. Consequently **the staff suggests** retaining the existing elements, but amending their label to avoid overlap between existing and suggested elements by replacing 'change in one or more unobservable inputs' with 'change in multiple inputs'.

- We considered, but rejected, modelling the direction of the relationship as Boolean elements—the IFRS Taxonomy currently does not use Boolean elements.

Change 1.5—What is the issue?

- Entities commonly split the effect on fair value into (1) effect on profit or loss and (2) effect on other comprehensive income (OCI) or equity. This is consistent with the overall disclosure objective in IFRS 13 para. 91(b), ie the disclosures should help users assess the effect of the measurement on profit or loss or OCI.
- Example:

	Profit or loss		OCI	
Asset/ liability class	Possible increase in profit or loss due to change in input(s)	Possible decrease in profit or loss due to change in input(s)	Possible increase in OCI due to change in input(s)	Possible decrease in OCI due to change in input(s)
Asset class A	CU3,000	(CU3,000)	—	—
Asset class B	CU2,000	(CU1,800)	CU800	(CU800)
Liability class C	CU1,000	(CU800)	—	—

- Note: in the sample, ‘effect on equity’ was sometimes used with the meaning of ‘effect on OCI’ and sometimes with the meaning of ‘sum of effect on profit or loss and effect on OCI’.

Change 1.5—Staff suggestion (1/2)

- Suggested modelling: add line items (similar to IFRS 17 modelling).
- The staff suggests adding line items for the effect on OCI, because this is less ambiguous than effect on equity (see previous slide). However, note that IFRS 17 requires disclosure of the effect on equity in the sensitivity analysis.
- Add two new line items for each of the three existing line items on slide 8*:

Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in profit or loss, assets
Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in other comprehensive income, assets

Increase in fair value measurement due to change in **multiple** unobservable inputs […], presented in profit or loss, assets
Increase in fair value measurement due to change in **multiple** unobservable inputs […], presented in other comprehensive income, assets

Decrease in fair value measurement due to change in **multiple** unobservable inputs […], presented in profit or loss, assets
Decrease in fair value measurement due to change in **multiple** unobservable inputs […], presented in other comprehensive income, assets

*Line items on slide 8 would be the parents for the new items on this slide.

Change 1.5—Staff suggestion (2/2)

- Assuming we go ahead with possible change 1.4., also add two new line items for each of the two new line items suggested on slide 20:

Increase (decrease) in fair value measurement due to reasonably possible **increase** in unobservable input, presented in profit or loss, assets
Increase (decrease) in fair value measurement due to reasonably possible **increase** in unobservable input, presented in other comprehensive income, assets

Increase (decrease) in fair value measurement due to reasonably possible **decrease** in unobservable input, presented in profit or loss, assets
Increase (decrease) in fair value measurement due to reasonably possible **decrease** in unobservable input, presented in other comprehensive income, assets

*Line items on slide 20 would be the parents for the items on this slide.

Change 1.5.1—Before or after tax?

- The staff have noted that the effect on profit or loss and OCI could be considered before tax or after tax.

Common practice analysis

- In our sample, among the entities that disclose the effect on profit or loss and OCI/equity separately:
  - most do not disclose whether the reported effect is on profit or loss/OCI before tax or after tax;
  - a few disclose that the reported effect is on OCI before tax
  - a few disclose that the reported effect is on profit or loss and OCI after tax
- Consequently, we do not have enough evidence to add such distinction to the IFRS Taxonomy.

IFRS requirements

- IFRS 17 and IFRS 7 that require distinction between profit or loss and equity are not explicit whether the effect should be before or after tax.

Change 1.5.1—Before or after tax?

- The staff suggest adding line items for the increase (decrease) in fair value that distinguish between the effect on profit or loss before tax and after tax and other comprehensive income before tax and after tax.
  - (+) Removes any ambiguity
  - (-) Makes the IFRS Taxonomy larger and more difficult to understand
  - (-) Inconsistent with modelling in IFRS 17—consequential amendments to IFRS 17 may be required.

- For example, the first two elements presented on slide 22 would be amended as follows:

Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in profit or loss, before tax, assets
Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in profit or loss, after tax, assets
Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in other comprehensive income, before tax, assets
Increase (decrease) in fair value measurement due to change in **multiple** unobservable inputs […], presented in other comprehensive income, after tax, assets

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Question 2 for ITCG members

- Do you agree with suggested change 1.5.1. to add line items for the increase (decrease) in fair value that distinguish between the effect on:
  - Profit or loss before tax;
  - Profit or loss after tax;
  - Other comprehensive income before tax; and
  - Other comprehensive income after tax.

2. Disclosure of significant unobservable inputs

Background

- Paragraph 93(d) of IFRS 13 requires an entity to disclose the value of inputs used in fair value measurement. This disclosure is currently modelled using the following line items:

Disclosure of significant unobservable inputs used in fair value measurement of assets [line items]	line items
Interest rate, significant unobservable inputs, assets	X.XX duration
Historical volatility for shares, significant unobservable inputs, assets	X.XX duration
Adjustment to mid-market consensus price, significant unobservable inputs, assets	X.XX duration
Current estimate of future cash outflows to be paid to fulfil obligation, significant unobservable inputs, assets	X duration
Financial forecast of profit or loss for cash-generating unit, significant unobservable inputs, assets	X duration
Financial forecast of cash flows for cash-generating unit, significant unobservable inputs, assets	X duration
Weighted average cost of capital, significant unobservable inputs, assets	X.XX duration
Revenue multiple, significant unobservable inputs, assets	X.XX duration
Constant prepayment rate, significant unobservable inputs, assets	X.XX duration
Probability of default, significant unobservable inputs, assets	X.XX duration

Change 2.1—New elements for inputs

- The staff suggest to add 4 elements reported commonly in practice:

Discount rate, significant unobservable inputs, assets	percent
Rent, significant unobservable inputs, assets	decimal*
Capitalisation rate, significant unobservable inputs, assets	percent
Credit spread, significant unobservable inputs, assets	percent

* The staff observed that rent is disclosed using different units such as ‘per square meter’ or ‘per square foot’ and ‘per month’ or ‘per year’. The staff suggest using the decimal element type to allow an entity to specify the appropriate reporting unit.

- For all suggested significant unobservable inputs, the staff suggest using documentation labels that are similar to the existing documentation labels for other inputs, using the following format: ‘ [Name of input] used as a significant Level 3 unobservable input for assets.’

Change 2.2—Line items or dimensional model—Background

- Alternatively, the disclosure requirement on slide 28 could be modelled using a **dimensional approach**:
  - Addition of a ‘Significant unobservable inputs’ axis with as members the existing 10 line items on slide 28 and the 4 new elements on slide 29. The staff have also suggested adding this ‘significant unobservable inputs’ axis for the sensitivity analysis (see slide 13).
  - Addition of three new line items, ie ‘Significant unobservable input’ for assets, liabilities and an entity’s own equity instruments.
  - Deprecating 30 existing line items on slide 28 for assets, liabilities and entity’s own equity instruments.
- The staff note that the IFRS Taxonomy modelling for IAS 19 uses the line item approach for a similar disclosure, whereas the modelling for IFRS 17 uses a dimensional approach.

Change 2.2—Line items or dimensional model—Staff analysis and initial suggestion

Dimensional approach—considerations	
Arguments in favour	**Arguments against**
1. Makes it easier to consume any extension elements for inputs because they are linked to a known axis. 2. Makes it easier to consume information together with the sensitivity analysis because both will be disaggregated by the same input members on the same axis. 3. Would result in fewer elements in total (see previous slide).	1. Change will result in cost of re-tagging for preparers and re-mapping for users. 2. Information about the type of element such as decimal, percent will need to be chosen by preparers which may lead to errors (value of input will be reflected by one line item with decimal type).

Initial staff suggestion at April 2018 ITCG
At the ITCG meeting in April 2018 the staff suggested keeping the current modelling because we thought the benefits may not outweigh the costs.

Change 2.2—Line items or dimensional model—ITCG feedback and revised suggestion

ITCG feedback

• There were mixed views on the suggested approach:
  • Some said the current model works and therefore should not be changed.
  • Some said they found significant variability in disclosed inputs (ie there are many extensions), which would be easier to analyse under a dimensional approach. Others said they had not seen much variability.
• Consequently, many agreed that the staff should do more research on this topic.

Findings and updated staff suggestion
• The staff have reviewed the disclosed inputs in the sample and found significant variability of inputs disclosed by entities (there were many inputs that did not meet the threshold for adding as common practice). • Considering the feedback from the ITCG and additional research findings, the staff suggest to change to dimensional modelling.

Question 3 for ITCG members

- Do you agree with the updated staff suggestion to change to dimensional modelling (suggested change 2.2.)?

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3. Other disclosures

Change 3.1—Valuation techniques—background

- Paragraph 93(d) of IFRS 13 requires an entity to disclose valuation techniques used in fair value measurement. Implementation Guidance and Illustrative Examples include examples of those techniques.
- The following table shows how the IFRS Taxonomy reflects those requirements for assets:

Valuation techniques used in fair value measurement [axis]	axis	IFRS 13.93 d Disclosure
Valuation techniques [member]	member[default]	IFRS 13.93 d Disclosure
Market approach [member]	member	IFRS 13.62 Example
Market comparable companies [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Market comparable prices [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Matrix pricing [member]	member	IFRS 13.B7 Example
Consensus pricing [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Cost approach [member]	member	IFRS 13.62 Example
Income approach [member]	member	IFRS 13.62 Example
Discounted cash flow [member]	member	IFRS 13.B11 a Example, IFRS 13.IE63 Example
Option pricing model [member]	member	IFRS 13.B11 b Example, IFRS 13.IE63 Example
Multi-period excess earnings method [member]	member	IFRS 13.B11 c Example

Change 3.1—Valuation techniques—suggested changes

- The staff suggest to add a new element reported commonly in practice: **‘Net Asset Value’**

Market approach [member]
Cost approach [member]
Income approach [member]
Net asset value [member]

Legend:

Existing elements
Suggested elements

- **Suggested documentation label**: ‘This member stands for a valuation technique that compares the value of assets and liabilities.’
- **Reference:** ‘Net asset value’ is used in Illustrative Examples to IFRS 13 paragraph IE63. Hence we suggest to add two references to this element based on common practice and examples.
- **Relationship**: We suggest locating ‘Net Asset Value’ at the same level as ‘Market approach’, ‘Cost Approach’ and ‘Income Approach’. This is based on Educational material on IFRS 13 Fair Value Measurement which notes that ‘Net Asset Value’ can be based on a combination of these three approaches.

Change 3.1—Valuation techniques—suggested changes

- The staff suggests to add a new element reported commonly in practice: **‘Income capitalisation approach’**.

Income approach [member]
Discounted cash flows [member]
Income capitalisation [member]
(…)

- **Suggested documentation label**: This member stands for a valuation technique consistent with the income approach. Capitalising is a process applied to an amount representing some measure of economic income in order to convert that economic income amount to an estimate of present value.
- The suggested documentation label is based on a description of the capitalisation model in [Educational material on IFRS 13 Fair Value Measurement]

Change 3.2—Disaggregation

- IFRS 13 disclosures are required to be disaggregated by class of assets and liabilities (IFRS 13, para. 93-94).
- This is reflected in the IFRS Taxonomy through the use of three axes:

Classes of assets [axis]
Assets [member]
Trading equity securities [member]
Other equity securities [member]
Debt securities [member]
Hedge fund investments [member]
Derivatives [member]
Investment property [member]
Non-current assets held for sale [member]

Classes of liabilities [axis]
Liabilities [member]

Classes of entity's own equity instruments [axis]
Entity's own equity instruments [member]

The axes for liabilities and the entity's own equity instruments currently do not have any members other than the default member

Change 3.2—Additional members

- Our review of reporting practice highlighted that entities commonly report fair value information separately for contingent consideration liabilities recognised in accordance with IFRS 3 Business Combinations and derivative liabilities.
- Consequently, we suggest adding the following members:

Classes of liabilities [axis]
Liabilities [member] - default
Derivatives [member]
Contingent consideration [member]

Legend:

Legend
Existing elements
Suggested elements

- Suggested documentation labels:
  - Derivatives: use definition from IFRS 9, Appendix A
  - Contingent consideration: use definition from IFRS 3, Appendix A

Question 4 for ITCG members

- Do you agree with suggested change 3.2. to add the following two members to the existing ‘Classes of liabilities’ axis:
  - Contingent consideration
  - Derivatives?

Change 3.3—current IFRS Taxonomy model

- IFRS 13.93(e) requires a reconciliation from the opening balances to the closing balances of recurring level 3 fair value measurements, which is reflected in the IFRS Taxonomy as follows:

Reconciliation of changes in fair value measurement, assets [abstract]		
Assets at beginning of period	X instant, debit	IAS 1.55 Disclosure, IFRS 13.93 a Disclosure, IFRS 13.93 b Disclosure, IFRS 13.93 e Disclosure, IFRS 8.23 Disclosure, IFRS 8.28 c Disclosure
Changes in fair value measurement, assets [abstract]		
Gains (losses) recognised in profit or loss, fair value measurement, assets	X duration	IFRS 13.93 e (i) Disclosure
Gains (losses) recognised in other comprehensive income, fair value measurement, assets	X duration	IFRS 13.93 e (ii) Disclosure
Purchases, fair value measurement, assets	X duration, debit	IFRS 13.93 e (iii) Disclosure
Sales, fair value measurement, assets	(X) duration, credit	IFRS 13.93 e (iii) Disclosure
Issues, fair value measurement, assets	X duration, debit	IFRS 13.93 e (iii) Disclosure
Settlements, fair value measurement, assets	(X) duration, credit	IFRS 13.93 e (iii) Disclosure
Transfers into Level 3 of fair value hierarchy, assets	X duration, debit	IFRS 13.93 e (iv) Disclosure
Transfers out of Level 3 of fair value hierarchy, assets	(X) duration, credit	IFRS 13.93 e (iv) Disclosure
Total increase (decrease) in fair value measurement, assets	X duration, debit	IFRS 13.93 e Disclosure
Assets at end of period	X instant, debit	IAS 1.55 Disclosure, IFRS 13.93 a Disclosure, IFRS 13.93 b Disclosure, IFRS 13.93 e Disclosure, IFRS 8.23 Disclosure, IFRS 8.28 c Disclosure

Change 3.3—Staff analysis

- IFRS 13 requires the following changes to be disclosed separately:

Total gains or losses for the period recognised in profit or loss	Effects on profit or loss or OCI
Total gains or losses for the period recognised in OCI	
Purchases, sales, issues and settlements (each of those types of changes disclosed separately)	Balance sheet movements
The amounts of any transfers into or out of Level 3 of the fair value hierarchy	

- We found that the following changes were also commonly disclosed separately:
  - **Exchange differences**: we suggest adding elements to reflect this. Staff analysis is provided on the next slides.
  - **Disposals**: We suggest not to add a new element for disposals. The IFRS Taxonomy includes an element related to sales (see previous slide). We think that entities mostly use ‘disposals’ as a synonym for ‘sales’.

IFRS

Change 3.3—Staff analysis—exchange differences commonly reported

- The staff have found entities commonly disclose a separate line item for the **effect of changes in foreign exchange rates** (using many different labels). In most cases, entities do not indicate whether this effect is recognised in profit or loss or OCI.
- In most cases, entities **also disclose <u>other</u> gains or losses on profit or loss or OCI** as separate line items (excluding the effect of changes in foreign exchange rates).
    - Is such presentation consistent with requirements in IFRS 13? (see next slides)

	Asset class A	Asset class B
At 1 January 20X0	**CU3,000**	**CU2,000**
Purchases	800	400
Sales	(550)	(200)
Gains/losses recognised in profit or loss	150	80
Gains/losses recognised in OCI	(50)	40
Exchange differences	50	30
At 31 December 20X0	**CU3,400**	**CU2,350**

Change 3.3—Staff analysis of IFRS: reminder

- IAS 21 distinguishes two types of translation differences:

Translation from… to…	Where are gains/losses recognised?
Foreign currency→ Functional currency	Profit or loss or OCI, depending on the circumstances
Functional currency→ Presentation currency	OCI

- In most cases in the sample, we were not able to determine which type of effect is reported, nor whether it is recognised in profit or loss or OCI

Change 3.3—Possible modelling approaches (1/2)

Approach A
Reconciliation of changes in fair value measurement, assets [abstract]
Assets at beginning of period
Changes in fair value measurement, assets [abstract]
Gains (losses) recognised in profit or loss, fair value measurement, assets
Gains (losses) recognised in profit or loss other than on exchange differences, fair value measurement, assets
Gains (losses) recognised in profit or loss on exchange differences, fair value measurement, assets
Gains (losses) recognised in other comprehensive income, fair value measurement, assets
Gains (losses) recognised in other comprehensive income other than on exchange differences, fair value measurement, assets
Gains (losses) recognised in other comprehensive income on exchange differences, fair value measurement, assets
Purchases, fair value measurement, assets
Sales, fair value measurement, assets
Issues, fair value measurement, assets
Settlements, fair value measurement, assets
Transfers into Level 3 of fair value hierarchy, assets
Transfers out of Level 3 of fair value hierarchy, assets
Total increase (decrease) in fair value measurement, assets
Assets at end of period

Approach B
Reconciliation of changes in fair value measurement, assets [abstract]
Assets at beginning of period
Changes in fair value measurement, assets [abstract]
Gains (losses) recognised in profit or loss, fair value measurement, assets
Gains (losses) recognised in other comprehensive income, fair value measurement, assets
Exchange differences, fair value measurement, assets
Purchases, fair value measurement, assets
Sales, fair value measurement, assets
Issues, fair value measurement, assets
Settlements, fair value measurement, assets
Transfers into Level 3 of fair value hierarchy, assets
Transfers out of Level 3 of fair value hierarchy, assets
Total increase (decrease) in fair value measurement, assets
Assets at end of period

New elements are highlighted in green

Change 3.3—Comparison of possible modelling approaches

	Advantages	Disadvantages
Approach A	• Conceptually most appropriate– because exchange differences are a type of gains (losses).	• Would not allow tagging of reported exchange differences that are a mix of amounts that are recognised in profit or loss and OCI– see more discussion in Approach B.
	The staff support Approach A because it is consistent with the requirements in IFRS 13	
Approach B	• Would allow tagging of reported exchange differences that are a mix of amounts that are recognised in profit or loss and OCI. Note: the staff could not determine how many entities in the sample presented such ‘mixed’ amounts. • Fewer line items than under approach A and B	• Presentation of such ‘mixed’ amounts would be inconsistent with the requirements in IFRS 13, because it requires gains (losses) recognised in profit or loss to be separately disclosed from gains (losses) recognised in OCI
	The staff do no support Approach B because it is inconsistent with IFRS 13.	

Question 5 for ITCG members

- Do you agree with the staff analysis and staff recommendation on slide 46 to choose approach A (change 3.3.)?

Change 3.4—Transfers between levels—background

- Paragraph 93(c) of IFRS 13 requires an entity to disclose transfers between Level 1* and Level 2* and the reason for those transfers.
- In addition, paragraph 93(e)(iv) of IFRS 13 requires an entity to disclose transfers into and out of Level 3*, as part of the reconciliation (see slide 42) and the reason for those transfers.
- The following table shows how the IFRS Taxonomy reflects those requirements for assets:

Transfers between Level 1 and Level 2

Transfers out of Level 1 into Level 2 of fair value hierarchy, assets held at end of reporting period	X duration	IFRS 13.93 c Disclosure
Description of reasons for transfers out of Level 1 into Level 2 of fair value hierarchy, assets	text	IFRS 13.93 c Disclosure
Transfers out of Level 2 into Level 1 of fair value hierarchy, assets held at end of reporting period	X duration	IFRS 13.93 c Disclosure
Description of reasons for transfers out of Level 2 into Level 1 of fair value hierarchy, assets	text	IFRS 13.93 c Disclosure

Transfers into and out of Level 3

Transfers into Level 3 of fair value hierarchy, assets	X duration, debit	IFRS 13.93 e (iv) Disclosure
Transfers out of Level 3 of fair value hierarchy, assets	(X) duration, credit	IFRS 13.93 e (iv) Disclosure
Description of reasons for transfers into Level 3 of fair value hierarchy, assets	text	IFRS 13.93 e (iv) Disclosure
Description of reasons for transfers out of Level 3 of fair value hierarchy, assets	text	IFRS 13.93 e (iv) Disclosure

*See Appendix for a description of the fair value hierarchy

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Change 3.4—Transfers between levels—suggestion

- The staff suggests to add two line items reported commonly in practice:

Statement that there were no transfers between level 1 and level 2 of fair value hierarchy, assets	text
Statement that there were no transfers between level 1, level 2 or level 3 of fair value hierarchy, assets	text

- We considered, but rejected, modelling these elements as Boolean elements—the IFRS Taxonomy currently does not use Boolean elements, we would need to consider this feature for the whole Taxonomy.

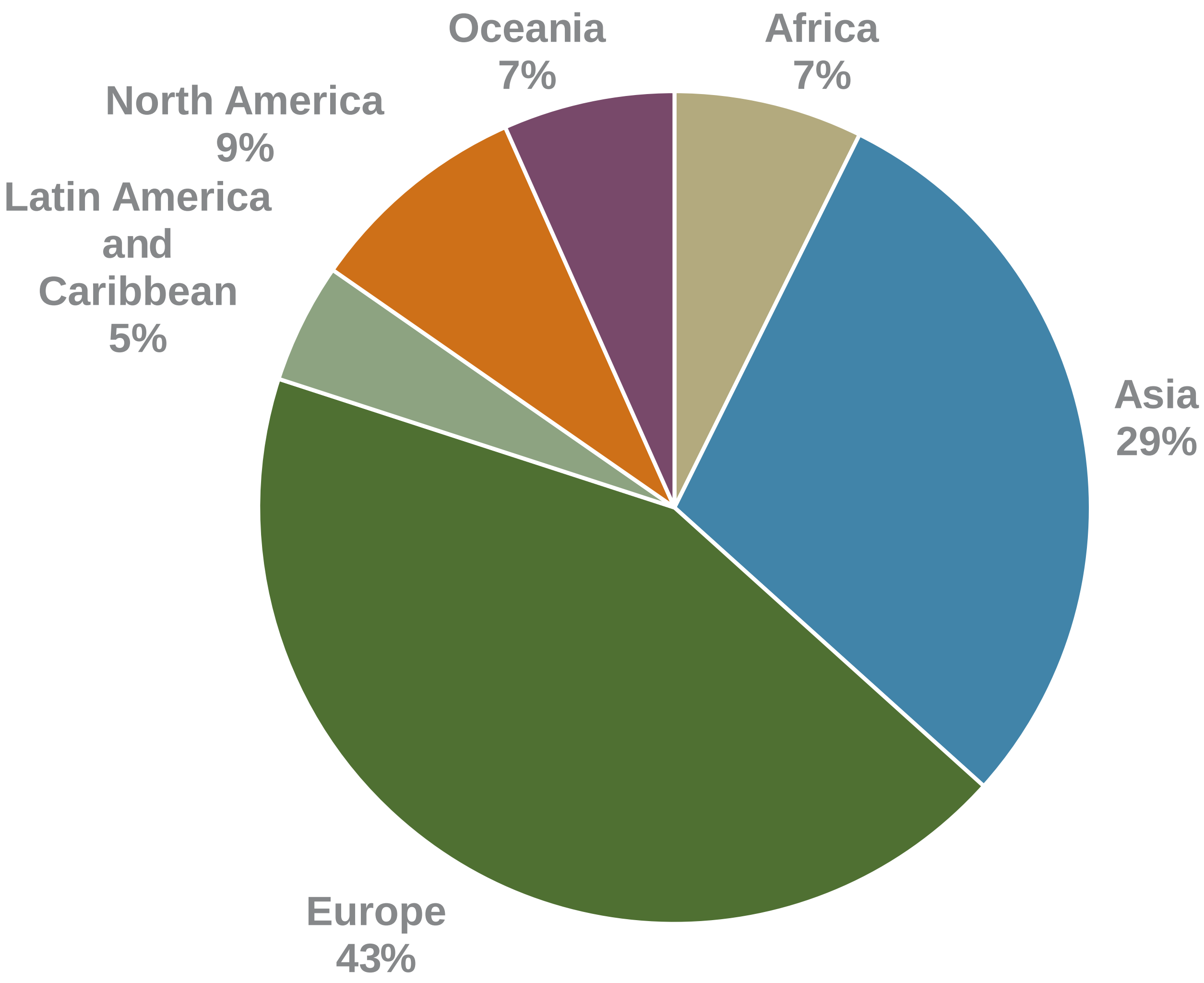
Appendix A—Sample description, Fair value hierarchy

A1. Fair value hierarchy

IFRS 13 categorises into three levels the inputs to valuation techniques used to measure fair value for assets or liabilities:

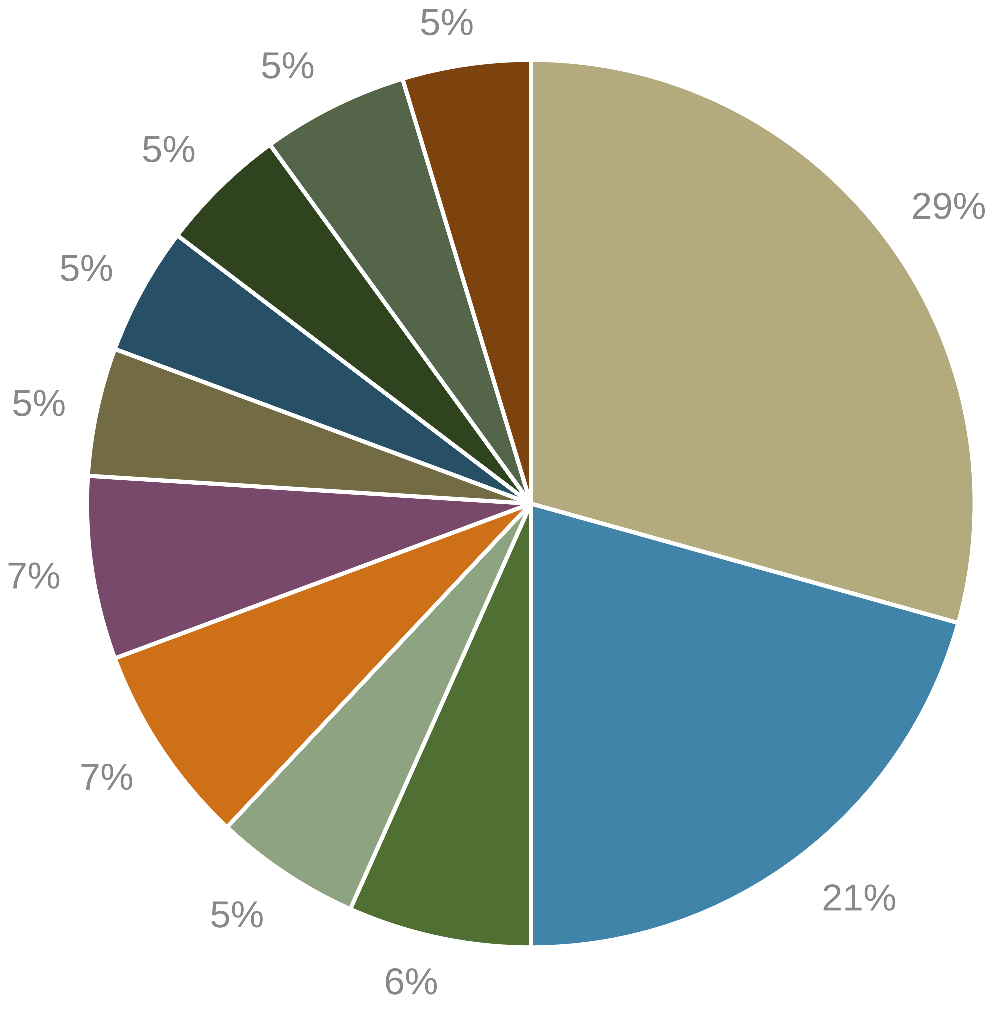
Level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
Level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
Level 3 inputs	Significant unobservable inputs.

A2. Sample—Geographical distribution



150 entities

A3. Sample—Industry distribution



150 entities

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Appendix B—Tagged examples of sensitivity analysis

B1. Example of tagging using current modelling for narrative sensitivity analysis (IFRS 13 IE66)

The significant unobservable inputs used in the fair value measurement of the entity's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Description of sensitivity of fair value measurement to changes in unobservable inputs, assets [line item]

+

Classes of assets [axis]

residential mortgage-backed securities [member—extension]

A narrative sensitivity analysis is required for all recurring Level 3 fair value measurements.

B2. Example of tagging using suggested unobservable inputs axis & existing line item for narrative analysis

Valuation technique	Significant unobservable inputs	$m	Range of estimates (weighted -average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Discounted cash flow	Rates of property appreciation - 6%	482.0	4%-8%	Significant increases in these inputs would result in higher fair values.
	Discount rates - 7.75%	482.0	5.75%-9.75%	Significant increases in these inputs would result in lower fair values.

Description of sensitivity of fair value measurement to changes in unobservable inputs, assets [line item]

\+

Significant unobservable inputs [axis]

Rates of property appreciation [member—extension]

B3. Example of tagging of quantitative analysis disaggregated by input using existing and suggested line items

Asset/ liability class	Valuation technique	Unobservable input	Change in unobservable input	Effect on fair value
Asset class A	Valuation technique I	Unobservable input Y	Increase	(CU3,000)
			Decrease	CU3,000
		Unobservable input Z	Increase	CU2,000
			Decrease	(CU2,000)
Asset class B		…	…	…
Liability class C		…	…	…

Tagging using existing line items

Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	3,000
Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	3,000

→ Direction of relationship not clear

Tagging using suggested line items

Increase (decrease) in fair value measurement due to reasonably possible increase in unobservable input, assets	-3,000
Increase (decrease) in fair value measurement due to reasonably possible decrease in unobservable input, assets	3,000

→ Direction of relationship clear

B4. Example of use of suggested numeric elements for tagging change in unobservable inputs

Extract from the notes– Sensitivity of fair value of forestry assets			In million EUR
Effect of	**€ 1 per tonne increase**	in selling price	10
Effect of	**1% increase**	in tonnes of produce per hectare	7
Effect of	**1% increase**	in discount rate	(3)

Suggested tagging of changes in inputs

Suggested line items		Unobservable inputs [axis] and members: Selling price	Tonnes of produce per hectare	Discount rate
Reasonably possible increase in unobservable input, assets [Decimal item type]	Value	1		0.01*
	Unit	EUR/tonne		Percent*
Percentage of reasonably possible increase in unobservable input, assets [Percent item type]	Value		0.01	0.01**

* If a 1% increase means an absolute increase, eg increase from 10% to 11%
** If a 1% increase means a relative increase, eg increase from 10% to 10.1%

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