IASB Agenda ref	7E

STAFF PAPER

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IASB® Meeting

Project	**Post-implementation Review (PIR) of IFRS 13**
Paper topic	Background—Current level of convergence between IFRS 13 and Topic 820

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Objective

1. The fair value measurement project was a joint project between the Board and the FASB (the boards). The Board added a project on fair value measurement to its agenda in part to achieve increased convergence. As such, fair value has the same meaning in IFRS Standards and in US GAAP and the framework for measuring fair value measurement and disclosure requirements is largely the same.

2. The Board issued IFRS 13 in May 2011. The Standard was effective for annual periods beginning on or after 1 January 2013. The FASB issued amendments to its Topic 820 in May 2011. The amendments in Topic 820 were effective for interim and annual periods beginning after 15 December 2011 for public companies and for annual periods beginning after 15 December 2011 for non-public entities.

3. The purpose of this paper is to analyse whether the level of convergence achieved at the issuance of IFRS 13 and Topic 820 (the Standards) has been altered as a result of standard-setting work carried out by the boards since the Standards were issued.

4. This paper does not include questions for the Board.

Summary of the staff's conclusion

5. The staff are of the view that the different work streams carried out by the boards since the issuance of the Standards do not challenge the level of convergence achieved at their issuance in May 2011.

Structure of the paper

6. This paper is structured as follows:
   (a) differences between the Standards at their issuance (paragraphs 8–9);
   (b) standard-setting work undertaken since the issuance of the Standards (paragraphs 10–19); and
   (c) conclusion (paragraphs 20–23).
7. The appendix to this paper includes a summary of amendments to Topic 820 that modify requirements that were not converged with IFRS 13 or amendments that are only editorial in nature.

Differences between the Standards at their issuance

8. At the date of their issuance, the boards noted the following differences between the Standards:
   (a) Net asset value (NAV) as a measure of fair value—Topic 820 provides a practical expedient that permits an entity with an investment in an investment company to use as a measure of fair value in specific circumstances the reported NAV without adjustment. When IFRS 13 was issued, IFRS Standards did not have accounting requirements specific to investment companies. Because of this, the Board decided that it would be

difficult to identify when such a practical expedient could be applied. Consequently, IFRS 13 does not include such practical expedient.[1]

(b) Financial liabilities with a demand feature—Topic 825 *Financial Instruments* and Topic 942 *Financial Services—Depository and Lending* describe the fair value measurement of a deposit liability as the amount payable on demand at the reporting date. IFRS 13 states, however, that the fair value of a financial liability with a demand feature is not less than the present value of the amount payable on demand.[2]

(c) Differences in disclosure requirements—For example:[3]

   (i) The amounts disclosed for the fair value measurements categorised within Level 3 of the fair value hierarchy might differ because IFRS Standards generally do not allow net presentation for derivatives.

   (ii) IFRS 13 requires a quantitative sensitivity analysis for financial instruments that are measured at fair value and categorised within Level 3 of the fair value hierarchy.[4] That disclosure was previously in IFRS 7.

   (iii) Topic 820 has different disclosure requirements for non-public entities.

9. In addition, when the Standards were issued there were other minor differences in style that did not represent any technical differences between the Standards.[5]

[1] See paragraph BC238 of IFRS 13.
[2] See paragraph 47 of IFRS 13.
[3] See paragraph BC238 (c) of IFRS 13.
[4] See paragraph 93 (h) (ii) of IFRS 13.
[5] See paragraph BC237 of IFRS 13.

Standard-setting work undertaken since the issuance of the Standards

10. This section provides an overview of the work undertaken since the issuance of the Standards by the boards. It is structured as follows:

    (a) work undertaken by FASB (paragraphs 11–17); and

    (b) work undertaken by the Board and other IFRS Foundation bodies (paragraphs 18–19).

Work undertaken by the FASB

11. Since the issuance of Topic 820 the standard-setting work of the FASB in relation to fair value measurement has been as follows:

    (a) proposed *Accounting Standards Update* (ASU) Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement (the proposed Update—paragraphs 12–15); and

    (b) amendments to Topic 820 as a result of the issuance of other topics, technical and/or editorial corrections (paragraphs 16–17).

Proposed ASU Fair Value Measurement (Topic 820), Disclosure Framework

12. The FASB published the proposed Update in December 2015.[6] Its comment period ended 29 February 2016. The proposed Update forms part of the FASB's disclosure framework project.[7]

13. The main proposals in the proposed Update, together with their underlying basis, are:

[6] The proposed ASU can be found at: http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167664088&acceptedDisclaimer=true

[7] The FASB issued a proposed FASB Concepts Statement aiming to improve the effectiveness of the disclosure requirements in March 2014. The FASB is also reviewing disclosure requirements in other areas such as inventory, income taxes and defined benefit pensions and other postretirement plans.

(a) to remove the following disclosure requirements:[8]

(i) the amounts of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy.[9] The main reasons for these proposals are that in many cases the transfers do not provide useful information about the economic fundamentals for a particular instrument and can result in misleading information about the liquidity of an instrument; and

(ii) the policy for the timing of transfers between levels, valuation policies and procedures for Level 3 fair value measurements.[10] Those disclosures did not seem to be useful in assessing prospects for cash flows and users generally did not object to their removal.

(b) to clarify that the 'narrative description of the sensitivity of fair value measurement to changes in unobservable inputs'[11] should be a 'narrative description of the uncertainty of the fair value measurement as of the reporting date' rather than information about sensitivity to changes in the future.[12] The purpose of this proposed amendment is to achieve closer alignment with the concepts in the FASB's proposed Concepts Statement.[13]

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[8] In addition to those amendments, the proposed Update proposes to remove for private companies the change in unrealised gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements held at the end of the reporting period.

[9] This disclosure requirement corresponds to paragraph 93(c) of IFRS 13.

[10] These disclosure requirements correspond to paragraph 93(g) of IFRS 13.

[11] Paragraph 93 (h) (i) of IFRS 13 requires: '[…] a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. […]'.

[12] The proposed Update proposes the following amendments: '[…] a narrative description of the ~~sensitivity~~ uncertainty of the fair value measurement ~~to changes in unobservable inputs if~~ and how a change in ~~those~~ unobservable inputs to ~~a~~ different ~~amount~~ amounts might result in a significantly higher or lower fair value measurement at the reporting date. […]'

[13] The proposed Update proposes two additional amendments to achieve closer alignment with the concepts in the FASB's proposed Concepts Statement. These are for private companies to no longer require a reconciliation for recurring Level 3 fair value measurements and for investments in certain entities that calculate NAV to require disclosure of the timing of liquidation of an investee's assets and the date when restrictions from

(c) the proposed Update proposes to add the following disclosure requirements:[14]

(i) for recurring fair value measurements held at the end of the reporting period, changes in unrealised gains or losses for the period included in other comprehensive income (OCI) and profit or loss (or changes in net assets) disaggregated for each of the levels in the fair value hierarchy. These proposals extend the current requirements (ie currently entities are only required to disclose the amount of total gains or losses for the period included in profit or loss attributable to the change in unrealised gains or losses arising from Level 3 fair value measurements). These proposals respond to users' views that such information would be useful.

(ii) the range, weighted average and time period used to develop significant unobservable inputs for Level 3 fair value measurements. These proposals respond to users stating that such information was useful for their analyses. In particular, the weighted average of significant unobservable inputs was deemed to be useful because their range can be wide due to entities' high level of aggregation by class of asset.

14. The FASB received 51 comment letters on the proposed Update. The respondents were mainly preparers, professional and preparers' association groups and accounting firms. No users responded to the proposed Update. The main comments were as follows: [15]

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redemption will lapse (see proposed amendments in paragraphs 820-10-50-2G and 820-10-50-6A(b) and (e) of the proposed Update).

[14] These proposals would not be extended to private companies.

[15] The FASB's comment letter summary can be found at: http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176168197244

(a) nearly all respondents agreed with the removal of disclosures as they were not considered to result in the elimination of decision-useful information.

(b) many respondents also agreed that clarifying that the narrative description of the sensitivity of fair value measurements to changes in unobservable inputs is about the uncertainty of the fair value measurements, rather than their sensitivity, would reduce diversity in the application and interpretation of the requirement.

(c) many respondents questioned the usefulness of the information resulting from the proposed disclosure requirement on changes in unrealised gains and losses.

(d) many respondents expressed concerns that there is not a consistent method for calculating the weighted average of significant unobservable inputs. Most respondents disagreed with the proposed requirement dealing with the time period used to develop significant unobservable inputs. Many respondents stated that there was no clear benefit to users arising from this information given the level of aggregation at which the time period would be disclosed.

15. The FASB has considered this feedback, requested the staff complete additional outreach on these matters and has had re-deliberations on this work. The FASB is currently working on amending disclosure requirements relating to fair value measurements. The FASB's latest tentative decisions[16] are for the following changes to requirements:

(a) Remove the requirements for entities to disclose:

[16] The FASB's tentative decisions can be found at: http://www.fasb.org/cs/ContentServer?c=FASBContent_C&cid=1176170131230&d=&pagename=FASB%2FFASBContent_C%2FActionAlertPage

(i) the amounts of and reasons for transfers between Level 1 and Level 2 of the fair value;

(ii) their policy for timing of transfers between levels of the fair value hierarchy; and

(iii) their valuation processes for Level 3 fair value measurements.

(b) Require public entities to disclose:

(i) the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period; and

(ii) the range and weighted average used to develop significant unobservable inputs for fair value measurements categorized within Level 3 of the fair value hierarchy, as well as how they calculated weighted average.

(c) Clarify that the narrative description should communicate information about the uncertainty in fair value measurements at the reporting date rather than information about sensitivity to future changes.

(d) Eliminate “at a minimum” from the phrase “an entity shall disclose at a minimum,” which makes it difficult for an entity to justify omitting immaterial disclosures.

(e) Remove or simplify some of the disclosures for non-public entities.

Amendments to Topic 820 as a result of the issuance of other topics, technical and/or editorial corrections

16. We have identified amendments carried out to Topic 820 by the issuance of other topics or technical and/or editorial corrections and have classified them as follows:

(a) amendments to Topic 820 that modify converged requirements with IFRS 13 (paragraph 17); and

(b) amendments to Topic 820 that modify non-converged requirements with IFRS 13 or amendments that are only editorial in nature. The appendix to this paper includes the amendments identified to Topic 820 responding to this category.

17. In relation to the amendments to Topic 820 that modify converged requirements with IFRS 13, the FASB issued:

(a) an Accounting Standards Update (ASU) Technical Corrections and Improvements ('the Update'), No.2015-10 in June 2015.[17, 18] The Update included the following amendments to Topic 820:[19]

(i) paragraph 820-10-50-2 (a) in Topic 820[20] has been amended to clarify that the disclosure requirements for non-recurring fair value measurements should reflect the fair value measurement at the relevant measurement date (ie the FASB did not intend that an entity had also to disclose the fair value measurement of non-recurring items at the reporting date which may not be the relevant measurement date for these items).

(ii) paragraph 820-10-35-36D in Topic 820[21] is amended to clarify that requirements in Topic 820 that address a change in valuation technique are also applicable to a change from the use of mid-market pricing or other pricing conventions to another valuation technique.

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[17] The Update can be found at: http://fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176166123481&acceptedDisclaimer=true

[18] Through the Technical Corrections and Improvements project the FASB considers changes to clarify the Accounting Standards Codification or correct unintended application of guidance that is not expected to have a significant effect on current accounting practice or create a significant administrative cost to most.

[19] In addition to the amendments described in paragraph 17 of the paper, the Update also amended the practicability exception to not-for-profit entities (Topic 958 and Subtopic 720-25).

[20] This paragraph corresponds to paragraph 93(a) in IFRS 13.

[21] This paragraph corresponds to paragraph 71 of IFRS 13.

(b) ASU Technical Corrections and Improvements No. 2016-19 in December 2016.[22] This ASU amends Topic 820 to clarify the difference between an *approach* and a *technique* when applying the Standard and identifies requirements in which the term *technique* is replaced by the term *approach*. The ASU also requires that an entity disclose a change in a valuation *approach* and/or a valuation *technique*. The converged paragraphs that the ASU amends are as follows:

(i) the definitions of 'cost approach', 'income approach' and 'market approach'.[23] The current definitions define those approaches as valuation *techniques*. The ASU amends these definitions so that these approaches are defined as valuation *approaches* rather than valuation *techniques*. The term *technique* is also replaced by the term *approach* in some paragraphs of Topic 820.[24]

(ii) paragraph 820-10-50-2 (bbb) is amended as follows:[25]

For recurring and nonrecurring fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in either or both a valuation approach and a valuation technique (for example, changing from matrix pricing to the binomial model ~~a market approach to an income approach~~ or the use of an additional

[22] ASU 2016-19 can be found at: http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176168696420&acceptedDisclaimer=true
[23] These are defined terms in Appendix A of IFRS 13.
[24] The term *technique* is replaced by the term *approach* in the following paragraphs of Topic 820: paragraph 820-10-35-16BB (c) (corresponds to paragraph 38(c) in IFRS 13), second sentence of paragraph 820-10-35-24A (corresponds to paragraph 62 in IFRS 13), heading preceding paragraph 820-10-55-35 and paragraph 820-10-55-35 (corresponds to paragraph IE10 in IFRS 13).
[25] This paragraph corresponds to paragraph 93 (d) in IFRS 13.

valuation technique), the reporting entity shall disclose that change and the reason(s) for making it. […]

These amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after 15 December 2016 and should be applied prospectively.

Work undertaken by the Board and other IFRS Foundation bodies

18. Since the issuance of IFRS 13, the Board and other IFRS Foundation bodies have undertaken the work listed below in relation to fair value measurement. A detailed description of these different work streams can be found in Agenda Paper 7A.

    (a) issues discussed by the Board:

        (i) annual improvements—short-term receivables and payables[26] and scope of paragraph 52[27]; and

        (ii) interaction between the unit of account and the measurement of quoted investments and quoted cash-generating units at fair value. Within this work stream the Board also discussed questions received on the portfolio exception in IFRS 13.[28]

    (b) issues discussed by the Interpretations Committee:

        (i) the fair value hierarchy when third-party consensus prices are used;[29] and

[26] *Annual Improvements to IFRSs 2010-2012 Cycle* issued in December 2013 can be found at: http://eifrs.ifrs.org/eifrs/files/71/Annual%20Improvements%20to%20IFRS%202010_2012%20Cycle_Web_180.pdf

[27] *Annual Improvement to IFRSs 2011-2013 Cycle* issued in December 2013 can be found at: http://eifrs.ifrs.org/eifrs/files/71/Annual%20Improvements%202011-2013_with%20cover_WEBSITE_124.pdf

[28] The project website can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/FVM-unit-of-account/Pages/FVM-unit-of-account.aspx

[29] The Agenda Decision can be found at: http://media.ifrs.org/2014/IFRIC/September/IFRIC-Update-September-2014.pdf

(ii) IAS 41 *Agriculture* and IFRS 13 *Fair Value Measurement*—Valuation of biological assets using a residual method.[30]

(c) the IFRS Education Initiative published non-authoritative educational material titled *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9* Financial Instruments. [31]

19. Other than the amendments arising from the annual improvements in paragraph 18(a)(i), none of the work streams resulted in amendments to the Standard. Further, the amendments arising from the annual improvements provided clarification of the original requirements of the Standard rather than incorporating changes to the latter. The issuance of new IFRS Standards have also not resulted in substantive amendments to the Standard.

Conclusion

20. This paper provides background information on the level of convergence achieved by IFRS 13 and Topic 820 at their issuance and provides a summary of the work done by the boards subsequently.

21. The amendments to IFRS 13 subsequent to its issuance provide clarification of the original requirements rather than changing them (paragraphs 18–19).

22. The amendments to Topic 820 subsequent to its issuance include a correction to a converged disclosure requirement (paragraph 17(a)(i)) and an amendment aiming to re-emphasise the converged requirement on changes in valuation techniques and related disclosures (paragraph 17(a)(ii)). In addition, as part of its Technical Corrections and Improvements process, the FASB replaced the term *technique* by the

[30] The project website can be found at: http://www.ifrs.org/Current-Projects/IASB-Projects/Agriculture-and-Fair-Value-Measurement/Pages/amendments-to-IAS-41-and-IFRS-13.aspx

[31] The educational material can be found at: http://www.ifrs.org/Use-around-the-world/Education/FVM/Documents/Education-guidance-FVM.pdf

term *approach* in some of the converged requirements in Topic 820 (paragraph 17(b)). The staff are of the view that the amendments carried out by the FASB to Topic 820 subsequent to 2011 enhance or clarify further the original requirements rather than substantively modifying them.

23. On the basis of the analysis performed, the staff are of the view that the amendments to the Standards resulting from the work of the boards subsequent to their issuance do not challenge the level of convergence achieved at the issuance of the Standards in May 2011.

APPENDIX—Summary of amendments to Topic 820 that modify non-converged requirements

Accounting Standards Update	Date	Source of the amendment	Description of the amendments to Topic 820
Accounting Standards Update No. 2012-04	October 2012	Technical Corrections and Improvements	Editorial changes to Implementation Guidance and Illustrations, Case B: Restrictions on the Use of an Asset.[32]
Accounting Standards Update No. 2013-09	July 2013	Fair Value Measurement (Topic 820) Deferral of the Effective Date of Certain Disclosures for Nonpublic Employee Benefit Plans in Update No. 2011-04	The amendments in this Update deferred indefinitely the effective date of the requirements dealing with the disclosure of quantitative information about the significant unobservable inputs used in Level 3 fair value measurements for investments held by a non-public employee benefit plan.
Accounting Standards Update No. 2014-06	March 2014	Technical Corrections and Improvements Related to Glossary Terms	Editorial changes to the definitions of some terms included in the glossary of Topic 820.
Accounting Standards Update No. 2014-09 (Section B)	May 2014	Revenue from Contracts with Customers (Topic 606)	Amendments to the scope of Topic 820 to exclude the use of fair value measurement in the recognition and measurement of: (a) revenue contracts with customers in accordance with Topic 606; and

[32] This example corresponds to Illustrative Example 9 (paragraph IE 29) in IFRS 13.

Accounting Standards Update	Date	Source of the amendment	Description of the amendments to Topic 820
			(b) gains and losses upon the derecognition of non-financial assets in accordance with Subtopic 610-20. Amendments to the practicability exceptions in Topic 820 to measure fair value if fair value cannot be reasonably estimated for non-cash consideration promised in a contract in accordance with the guidance in Topic 606. Topic 606 has also added several new terms to the glossary of Topic 820.[33]
Accounting Standards Update No. 2014-13	August 2014	Consolidation (Topic 810)	Amendments to the practicability exceptions in Topic 820 to allow financial assets or financial liabilities of a consolidated variable interest entity that is a collateralized financing entity to apply an alternative measurement in accordance with Topic 810. Topic 810 has also added new terms to the glossary of Topic 820.
Maintenance Update 2014-20	September 2014	Editorial and Maintenance Update	Addition of a new term to the glossary to Topic 820 (conduit debt security) and other editorial changes to defined terms.

[33] The issuance of IFRS 15 *Revenue from Contracts with Customers* in May 2014 did not result in amendments to IFRS 13.

Accounting Standards Update	Date	Source of the amendment	Description of the amendments to Topic 820
Accounting Standards Update No. 2015-07	May 2015	Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)	This update removed the requirement to categorise within the fair value hierarchy investments for which the fair value is measured using net asset value (NAV) per share as a practical expedient. The update clarifies which disclosure requirements do not apply and which ones do apply to these investments.
Accounting Standards Update No. 2016-01	January 2016	Financial Instruments-Overall (Subtopic 825-10)	Amendments to the practicability exceptions in Topic 820 and amendments to Example 9: Fair Value Disclosures. This example corresponds to Illustrative Example 15(paragraph IE 60) in IFRS 13. This example was not fully converged with Topic 820 at the issuance of IFRS 13.