Staff paper

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IASB® meeting

Date	**December 2023**
Project	**Second Comprehensive Review of the *IFRS for SMEs®* Accounting Standard**
Topic	**Fair value measurement**
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Purpose of this paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to:
   (a) consider feedback on proposed new Section 12 *Fair Value Measurement* in the Exposure Draft *Third edition of the* IFRS for SMEs *Accounting Standard* (Exposure Draft); and
   (b) decide whether to make any changes to that proposed new section.

2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

Staff recommendation

3. The staff recommend the IASB should:
   (a) finalise the proposals in Section 12 without significant amendments to its overall content;
   (b) consider drafting suggestions made by respondents and use of plainer language to express requirements in Section 12;

(c) remove the appendix to Section 12 and include those examples in separate educational material; and

(d) consider suggestions for additional guidance and illustrative examples when updating the separate educational material.

Structure of this paper

4. This paper is structured as follows:

(a) development of the proposals (paragraphs 5–15);

(b) feedback on the proposals (Question 5 of the Exposure Draft, paragraphs 16–20);

(c) staff analysis (paragraphs 21–33);

(d) staff recommendation and question for the IASB (paragraph 34); and

(e) appendix—staff analysis of suggestions for additional disclosures in Section 12.

Development of the proposals

Current requirements for fair value measurement

5. The *IFRS for SMEs* Accounting Standard:

(a) includes a definition of fair value in Section 2 *Concepts and Pervasive Principles* (and in its *Glossary of terms*);

(b) sets out requirements for measuring fair value in paragraphs 11.27–11.32. Paragraph 11.27 contains a fair value hierarchy by referring to recent transactions or measuring fair value using a valuation technique; and

(c) requires or permits fair value measurement in several sections of the Standard, including Sections 14 and 15 (the fair value model for associates and jointly controlled entities), Section 16 (investment property) and Section 28 (pension plan assets). These sections refer to the fair value measurement requirements in paragraphs 11.27–11.32.

6. The fair value measurement requirements in the Standard are based on the requirements in IAS 39 *Financial Instruments: Recognition and Measurement* prior to the issuance of IFRS 13 *Fair Value Measurement*.

7. In May 2011, the IASB issued IFRS 13. IFRS 13 is a single source of fair value measurement guidance that clarifies the definition of 'fair value', provides a clear framework for measuring fair value and enhances disclosures about fair value measurements.

8. The IASB consulted on aligning the *IFRS for SMEs* Accounting Standard with IFRS 13 during the first comprehensive review. However, the IASB decided not to align the Standard with IFRS 13 because:

> … IFRS 13 only recently became effective and introduce[d] complex changes that are expected to result in, and benefit from, significant implementation guidance in practice. Furthermore, [it] would be expected to have a limited practical impact on the majority of SMEs, because the new requirements are unlikely to affect many common fair value measurements ...[1]

9. The IASB completed the Post-implementation Review of IFRS 13 in March 2018 and concluded that IFRS 13 was working as intended. The feedback statement of the Post-implementation Review stated that information required by IFRS 13 is useful to users of financial statements and no unexpected costs have arisen from application of IFRS 13. The findings from the Post-implementation Review of IFRS 13 provided

[1] Paragraph BC198(a) of the Basis for Conclusions on the 2015 *IFRS for SMEs* Accounting Standard.

evidence for aligning the Standard with IFRS 13 subject to the IASB's alignment approach.

Feedback on the 2020 Request for Information and from SMEIG members

10. In January 2020, the IASB published Request for Information *Comprehensive Review of the* IFRS for SMEs *Standard* as a first step in its second comprehensive review. The Request for Information sought views on aligning the Standard with IFRS 13. It also sought views on moving the fair value measurement and related disclosure requirements to Section 2 *Concepts and Pervasive Principles* of the Standard.

11. Overall feedback on the Request for Information and most SMEIG members supported:

    (a) aligning the definition of fair value in the Standard with IFRS 13;

    (b) aligning the guidance on fair value measurement in the Standard with the principles of the fair value hierarchy in IFRS 13; and

    (c) including examples that illustrate how to apply that hierarchy.

12. However, there were mixed views about moving the requirements to Section 2 of the Standard. Some respondents and some SMEIG members said it may not be appropriate to include the requirements for measuring fair value and disclosure requirements alongside the concepts and principles in Section 2. Many of these respondents suggested it would be more appropriate to have a new, separate section in the Standard.

Proposals in the Exposure Draft

13. In applying its alignment approach, the IASB assessed that alignment with IFRS 13 is relevant to SMEs because it would lead to greater clarity and consistency when SMEs

are permitted or required to use a fair value measurement, thereby improving the information provided to users of SMEs' financial statements.

14. In the Exposure Draft the IASB proposed to:

(a) align the definition of fair value with IFRS 13;

(b) align the guidance on fair value measurement with the principles of the fair value hierarchy in IFRS 13;

(c) include examples that illustrate how to apply that hierarchy in the appendix to Section 12; and

(d) align the disclosure requirements relating to fair value with IFRS 13.

15. The IASB proposed that the requirements on measuring fair value and related disclosure requirements be consolidated and moved to a new Section 12.

Feedback on the proposals (Question 5 of the Exposure Draft)

Question 5—Proposal for a new Section 12 *Fair Value Measurement*
Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

16. Almost all respondents, who answered Question 5, expressed general support for the proposed new Section 12.

17. Some respondents suggested the IASB provides additional guidance and more illustrative examples to support application of the proposed new Section 12. A few respondents suggested adding such guidance to the appendix to Section 12, whilst others suggested putting it in separate educational material. A few respondents suggested moving all the guidance in the appendix to separate educational material to keep the Standard concise and user friendly. Suggestions for guidance—each made by one or two respondents—included:

(a) assessing whether a market is active and identifying transactions that are not orderly, particularly in emerging economies;

(b) fair value measurement of biological assets and investment properties;

(c) matters such as highest and best use, exit value and market participants;

(d) further examples from IFRS 13, including Example 1— Highest and best use (Asset group), Example 11—Decommissioning liability and Example 17—Valuation techniques and inputs; and

(e) assessing whether a fair value measurement results in undue cost or effort.

18. A few respondents said that the IASB should consider further simplifications and reduction of guidance in Section 12, for example replacing the three-level fair value hierarchy with a two-level hierarchy ('quoted price' and 'unquoted price' inputs) or simplifications to the fair value measurement requirements like the UK's Financial Reporting Council FRED 82 *Draft amendments to The Financial Reporting Standard applicable in the UK and Republic of Ireland* (published in December 2022).

19. A few respondents noted that proposed Section 12 does not include all the requirements of IFRS 13 and it may be unclear to SMEs if those requirements would still apply. For example, without specific guidance on liabilities and own equity instruments it may be unclear that the effects of non-performance risk should be included in measuring a liability's fair value.

20. A few respondents asked for additional disclosures from IFRS 13, for example, additional information on level 3 inputs and changes in valuation techniques. Nevertheless, a few respondents said the benefits may not justify the costs of requiring SMEs to disclose information by level.

Staff analysis

21. The staff analysis is set out as follows:

    (a) possible simplifications to the fair value hierarchy and related disclosures (see paragraphs 22–24);

    (b) additional disclosure requirements (see paragraphs 25);

    (c) IFRS 13 requirements omitted from Section 12 (see paragraph 26–29); and

    (d) additional guidance and illustrative examples in educational material (see paragraph 30–33).

Possible simplifications to the fair value hierarchy and related disclosures

22. Almost all respondents who answered Question 5 expressed general support for the fair value measurement requirements set out in proposed new Section 12. Most respondents either did not suggest any modifications to the proposals or only suggested additional guidance or examples are included in educational material. This feedback indicates that the proposals in Section 12 of the Exposure Draft do not require further simplification when aligning the Standard with IFRS 13.

23. Nevertheless, a few respondents suggested the proposed three-level fair value hierarchy in Section 12 should be simplified for cost-benefit reasons. These respondents provided two main suggestions:

    (a) replacing the three-level fair value hierarchy with a two-level hierarchy (for example based on ‘quoted price’ and ‘unquoted price’ inputs); and

    (b) making similar simplifications to those in Section 2A of the UK Financial Reporting Council’s FRED 82 *Draft amendments to The Financial Reporting Standard applicable in the UK and Republic of Ireland*, which was published in December 2022 (this suggestion was made by two UK organisations).

Section 2A in FRED 82 is based on Section 12 of the Exposure Draft, but makes some simplifications and, in particular, it retains:

(i) the existing fair value hierarchy (in paragraph 2A.13 of FRED 82, which is based on existing paragraph 11.27 of the 2015 *IFRS for SMEs* Accounting Standard); and

(ii) the existing fair value disclosure requirements within other sections (in contrast to our proposal to centralise the fair value disclosures in Section 12).

24. Given the strong support for proposed Section 12, the staff have not considered these suggestions further. However, the staff is currently exploring the possibility of using plainer language to express the requirements in proposed Section 23 *Revenue from Contracts with Customers*. If this initial work is successful, the staff suggest the IASB considers a similar approach to other new/revised sections in the Standard, such as Section 12, with a view to reducing complexity.

Additional disclosure requirements

25. The staff have considered the suggestions made by respondents for adding disclosure requirements to Section 12 in the appendix to this paper. Based on our analysis of these suggestions against the IASB's principles for reducing disclosures[2], we do not think any additional disclosures should be added to Section 12.

IFRS 13 requirements omitted from Section 12

26. A few respondents noted that proposed Section 12 does not include all the requirements of IFRS 13 and it may be unclear to SMEs if those requirements would still apply. For example, without the specific guidance on application of the fair value measurement requirements to liabilities and own equity instruments in IFRS 13 it may

[2] These principles are set out in paragraph BC157 of the Basis for Conclusions on the 2015 Standard. They are also listed in the appendix to this paper.

be unclear that the effects of non-performance risk should be included in measuring a liability’s fair value.

27. In aligning the Standard with IFRS 13, the IASB applied its alignment approach. Requirements in IFRS 13 were excluded from the proposals in Section 12 of the Exposure Draft if they did not meet the principle of relevance to SMEs.[3] The specific fair value measurement guidance on liabilities and own equity instruments in IFRS 13[4] was excluded from Section 12 in the Exposure Draft as it is unlikely to be relevant to many SMEs. For example, most SMEs will measure their financial liabilities at amortised cost applying Section 11 of the Standard.

28. The *IFRS for SMEs* Accounting Standard is a standalone Standard. There is no requirement for SMEs to look to the requirements in full IFRS Accounting Standards. The definition of fair value and the main principles for fair value measurement in the Exposure Draft are aligned with IFRS 13. Therefore, an SME would need to ensure any fair value measurements are consistent with these principles. The staff think most SMEs will be able to perform their fair value measurements applying the principles in Section 12.

29. Paragraphs 4–8 of Agenda Paper 30 *Cover Paper* discusses possible factors to consider when deciding whether additional guidance should be added to the Standard. We continue to think the feedback on the Exposure Draft indicates that the specific fair value measurement guidance in IFRS 13 on liabilities and own equity instruments is not relevant to many SMEs.

[3] The IASB determines relevance to SMEs by assessing whether the problem addressed by a new requirement in full IFRS Accounting Standards (in the scope of the review) would make a difference in the decisions of users of financial statements prepared applying the *IFRS for SMEs* Accounting Standard. See paragraph 30 of the Basis for Conclusions on the Exposure Draft.

[4] See paragraphs 34–47 of IFRS 13.

Additional guidance and illustrative examples in educational material

30. The appendix to Section 12 in the Exposure Draft provides non-mandatory guidance on fair value measurements. This appendix was developed by selecting those examples in the IFRS 13 Illustrative Examples that are relevant to SMEs. Some respondents suggested the IASB provides additional guidance and more illustrative examples to support application of the proposed new Section 12, including additional IFRS 13 illustrative examples (see paragraph 16 of this paper). Specific suggestions were varied and each suggestion was only made by one or two respondents.

31. Considering the factors in paragraphs 4–8 of Agenda Paper 30 and that most respondents supported the proposed level of content in Section 12, we do not think further requirements from IFRS 13 should be included in Section 12. However, we think the suggestions could be considered in developing educational material for Section 12.

32. The Exposure Draft proposes a mixed approach where some sections are accompanied by appendices with non-mandatory guidance and some are not. At the SMEIG meeting in July 2023, some SMEIG members said that non-mandatory guidance should be included in separate educational material, rather than in appendices to the Standard. This suggestion was also made by some respondents to the Exposure Draft. SMEIG members also suggested ways to make the separate educational material more accessible to better support the Standard, for example by providing links in the Standard to the educational material. At the September 2023 IASB meeting, the staff recommended that all non-mandatory guidance should be moved out of the Standard into separate educational material for consistency and to enable greater flexibility in providing examples for SMEs. We also recommended the IASB consider the suggestions by SMEIG members to improve accessibility and awareness of the educational material. The IASB did not opine on these recommendations.

33. The staff continue to think that the appendix to Section 12 should be removed and the examples included in separate educational material. The separate educational material on Section 12 will be more comprehensive than the appendix to Section 12 proposed

in the Exposure Draft. Therefore, the staff suggest we consider the other suggestions for additional guidance and illustrative examples in paragraph 16 of this paper when developing the educational material for Section 12.

Staff recommendation and question for the IASB

34. The staff recommend the IASB should:

(a) finalise the proposals in Section 12 without significant amendments to its overall content;

(b) consider drafting suggestions made by respondents and use of plainer language to express requirements in Section 12;

(c) remove the appendix to Section 12 and include those examples in separate educational material; and

(d) consider suggestions for additional guidance and illustrative examples when updating the separate educational material.

Question for the IASB
Does the IASB agree with the staff recommendation in paragraph 34?

Appendix: Staff analysis of suggestions for additional disclosures in Section 12

A1. The IASB developed the disclosure requirements in the *IFRS for SMEs* Accounting Standard using the disclosure requirements in full IFRS Accounting Standards as a starting point, and then assessing users' needs and applying the principles for reducing disclosures set out in paragraph BC157 of the Basis for Conclusions on the 2015 Standard (listed in paragraph A2 of this paper).

A2. The IASB was guided by the following principles when deciding whether to make amendments to disclosure requirements when aligning with full IFRS Accounting Standards (principles for reducing disclosures):

(a) users of the financial statements of SMEs are particularly interested in information about short-term cash flows and about obligations, commitments or contingencies (BC157(a));

(b) users of the financial statements of SMEs are particularly interested in information about liquidity and solvency (BC157(b));

(c) information on measurement uncertainties is important for SMEs (BC157(c));

(d) information about an entity's accounting policy choices is important for SMEs (BC157(d));

(e) disaggregation of amounts presented in SMEs' financial statements are important for an understanding of those statements (BC157(e)); and

(f) some disclosures in full IFRS Accounting Standards are more relevant to investment decisions in public capital markets than to the transactions and other events and conditions encountered by typical SMEs (BC157(f)).

Table 1—Additional disclosures for Section 12 suggested by respondents

Additional disclosures suggested by respondents to the Exposure Draft (each suggestion made by one or two respondents)	Staff view on whether these disclosures meet the principles for reducing disclosure
If the highest and best use for non-financial assets differs from its current use (paragraph 93(i) of IFRS 13).	The staff does not think this suggested disclosure meets the principles for reducing disclosure (see paragraph A2 of this paper).
When an entity applies the proposed paragraph 12.21, disclose the last date when fair value was determined for the affected assets and state [the entity's] specific reasons why fair value has not been determined since.	The staff does not think this suggested disclosure meets the principles for reducing disclosure.
Full reconciliation of movements in fair value measurements classified in level 3 of the fair value hierarchy.	The staff think paragraph 12.29 of the Exposure Draft is sufficient considering the principles for reducing disclosure, in particular the principle of disaggregation, and user needs. The staff note that a few respondents to the Exposure Draft considered that the level 3 disclosures were excessive and the benefits may not justify the costs of requiring SMEs to provide information by level. Paragraph 12.29 strikes a balance between the contrasting comments.
Change in valuation technique (paragraph 93(d) of IFRS 13) – additional detail in movements for measurements classified in level 3 of the fair value hierarchy.	The staff does not think the principles for reducing disclosures would support introducing this requirement. We also note contrasting feedback from some respondents that the level 3 disclosures are excessive.

IASB's discussion on these suggested disclosures in relation to ED/2021/7 Subsidiaries without Public Accountability

A3. The disclosure requirements proposed in Section 12 of the Exposure Draft are identical to the disclosure requirements relating to IFRS 13 in ED/2021/7 *Subsidiaries without Public Accountability* (ED/2021/7), except the Exposure Draft does not include paragraph 82 of ED/2021/7 as this relates to a measurement difference.[5] This is because, in the Exposure Draft, for those sections of the Standard that the IASB proposed to align with the recognition and measurement requirements in full IFRS Accounting Standards, the IASB proposed to align the disclosure requirements with the proposals in ED/2021/7 (further explanation of this approach is provided in paragraphs BC206–BC212 of the Basis for Conclusions accompanying the Exposure Draft).

A4. At its June 2023 meeting, the IASB discussed whether any of the additional disclosures suggested by respondents to the Exposure Draft (set out in Table 1 above) should be taken into consideration in finalising the new IFRS Accounting Standard *Subsidiaries without Public Accountability: Disclosures*.[6] At that meeting the IASB tentatively decided against making changes to the proposed IFRS 13 disclosures in ED/2021/7. The IASB noted that applying the principles for reducing disclosures[7] and considering the costs and benefits of meeting the information needs of users of eligible subsidiaries' financial statements did not indicate that further IFRS 13 disclosure requirements are needed in addition to those in ED/2021/7.

[5] In July 2021, the IASB issued Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*, which sets out the IASB's proposal for a new IFRS Accounting Standard that would permit a subsidiary that does not have public accountability to apply reduced disclosure requirements when applying full IFRS Accounting Standards. The description of 'public accountability' in ED/2021/7 is based on the definition and supporting guidance in paragraphs 1.3–1.4 of the *IFRS for SMEs* Accounting Standard.

[6] See Agenda Paper 31A *Feedback on proposed disclosure requirements in the Exposure Draft Third Edition of the IFRS for SMEs Accounting Standard*.

[7] In assessing whether suggested changes should be made to the proposals in ED/2021/7, the IASB applied the same principles it used for reducing disclosure requirements when it developed the *IFRS for SMEs* Accounting Standard.