

AGENDA PAPER

IFRS Foundation Trustees meeting – Due Process Oversight Committee

Johannesburg October 2018

Agenda ref 1C

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Post-Implementation Review of IFRS 13 *Fair Value Measurement*: draft project summary and feedback statement

Confirmation requested from the DPOC

The Board believes that (a) it will shortly be in the position to finalise the Project Summary and Feedback Statement on the Post-implementation Review of IFRS 13 *Fair Value Measurement*, and (b) all the necessary due process steps have been followed.

Does the DPOC agree that, on the basis of the materials provided to it, all necessary due process steps have been followed and that the Project Summary and Feedback Statement can be finalised?

Introduction

1. The purpose of this paper is to report on the due process undertaken in the Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*.
2. As required by the *Due Process Handbook*, the Board has to provide the Due Process Oversight Committee (DPOC) with a draft of the PIR report. The latest draft of the project summary and feedback statement is being circulated to the DPOC (but not as a public paper, given that it is still in draft).
3. The DPOC is asked to confirm that, on the basis of the materials provided to it, all necessary due process steps have been followed and that, subject to the Board's final review, the Board has completed the PIR and that the Project Summary and Feedback Statement can be finalised.

Background

4. IFRS 13 was issued in 2011 and became effective in January 2013. IFRS 13 applies when another IFRS requires or permits fair value measurement. It defines fair value, and sets out a framework for measuring fair value and disclosures about fair value measurement.
5. The objective of the PIR of IFRS 13 was to assess whether IFRS 13 was working as intended, including whether:
 - a. the information required by IFRS 13 is useful to users of financial statements;
 - b. areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and
 - c. unexpected costs have arisen when preparing, auditing or enforcing the requirements of IFRS 13 or when using the information that the Standard requires entities to provide.
6. As set out in the *Due Process Handbook* (paragraphs 6.52-6.63), the IASB is required to conduct a PIR of each new Standard or major amendment. Each review has two phases. Phase 1 involves an initial identification and assessment of the matters to be examined, which are then the subject of a public consultation by the IASB in the form of a Request for Information (RFI). In Phase 2, the IASB considers the comments it has received from the RFI along with the information it has gathered through other consultative activities. On the basis of that information, the IASB presents its findings and sets out the steps it plans to take, if any, as a result of the review.

Conduct of the IFRS 13 PIR

7. The project team started work on the PIR for IFRS 13 in September 2016. The staff briefed the Board about the commencement of the PIR, the scope of Phase 1 and the timetable at the Board's October 2016 meeting. The DPOC were informed in October 2016 that the work on Phase 1 of the PIR for IFRS 13 was starting.
8. Consultations as part of Phase 1 included almost 30 meetings or calls with a broad range of stakeholders to learn about experience with applying and using IFRS 13. Those stakeholders included investors, preparers, regulators, auditors and standard setters, and included IFRS consultative groups (Capital Markets Advisory Committee, Global Preparers Forum, Emerging Economies Group, Accounting Standards Advisory Forum), the Interpretations Committee as well as liaison with FASB staff (given that IFRS 13 is a

converged Standard). Overall, these stakeholders told us that the Standard is working well.

9. The Board decided at its January 2017 meeting to proceed with Phase 2 of the PIR and publish a RFI, with a response period of 120 days as required by the *Due Process Handbook*. On the basis of the information gathered in Phase 1, the Board decided to focus the RFI on the following aspects of IFRS 13:
 - a. the usefulness of disclosures about fair value measurements;
 - b. whether to prioritise Level 1 inputs or the unit of account (often referred to as the ‘P × Q issue’);
 - c. application of the concept of the highest and best use when measuring the fair value of non-financial assets; and
 - d. application of judgements required for fair value measurement.
10. The Board also decided to supplement the RFI by commissioning, from a team of six academics following a public call for nominations, a review of the existing academic literature on fair value measurement relating to the areas of focus in the RFI.
11. The RFI was published on 25 May 2017, with comments due on 22 September 2017, thus providing a 120-day comment period¹.
12. 67 comment letters were received. Board and staff members also had further meetings with the GPF, CMAC and ASAF as well as 20 other meetings with various stakeholders.
13. The Board discussed the feedback from the RFI², together with the academic literature review³, at its meeting in January 2018. All of the feedback and the academic literature review are available on the website.
14. Details of the due process steps that have been followed can be found in the table at Appendix A. The table therefore forms a key part of the basis for the request that the DPOC confirm that all necessary due process steps have been followed.

¹ The RFI can be accessed at <https://www.ifrs.org/-/media/project/pir-ifrs-13/published-documents/request-for-information-pir-ifrs-13.pdf>

² The comment letter summary presented to the IASB at its January 2018 meeting (Agenda Paper 7B *Background–Detailed analysis of feedback received*) can be accessed at <https://www.ifrs.org/-/media/feature/meetings/2018/march/iasb/ap7b-ifrs-13.pdf>

³ The academic literature review presented to the IASB at its January 2018 meeting (Agenda Paper 7C *Effect of Implementation of IFRS 13 Fair Value Measurement: Summary of the Literature Review*) can be accessed at <https://www.ifrs.org/-/media/feature/meetings/2018/march/iasb/ap7c-ifrs-13.pdf>

Findings from the PIR

15. In March 2018, the Board considered the findings from the PIR to assess whether IFRS 13 is working as intended and to determine its follow up from the PIR.
16. The Board assessed, based on the findings from the PIR, that IFRS 13 is working as intended. In particular:
 - a. the information required by IFRS 13 is useful to users of financial statements;
 - b. there are areas of IFRS 13 that present implementation challenges, driven principally by requirements to exercise judgement. However, there is evidence that practice is developing to deal with these; and
 - c. there were no unexpected costs arising from application of IFRS 13.
17. With respect to its follow up, the Board decided to:
 - a. feed the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting, in particular the Disclosure Initiative and the Primary Financial Statement project;
 - b. continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
 - c. conduct no other follow-up activities as a result of findings from the PIR.
18. The Board acknowledged that ASAF and many other stakeholders had recommended that the Board undertake work to clarify the issue of the interaction between Level 1 inputs and the unit of account ($P \times Q$ issue). However, the Board decided not to undertake follow-up work in this area because it assessed that the costs of such work would exceed its benefits (see page 16 of the draft Feedback Statement).
19. The Board also acknowledged that many stakeholders had asked for application guidance or education materials on application of judgements, in particular relating to assessment of whether a market is active. The Board decided not to develop such guidance as it concluded it would be unlikely to be able to develop further useful and principle-based guidance (see page 18 of the draft Feedback Statement).
20. The Board determined that the PIR has met its objectives and no further work on the project is required.

Finalising the PIR

21. The Board believes that will shortly be in a position to finalise the Project Summary and Feedback Statement on the PIR of IFRS 13. As Appendix A shows, the necessary due process steps have been followed.
22. At this meeting, the staff ask the DPOC to confirm that all necessary due process steps have been followed and that, subject to the Board's final review, the Board has completed the PIR and that the Project Summary and Feedback Statement can be finalised.
23. The Board expects to publish the Project Summary and Feedback Statement in December 2018.

Appendix A

Post-implementation Review of IFRS 3 – Confirmation of Due Process Steps

Step	Required/ Optional under <i>Handbook</i>	Staff/Board action	DPOC action
Timetable for PIR is established.	Required	The project team started work on IFRS 13 PIR in September 2016, and the project was added to the work programme. The staff briefed the Board about the commencement of the PIR, the scope of the Phase 1 and the timetable at the Board's October 2016 meeting.	The DPOC were informed in October 2016 that the work on phase 1 IFRS 13 PIR was starting.
Establishment of scope, including identifying the important or contentious issues that came up during the development of the Standard.	Required	<p>The history of the development of IFRS 13 was analysed, together with relevant issues subsequently brought to the attention of the Board and Interpretations Committee, to identify the important and contentious issues.</p> <p>Staff and Board members also held discussions with various stakeholders to learn about experience with applying and using IFRS 13. These included IFRS consultative groups, the Interpretations Committee, the Investor and Emerging Economies groups of the Advisory Council, as well as liaison with FASB staff.</p> <p>The Board established the scope of the PIR at its January 2017 meeting.</p>	The DPOC were informed of progress in the Technical Update paper for the January 2017 meeting. This highlighted the extent of consultations in Phase 1.

Step	Required/ Optional under <i>Handbook</i>	Staff/Board action	DPOC action
<p>After the initial assessment, one of two routes may be taken:</p> <ul style="list-style-type: none"> • RFI published to invite public comment, with appropriate response period; or • on the basis of its initial assessment, the Board may decide that it would be premature to undertake a review at the time. 	Required	The Board decided at its January 2017 meeting to publish an RFI with a comment period of 120 days.	The DPOC were informed in May 2017 that the RFI would be published later that month with a response period of 120 days, consistent with the requirements of the <i>Due Process Handbook</i> .
The Board considers whether it is necessary to supplement the RFI with other evidence, such as an analysis of financial information, a review of academic or other related research to the implementation of the Standard being reviewed, or consultations with relevant parties.	Optional	At its January 2017 meeting, the Board discussed staff papers describing possible additional research activities to supplement RFI findings. The Board decided to supplement the RFI with the following activities: academic literature review, targeted consultation on fair value measurement disclosures, and financial statement analysis relating to the focus areas of Phase 2.	n/a
Project teams analyse and summarise comment letters for the Board's consideration. The Board posts all comment letters in relation to the RFI online.	Required	<p>The Board discussed the feedback from Phase 2 of the PIR at its January 2018 meeting. This included feedback from the RFI, the academic literature review conducted by a team of academics and research conducted by staff.</p> <p>All comment letters and summaries of the feedback were posted on the project page on the website.</p>	n/a
Board meetings are held in public, with papers being available for observers. All decisions are made in a public session.	Required	The PIR was discussed at public Board meetings held in January and February 2017, and January and March 2018. Meeting papers were posted within required deadlines.	The DPOC were updated about progress on the PIR as part of the Update on Technical Activities at its

Step	Required/ Optional under <i>Handbook</i>	Staff/Board action	DPOC action
		Project website kept up to date.	meetings in January, May and November 2017, and January and June 2018.
The Board presents its findings in a public report.	Required	The project summary and feedback statement are currently being drafted by the IASB staff. A draft is being circulated to the DPOC.	The DPOC will be asked to confirm that the Board can finalise the project summary and feedback statement at this meeting.
Implementation of PIR findings	Required	<p>In March 2018, the Board discussed what follow up work it should do relating to the findings of the PIR. The Board decided to:</p> <ul style="list-style-type: none"> (a) feed the PIR findings regarding the usefulness of disclosures into the work on Better Communications in Financial Reporting (in particular, the Disclosure Initiative project and Primary Financial Statements project); (b) continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and (c) conduct no other follow-up activities as a result of findings from the PIR, for example not to perform any work in the area of prioritising the unit of account or Level 1 inputs because the costs of such work would exceed its benefits. 	The DPOC were updated about the Board's findings from the PIR in June 2018.

Step	Required/ Optional under <i>Handbook</i>	Staff/Board action	DPOC action
Recommendations to DPOC about changes to the Board's procedures (such as how the effects of a Standard should be assessed or additional steps that should be taken in developing a Standard).	Optional	None identified.	n/a