December 2018

IFRS® Project Report and Feedback Statement

Post-implementation Review of IFRS 13 *Fair Value Measurement*

Post-implementation Review of IFRS 13 *Fair Value Measurement*

The International Accounting Standards Board conducts Post-implementation Reviews of new IFRS Standards on major amendments to IFRS Standards to assess whether they are working as intended.

This Project Report and Feedback Statement summarises work performed and conclusions reached in the Post-implementation Review of IFRS 13 *Fair Value Measurement*.

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At a glance

From 2016 to 2018, the International Accounting Standards Board (Board) conducted a Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement*.

The objective of the project was to assess whether IFRS 13 was working as intended including whether:

- the information required by IFRS 13 is useful to users of financial statements;
- areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and
- unexpected costs have arisen when preparing, auditing or enforcing the requirements of IFRS 13 or when using the information the Standard requires entities to provide.

Summary of the findings

The Board completed its review of the findings from the PIR in March 2018. The Board concluded that IFRS 13 is working as intended. In particular:

- the information required by IFRS 13 is useful to users of financial statements.
- some areas of IFRS 13 present implementation challenges, largely in areas requiring judgement. However, evidence suggests that practice is developing to resolve these challenges.
- no unexpected costs have arisen from application of IFRS 13.

The Board concluded that the PIR was complete.

Follow-up

In March 2018, the Board decided to:

- feed the PIR findings regarding the usefulness of information disclosed into the work on Better Communication in Financial Reporting, in particular into the projects on Targeted Standards-level Review of Disclosures and the Primary Financial Statements;
- continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
- conduct no other follow-up in response to findings from the PIR.

For more information

More information about the project is available on the IFRS Foundation website at https://www.ifrs.org/projects/work-plan/pir-of-ifrs-13-fair-value-measurement/.

Introduction

Why did the Board conduct the PIR of IFRS 13 *Fair Value Measurement*?

A PIR is a mandatory step in the due process for new IFRS Standards or major amendments to IFRS Standards. The IFRS Foundation Due Process Handbook states that a PIR 'normally begins after the new requirements have been applied internationally for two years, which is generally about 30 to 36 months after the effective date' and has two phases.

Phase 1 of a PIR involves identifying and assessing the matters to be examined, which are then the subject of a public consultation by the Board in the form of a Request for Information (RFI).

In Phase 2 of a PIR, the Board considers the comments it has received from the RFI along with the information it has gathered through other consultative activities.

The Board presents its findings and decides what steps to take, if any, as a result of the review.

About IFRS 13

The Board issued IFRS 13 in 2011.

IFRS 13 introduced:

- a revised and clearer definition of fair value;
- definitions of the key concepts in the fair value measurement framework;
- guidance on applying the concept of 'highest and best use' in determining the fair value of non-financial assets;
- explicit confirmation that the fair value of a liability reflects the effect of non-performance risk;
- a fair value hierarchy—categorisation of inputs to valuation techniques into three levels with highest priority given to unadjusted quoted prices (Level 1 inputs) and lowest priority to unobservable inputs (Level 3 inputs);
- guidance on valuation techniques used in measuring fair value;
- explicit guidance on offsetting positions in market or counterparty credit risks within a portfolio;
- guidance on measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased; and
- enhanced requirements to disclose information about fair value measurements.

When is fair value used in IFRS Standards?

IFRS 13 specifies *how* fair value is to be determined. It does not determine *when* an item is to be measured at fair value or *when* information about fair value is to be disclosed.

Individual IFRS Standards determine *when* fair value is to be used. Fair value is used as:

- the required measurement basis for some assets and liabilities;
- an optional measurement basis for some assets and liabilities;
- a measurement ceiling for some assets—it is not used directly as a measurement, but the measurement used cannot exceed fair value (or an amount based on fair value); and
- a measurement basis for disclosure for some assets whose carrying amount is determined on a cost basis.

These uses are summarised in the table in Appendix A, which also summarises when the disclosure requirements in IFRS 13 apply.

Introduction continued...

The work on IFRS 13 since it was issued

IFRS 13 was issued in 2011 and became effective for annual periods beginning on or after 1 January 2013.

IFRS Interpretations Committee Agenda Decisions

- IAS 41 *Agriculture* and IFRS 13—Valuation of biological assets using a residual method (2013)
- IFRS 13—The fair value hierarchy when third-party consensus prices are used (2014)

Board projects

- Unit of account and Level 1 inputs—the Board published an Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* in 2014. After reviewing the responses, the Board decided not to proceed with the proposals made in the Exposure Draft (2013–2016)

Annual improvements

- Short-term receivables and payables (2013)
- Scope of portfolio exception in paragraph 52 (2013)

Education materials

- *Measuring the fair value of unquoted equity instruments within the scope of IFRS 9* Financial Instruments (2012)

For more information on how the IFRS Foundation supports implementation of IFRS Standards, see the supporting implementation section of the IFRS Foundation website: https://www.ifrs.org/supporting-implementation/.

Summary of the findings and next steps

The Board analysed the information gathered and assessed whether the Standard is working as intended, in particular whether:

- the information required by IFRS 13 is useful to users of financial statements;
- areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and
- 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.

The Board concluded that IFRS 13 is working as intended.

Areas of focus in the IFRS 13 PIR

On the basis of the feedback in Phase 1 of the PIR, the Board focused on the following matters in Phase 2, including the Request for Information:

- the usefulness of information disclosed about fair value measurements—to gain a deeper understanding of both users' and preparers' perspectives on the usefulness and costs of fair value measurement disclosures;
- whether to prioritise Level 1 inputs or the unit of account—to further assess the extent and effect of the issue as well as to examine current practice;
- application of the concept of the highest and best use when measuring the fair value of non-financial assets—to better understand the challenges of applying this concept and decide whether further support could be helpful; and
- application of judgement in specific areas—to assess the challenges of making judgements and decide whether further support could be helpful.

Usefulness of information about fair value measurements

Users of financial statements have said that IFRS 13 requires disclosure of useful information that helps them understand valuation techniques and inputs used, judgements made in arriving at fair value measurements and the effect of those measurements on financial performance.

Users identified the following information provided about fair value measurements as particularly useful:

- information about the levels of the fair value hierarchy into which the measurements are categorised;
- information about valuation techniques and inputs used; and
- quantitative information about significant unobservable inputs.

Users provided suggestions that they said would further increase the usefulness of the information entities provide to comply with the disclosure requirements in IFRS 13. The suggestions focused on improving disaggregation and making information more entity-specific.

Summary of the findings and next steps continued...

Implementation challenges and inconsistent application

Some stakeholders reported implementation challenges in the areas of focus identified on page 6. These challenges can arise:

- in exercising judgement to assess whether a market is active, and whether an input is significant and observable. Such challenges can lead to inconsistent classification within the fair value hierarchy. Inconsistent assessment of whether a market is active can also lead to inconsistent fair value measurements because Level 1 inputs are used without adjustments, whereas Level 2 inputs can be adjusted.
- when the unit of account for the fair value measurement differs from the unit of account for which Level 1 inputs are available (often called the 'PxQ issue'). Any inconsistent application in this area can lead to significant differences in fair value measurement. Nevertheless, these challenges occur rarely. In practice it seems that priority is usually given to Level 1 inputs regardless of the unit of account.
- in applying the concept of the highest and best use. It was reported that most assessments result in a conclusion that current use is also the highest and best use.
- in determining the fair value of biological assets and unquoted equity instruments. Those challenges can sometimes result in inconsistent application of requirements.

Unexpected costs

The PIR found that some requirements in IFRS 13 are costly to implement. Nevertheless, the Board was aware of those costs at the time it issued IFRS 13.

Stakeholders identified two disclosures about Level 3 measurements as the costliest to prepare:

- the reconciliation showing changes in Level 3 fair value measurements; and
- the quantitative analysis of the sensitivity of Level 3 measurements to reasonably possible changes in significant unobservable inputs as of the measurement date (required for financial instruments).

In its Basis for Conclusions on IFRS 13, the Board indicated that users of financial statements support disclosure of the reconciliation because it allows them to make more informed judgements and segregate the effects of those fair value measurements that are inherently subjective. In addition, the Basis for Conclusions reports the Board's conclusion that information about the sensitivities of fair value measurements to the main valuation assumptions provides users of financial statements with a sense of the potential variability of the measurement as of the reporting date. Consequently, the Board concluded that the required disclosures of a reconciliation and of a quantative sensitivity analysis provides users of financial statements with benefits that outweigh the costs.

Summary of the findings and next steps continued...

Next steps

The Board decided to:

- feed the PIR findings regarding the usefulness of disclosures into the Board's work on Better Communication in Financial Reporting, in particular, into the Targeted Standards-level Review of Disclosures and the Primary Financial Statements projects;
- continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing; and
- conduct no other follow-up activities in response to findings from the PIR.

The Board acknowledged that the Accounting Standards Advisory Forum and many other stakeholders have recommended that the Board works on clarifying the issue of interaction between the unit of account and Level 1 inputs. However, the Board decided to not carry out follow-up work in this area because it assessed that the costs of such work would exceed its benefits.

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 that it would be unlikely to be able to develop further useful and principle-based guidance.

Scope and evidence gathered

Phase 1—initial assessment and scoping

Phase 1 of the PIR of IFRS 13 consisted of an initial assessment of the issues that arose on the implementation of IFRS 13. This assessment was conducted in 2016 through a scoping review of available literature and educational materials and through consultation with stakeholders in almost 30 outreach meetings.[1] The Board considered this material and decided to focus the PIR on:

- the usefulness of disclosures about fair value measurements;
- whether to prioritise Level 1 inputs or the unit of account;
- application of the concept of the highest and best use when measuring the fair value of non-financial assets; and
- application of judgements required for fair value measurements.

In addition, the PIR explored whether there was a need for education materials on measuring the fair value of biological assets and unquoted equity instruments.

Phase 2—evidence gathering

The Board relied on three main sources of evidence during Phase 2 of the PIR of IFRS 13:

- public consultation through an RFI;
- outreach focused on users of financial statements; and
- an academic research review conducted by an external team of academics.[2]

Staff also carried out limited desk-based research, mostly reviewing fair value disclosure information captured in data aggregators' databases.

1 For further details, see Agenda Papers 7C and 7E from the January 2017 Board meeting.
2 For further details, see Agenda Papers 7B and 7C from the January 2018 Board meeting.

Scope and evidence gathered continued...

Public consultation through an RFI

In May 2017, the Board published an RFI for public comment, with a four-month comment period. The Board received 67 comment letters. Of those comment letters, 17 included a summary of research respondents had carried out in their own jurisdictions, including committee and outreach meetings, surveys and literature reviews.

Respondents represented various stakeholder types:

Type of respondent	Number of respondents	Percentage of respondents
Academics	3	4%
Accounting firms	8	12%
Preparers and industry organisations	25	38%
Professional accountancy bodies	4	6%
Regulators and government agencies	2	3%
Standard-setters	18	27%
Users of financial statements	4	6%
Valuation specialists	3	4%
Total	67	100%

Respondents provided evidence from across the world:

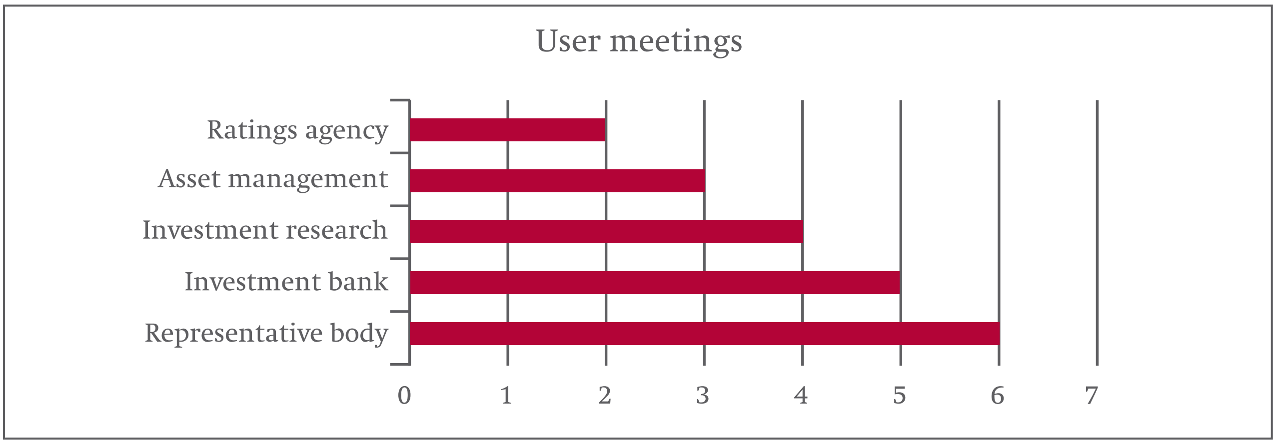
Geographical region	Number of respondents	Percentage of respondents
Global	10	15%
Africa	2	3%
Asia	21	32%
Europe	21	32%
Latin America and the Caribbean	5	7%
North America	5	7%
Oceania	3	4%
Total	67	100%

Scope and evidence gathered continued…

Outreach activities

Board members and staff took part in 20 outreach events, including discussion forums, conferences and individual meetings, focused on users of financial statements.

The meetings included various users of financial statements, as follows:



Review of academic research

Academic research was conducted by a team of external academics commissioned by the Board, who searched the main databases (Google Scholar, ProQuest, ScienceDirect, and EBSCO Business Complete) and examined unpublished manuscripts made public by their authors in the last two years, using a set of key words based on PIR focus areas. All the literature searches were done in the second half of July and the first half of September 2017.

The academic research identified 55 studies (of which 36 were published in academic journals and 19 unpublished) that relate to areas of focus in the PIR.

Staff research

The staff supplemented the academic literature review and outreach activities, with the objective of obtaining information relating to PIR focus areas. All the staff research was desk-based, using AlphaSense, a subscription search engine used to search company financial reports, as well as other publications.

Board discussions

When did the Board discuss this project?[3]	
July–September 2016	Project commencement
January 2017	Feedback from Phase 1, scope of PIR and decision to proceed to Phase 2
February 2017	Due process steps followed during Phase 1
January 2018	Feedback from RFI and other evidence
March 2018	Responding to the feedback

3 The papers discussed, and the recording of each public meeting, are available on the project page of the website: http://www.ifrs.org/projects/work-plan/pir-of-ifrs-13-fair-value-measurement/.

Feedback Statement on the implementation of IFRS 13

Topic area	Messages received	Assessment
Usefulness of disclosures about fair value measurements	Almost all respondents to the RFI commented on the usefulness of disclosures about fair value measurements. Most respondents considered the information provided about Level 3 measurements to be useful although some disclosures were seen as more useful than others and various views were expressed on the usefulness of quantitative sensitivity analysis and on the reconciliation from the opening balance to the closing balance. In general, users found the disclosures useful, whereas preparers doubted whether the benefits of some disclosures exceed the cost of their preparation. Most respondents indicated that the most useful disclosures about Level 3 measurements were disclosures about valuation techniques and inputs, quantitative disclosures about significant unobservable inputs for financial instruments, and disclosures about the levels of the fair value hierarchy into which measurements were classified. Most respondents to the question on the effect of aggregation and generic information said information is less useful if it is too aggregated or if it is only generic and not entity-specific. Almost all those respondents discussed aggregation; some provided comments on generic information as well. Users said generic information is sometimes useful too, to confirm their expectations. Some respondents mentioned other factors affecting the usefulness of information disclosed. Most of those respondents discussed what is sometimes called a 'tick-box' approach to providing disclosures, meaning that all required disclosures are provided, even if the information is not material—and hence is not useful. Some stated that they expect the Board's Practice Statement 2 *Making Materiality Judgements*, issued in 2017, to help resolve this problem.	The Board acknowledged that, although disclosures relating to fair value measurements are useful to users of financial statements (particularly for Level 3 measurements), there might be scope for improvement. The Board will use the findings from the PIR in the following parts of its work on Better Communication in Financial Reporting: • the project on Primary Financial Statements; and • the project on Targeted Standards-level Review of Disclosures. The project on Primary Financial Statements will consider issues on disaggregation identified by the PIR. The standards-level review of disclosures will review disclosure requirements in two IFRS Standards, including IFRS 13. For the latest update on the progress of the work on Better Communication, please visit the website: https://www.ifrs.org/projects/better-communication/

Feedback Statement on the implementation of IFRS 13 continued...

<table>
<tr><th>Topic area</th><th>Messages received</th><th>Assessment</th></tr>
<tr><td>Usefulness of disclosures about fair value measurements
continued ...</td><td>Many respondents provided suggestions on how to make information disclosed about fair value measurements more useful. Suggestions came from both those who thought disclosures were already useful and those who did not and came from all stakeholder types, including users of financial statements. The suggestions included:
• provide more guidance and examples to promote more appropriate aggregation, discourage disclosure of immaterial information, and help with some individual disclosures relating to Level 3 assets and liabilities;
• use the work that will be done on the standards-level review of disclosures; and
• remove some of the requirements relating to disclosures about sensitivity analysis and reconciliation that some regard as onerous.
Most respondents with experience of preparing the disclosures for assets and liabilities measured within Level 3 of the fair value hierarchy said these disclosures were costly to prepare. Many of those identified disclosures that were particularly costly to prepare (such as the reconciliation). A few said the main cost driver was additional fees incurred for valuation and audit.
Respondents expressed mixed views on whether additional disclosures would be useful. Many respondents stated that the current disclosure requirements were comprehensive and resulted in disclosure of useful information.
Many other respondents however, in particular users of financial statements, said that additional disclosures would be useful. Their suggestions for additional disclosures included:
• explanation of assumptions;
• improvements to disclosures about inputs and sensitivity analysis;
• more information about Level 2 measurements;
• information about use of valuation specialists and valuation standards;
• expanding the scope of disclosures to include non-recurring measurements;
• an entity’s policy for determining whether a market is active; and
• the primary valuation technique used.</td><td></td></tr>
</table>

Feedback Statement on the implementation of IFRS 13 continued...

<table>
<tr><th>Topic area</th><th>Messages received</th><th>Assessment</th></tr>
<tr><td>Prioritising Level 1 inputs or the unit of account</td><td>Most respondents commented on the unit of account. A majority said the unit of account issue as described in the RFI did not arise for them because:
• there are no Level 1 inputs that could be used in the measurement (for example shares of subsidiaries tested for impairment as a single investment or as a part of a cash-generating unit are usually not quoted in an active market); or
• investments, even if quoted, are not measured at fair value (for example if investments in associates and joint ventures are measured using the equity method).
However, many respondents said that although the issue does not occur frequently, it can have a material effect when it occurs.
Some respondents provided further comments, and mostly:
• referred to the Board's 2014 Exposure Draft on this issue and to their comment letters on it. They stated that the measurement should be for the investment as a whole, adjusting Level 1 inputs for factors including value of control, value of synergies, and market liquidity, as applicable.
• urged the Board to clarify this aspect of the Standard and provide application guidance to ensure consistency of application.
This feedback differs from the feedback the Board received in outreach with users of financial statements, most of whom supported measurement on the basis of unadjusted Level 1 inputs (ie PxQ), because:
• it is verifiable; and
• in the view of some, more faithfully represents the fair value of the investment.
A few users said during outreach meetings that they supported measuring the fair value for the unit of account as a whole, if the entity explains any difference between the resulting measurement and PxQ.</td><td>Many stakeholders, including members of the Accounting Standards Advisory Forum, expressed a view that the Board should clarify how IFRS 13 deals with this issue. However, the Board concluded that the costs of working on this issue would exceed the benefits of doing so because:
• the Board's previous significant work on the topic and the PIR suggest the issue is narrow and affects only a limited population of entities.
• users have not expressed major concerns with reporting in practice, although they would like better transparency.
• there are differences in views between preparers and users, meaning any follow-up work would be likely to require significant resource. Thus, this project may be possible only as part of a major amendment to IFRS 13 or other IFRS Standards.
For these reasons the Board decided not to conduct any follow-up work on this issue.</td></tr>
</table>

Feedback Statement on the implementation of IFRS 13 continued...

Topic area	Messages received	Assessment
Application of the concept of highest and best use when measuring the fair value of non-financial assets	Many respondents commented on the application of the highest and best use (HBU) concept, with most saying they had found it challenging to apply. They said that most challenges arise when assessing whether an alternative use is legally permissible. Many respondents also commented that they disagreed with the concept of HBU because it did not reflect the entity's business model. Some respondents commented that the application of HBU was not challenging because, in their experience, the current use of an asset is typically also its HBU. A few respondents identified circumstances when the HBU of an asset differs from its current use, while noting that such circumstances are not common. A few respondents discussed the use of the residual method (when the fair value of an asset is determined as the difference between the fair value of a group of assets and the fair value of other assets in the group) and said they found it can result in understatement of the value of the asset and subsequent understatement of the cost of sales when the asset, or inventories produced using the asset, is sold. Respondents had mixed views on whether there is diversity in the application of the HBU concept. Some users of financial statements that provided feedback during outreach meetings said they were generally satisfied with the concept of the HBU and its application.	The Board concluded that there was insufficient evidence of inconsistent application of requirements and that it is doubtful whether supporting material would be helpful in the situations when the application of the HBU is challenging. For these reasons, the Board decided not to develop supporting materials in this area.

Feedback Statement on the implementation of IFRS 13 continued...

Topic area	Messages received	Assessment
Application of judgement required for fair value measurement	Many respondents discussed application of judgement. Most of them found it challenging to assess whether a market is active and whether an unobservable input is significant. They asked the Board to provide further guidance on these assessments. The respondents mostly referred to assessments relating to financial instruments, with a few comments relating to property. A few respondents said that, although the assessments are challenging, additional guidance would not be helpful and that the Standard should remain principle-based. A large majority of those who said the assessments were not challenging stated this was because they either had developed internal guidance or used industry-level guidance. Some respondents said preparers have an incentive to classify items within Level 2 of the hierarchy rather than Level 3, because disclosure requirements are more extensive for Level 3 measurements.	The Board decided not to develop additional guidance on application of judgement, because: • the requirements are principle-based, and there will always be a need for exercise of judgement in making these assessments. • the challenges raised are detailed valuation assessments and an accounting standard-setter may not be best placed to provide guidance in this area. • there is evidence of practice having developed guidance to aid these assessments. Those aids are used by some and promote consistent application. The Board concluded it would be unlikely to be able to develop further useful and principle-based guidance.
Education about measuring the fair value of biological assets	Some respondents to the RFI had experience with biological assets. Most of them said fair value measurement of biological assets was challenging, with many asking for additional guidance on applying IAS 41 or for changes to IAS 41. Most respondents to the question said measuring biological assets at fair value was challenging when there is no active market, with immature biological assets often mentioned as an example. Some specific immature biological assets mentioned in the letters included: fruit, fish, palm oil, tea leaves and crops such as wheat or corn. Although many respondents to this question asked for additional help, they expressed different views on what type of help was needed. Some questioned whether providing that help is a job for the Board or for the valuation profession.	The Board concluded that, although there might be inconsistent application in fair value measurement of biological assets, detailed application questions are best addressed by the valuation profession, and not by accounting standard-setters. The International Valuation Standards Council is looking at how it can help address this issue.

Feedback Statement on the implementation of IFRS 13 continued...

Topic area	Messages received	Assessment
Education about measuring the fair value of unquoted equity instruments	Most respondents to the RFI did not respond to the questions on unquoted equity instruments or said they had no experience in this area. Of those that did respond, most said they were familiar with the education material *Unquoted equity instruments within the scope of IFRS 9* Financial Instruments (available on the IFRS Foundation website: https://www.ifrs.org/-/media/feature/supporting-implementation/ifrs-13/education-ifrs-13-eng.pdf). Some of those respondents noted they were also using guidance prepared by industry groups, with most quoting the International Private Equity and Venture Capital Valuation Guidelines. Many of those who responded to the questions said additional guidance was needed. Those respondents included several accounting firms, preparers, standard-setters and a user. Those respondents provided examples of the areas in which guidance was most sought, including valuation of early stage entities, and determining cost of capital and various premiums and discounts as well as more guidance on restrictions. Some respondents, including several standard-setters and preparers, said additional guidance was not needed. Some respondents, including standard-setters and preparers, said that the valuation profession should develop any additional guidance, and not the Board.	The Board concluded that there is no evidence of inconsistent application and thus no need for follow-up on this topic. Some stakeholders have found the IFRS Foundation education material on this topic useful and many also said they were using practice guides prepared by other organisations.
Effects	Most respondents commented on the effects of IFRS 13. Most respondents stated that the ability to assess future cash flows as well as comparability of financial statements had increased. Some respondents indicated that comparability over time improved but there was no improvement in comparability between different industries. Many respondents stated that IFRS 13 had increased compliance costs but some respondents indicated that the benefits outweighed the cost. Almost all respondents stated that maintaining convergence with US Generally Accepted Accounting Principles was important to them and that this convergence is a main driver of the increased comparability globally.	The Board noted the feedback received on the effects of IFRS 13 and on convergence, and discussed the feedback with the US Financial Accounting Standards Board (the FASB). The discussion confirmed that through the PIR, the Board has heard about all the issues the FASB identified.

Feedback Statement on the implementation of IFRS 13 continued...

Topic area	Messages received	Assessment
Other matters	Other matters mentioned by some respondents, and not covered by specific questions in the RFI, included: • some respondents reported a perception that the fair value hierarchy implies that information about items on Level 1 or Level 2 is always more relevant to users than information about items on Level 3. They indicated that this perception puts pressure on classification. They also said that this perception can be mistaken, as evidenced by academic research. • some respondents stated that the requirements for fair value disclosures for financial instruments in interim reports are costly; the respondents also questioned the usefulness of this information. • a few respondents referred to diversity in practice with respect to valuation adjustments in measurement of derivative financial instruments. • a few respondents asked the Board to reconsider accounting for a blockage factor. IFRS 13 does not permit a blockage factor to be reflected in fair value measurement because that factor reflects the size of the entity's holding and is not a characteristic of the asset or liability that is measured. • a few respondents indicated that there are issues in practice in assessing whether the transaction price equals fair value and whether any day-one gains or losses are to be recognised in profit or loss immediately.	The Board did not think the feedback received on these topics suggested there were major issues for the Board to address at present.

Summary of academic literature review

The academic review identified 55 studies (of which 36 published in academic journals and 19 were unpublished) that relate to areas of focus in the PIR. The list of studies reviewed is available in a full report[4] discussed at the January 2018 IASB meeting. Three key points arise from the review of prior research:

- the disclosure of the fair value hierarchy underlying fair value measurements (as opposed to a situation of no disclosure) is beneficial to capital market participants such as investors and financial analysts. It allows them to be more precise in their valuation of an entity and in the forecasting of its future earnings.
- regarding specific fair value levels, the ranking implied in the hierarchy (ie Level 1 > Level 2 > Level 3 in terms of relevance or faithful representation) does not appear to always hold. Some studies provide evidence that is consistent with value relevance, informativeness and reliability being higher for Level 1 (Level 2) vs. Levels 2 and 3 (Level 3). However, such evidence is conditional upon the liquidity/riskiness of assets being measured and their complexity, as well as upon the uncertainty surrounding the measurement process and market conditions. Hence, disclosures need to be evaluated with other contextual information.
- depending upon managers' incentives, including the governance to which they are subject, managers will take advantage of their measurement discretion to either inform financial statements users (and thus increase the quality of reporting) or to deceive them (eg to achieve some earnings targets).

In this regard, it is worth mentioning that no paper actually discusses and analyses the process by which entities arrrive at fair value estimates. Academic research suggests that such a process is deemed important by market participants, but research insights are limited by what is currently being voluntarily disclosed. Investors may need a better understanding of the estimation process, which will allow them to adjust their reliance on fair value estimates.

4 The report is included in the Agenda Paper 7C from the January 2018 Board meeting.

Appendix A—How fair value is used in IFRS Standards

Main uses of fair value in IFRS Standards and disclosure requirements by IFRS 13			
IFRS Standard	How is fair value used?	Fair value measurement?	IFRS 13 disclosure requirements apply?
IFRS 3 *Business Combinations*	**Required**, with some exceptions	Yes	No[5]
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Ceiling**, required if fair value less costs to sell is lower than the carrying amount	Yes	Yes
IFRS 9 *Financial Instruments*	**Required**, depending on the business model and the instrument	Yes	Yes[6]
IAS 16 *Property, Plant and Equipment*	**Optional**, accounting policy choice	Yes	Yes
IAS 19 *Employee Benefits*	**Required**, for pension plan assets only	Yes	No[5]
IAS 36 *Impairment of Assets*	**Ceiling**, required if fair value less costs of disposal is lower than the carrying amount and higher than value in use	Yes	No[7]
IAS 38 *Intangible Assets*	**Optional**, accounting policy choice if an active market exists for the asset	Yes[8]	Yes
IAS 40 *Investment Property*	**Optional**, accounting policy choice	Yes	Yes[6]
IAS 41 *Agriculture*	**Required**, fair value less costs to sell for most biological assets	Yes	Yes

5 These IFRS Standards have bespoke disclosure requirements for assets/liabilities they require to be measured at fair value.
6 Fair value measurement disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40).
7 IAS 36 has bespoke disclosure requirements for recoverable amounts determined as fair value less costs of disposal.
8 For intangible assets to be carried at fair value, IAS 38 requires that their fair value is determined by reference to an active market. Paragraph 78 of IAS 38 states that it is uncommon for an active market to exist for an intangible asset.

Appendix B—Timeline for the Post-implementation Review of IFRS 13

September–December 2016

Initial consultation with stakeholders.

January 2017

The Board agreed that the scope of the PIR would be the following focus areas:

(a) effectiveness of disclosures about fair value measurements;

(b) prioritising Level 1 inputs or the unit of account;

(c) application of the concept of the highest and best use when measuring the fair value of non-financial assets; and

(d) application of judgement required for fair value measurement.

In addition, the PIR would explore the need for education on measuring the fair value of biological assets and unquoted equity instruments.

May 2017

RFI published.

February–December 2017

Extensive and focused consultation with stakeholders and a review of academic literature.

September 2017

RFI comment letter deadline—67 comment letters received.

January 2018

Summary of feedback received, staff research and review of academic literature presented to the Board.

March 2018

Assessment of the findings from the PIR discussed with the Board. Decision on follow-up based on the findings.

December 2018

The Board published its Project Report and Feedback Statement.

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