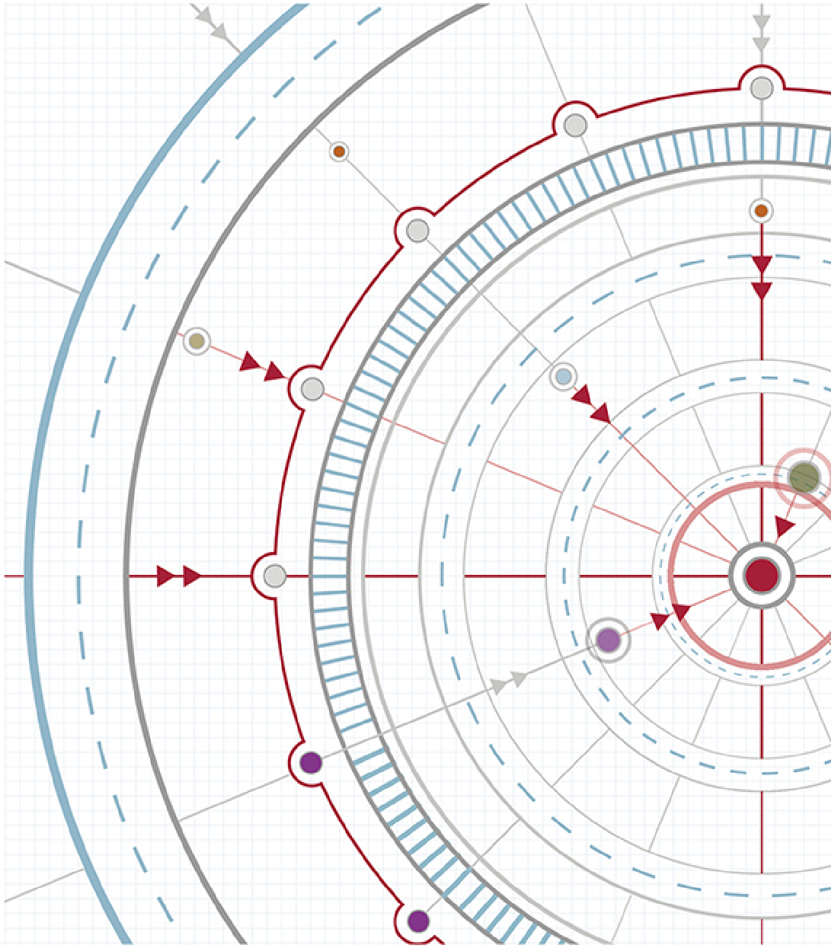

Post-implementation Review of IFRS 13 *Fair Value Measurement*

Project Update

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Content

Background

Role of Post-implementation Reviews (PIR) in developing IFRS Standards

- After major standards have been applied internationally for at least two years, the IASB completes a PIR, to help assess whether a Standard is:
  - working as intended; and
  - providing useful information to users of financial statements.
- PIRs typically have two phases:
  - initial assessment (phase 1); and
  - further analysis of focus areas identified in phase 1 (phase 2).
- The IASB can take several steps following a PIR including: standard-setting, education, further research or no further steps.
- PIR projects end with the publication of a Project Summary and Feedback Statement.

Background on IFRS 13

- IFRS 13 is the Fair Value Measurement Standard and provides the following:
  - single source of measurement guidance,
  - clear measurement objective, and
  - consistent and transparent disclosures about fair value.
- IFRS 13 applies when another IFRS Standard requires or permits fair value measurements (see slide 8).
- Converged Standard with US GAAP Topic 820 *Fair Value Measurement*

Timeline of IFRS 13 compared to Topic 820

FASB

Added fair value measurement project to the agenda
2003

Issued SFAS 157 *Fair Value Measurement*
2006

Issued ASU *Fair Value Measurement and Disclosures (Topic 820)*
2010

Project was completed and Topic 820 was issued and effective
2011

FAF completed PIR on Topic 820
2014

Issued Proposed ASU on Topic 820 - Disclosure Framework
2015

2009
MoU signed between the FASB and IASB and joint work on the topic started

IASB

2005
Added to the Board's agenda

2008
Board issued an ED on fair value measurement

2010
Issued an ED on the *Measurement Uncertainty Analysis Disclosure**

2011
Project completed and IFRS 13 was issued

2013
IFRS 13 became effective

2016-2018
PIR of IFRS 13

IFRS

* The IASB did not proceed with the ED proposals in the final Standard.

Differences between IFRS 13 and Topic 820

The Standards are substantially converged	
IFRS 13	**Topic 820***
Requires a narrative description of sensitivity analysis for Level 3 fair value measurements, as well as a quantitative sensitivity analysis for financial instruments that are measured at fair value and categorised within Level 3 of the fair value hierarchy.	Requires a narrative description of sensitivity analysis for Level 3 fair value measurements.
States 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.	Describes the fair value of a deposit liability as the amount payable on demand at the reporting date.
Does not have requirements specific to investment companies.	Practical expedient for using unadjusted net asset value for investments held by an investment company.

* Topic 820 has different disclosure requirements for non-public entities.

When is IFRS 13 used?

IFRS 13 Fair Value Measurement applies when another IFRS Standard…

requires fair value measurement for some or all items within its scope, with or without IFRS 13 disclosures

- IFRS 3 *Business Combinations**
- IFRS 9 *Financial Instruments***
- IAS 36 *Impairment**, **
- IAS 19 *Employee Benefits**, **
- IAS 41 *Agriculture*
- IFRS 5 *Assets Held for Sale***

permits fair value measurement, with IFRS 13 disclosures required

- IAS 16 *Property, Plant and Equipment*
- IAS 38 *Intangible Assets*
- IAS 40 *Investment Property*

requires fair value information for items measured at cost

- IFRS 9 *Financial Instruments*
- IAS 40 *Investment Property*

* IFRS 13 disclosures are not required.

** Applied to some items in the scope of the Standard or to items in specific circumstances.

IFRS Foundation

PIR of IFRS 13

PIR of IFRS 13 *Fair Value Measurement*

Phase 1

- Outreach with 30 stakeholders
- Scoping review of literature
- Staff research including a review of initial issues in the Standard

Phase 2

- Request for Information (RFI) – 67 comment letters received
- Outreach with 24 stakeholders, mostly users
- External academic literature e review
- Staff research

Focus areas of phase 2 of the PIR

Focus on usefulness of disclosures

Considered some measurement aspects:

- The unit of account and fair value of quoted investments: PxQ
- Application of judgements
- Application of highest and best use (HBU) of non-financial assets

Also, researched the challenges in measuring the fair value of biological assets and unquoted equities.

Key messages received

IFRS 13 is working well in practice and has improved financial reporting

Disclosures relating to Level 3 fair value measurements – aggregation/disaggregation may affect usefulness, some may be misunderstood and some are costly to prepare

Unit of account (PxQ) – continued differences in views between users and preparers although issue not pervasive in practice

Usefulness of disclosures – feedback

Most useful disclosures

- Fair value hierarchy
- Valuation techniques
- Valuation processes
- Significant unobservable inputs
- Transfers between Levels, particularly Level 2 and Level 3

Improvements suggested

- Information about unrealised gains and losses relating to Level 1 and Level 2 measurements
- Rename sensitivity analysis to measurement uncertainty
- Remove the requirement for reconciliation of Level 3 measurements
- Include weighted averages and/or remove outliers in disclosures about inputs to valuation techniques

Usefulness of disclosures (continued)

Factors affecting usefulness of information disclosed

- Some information is generic but useful (eg description of valuation techniques)
- Aggregation of dissimilar instruments or instruments subject to different risks
- Significant proportion of disclosures in category labelled as ‘other’
- Not enough entity-specific information
- The way disclosures are drafted promotes checklist approach
- Comparability limited by differences in methodologies

Unit of account and fair value measurements – current practice

PxQ issue does not arise for most respondents. Rarely arises for others, except for investments by investment entities and for venture capital organisations.

When it arises, stakeholders say there are material differences between PxQ and valuation using a method such as discounted cash flows.

Regulators note the financial statements do not make it clear whether PxQ was applied and, if adjusted, how.

Unit of account and fair value measurements–feedback on accounting

Differences in views on whether to prioritise Level 1 inputs or the unit of account for measurements of quoted instruments when unit of account does not correspond to Level 1 input available

Users want an unbiased measurement and prefer using Level 1 inputs even when unit of account is different. Otherwise want an explanation of the difference from PxQ

Other stakeholders, particularly preparers, want Level 1 inputs to be adjusted to reflect the estimates of premiums or discounts

Application of judgements – feedback

When is a market active?	When is an input significant and unobservable?
How much is sufficient frequency and volume? How recent is ‘recent’? How relevant is ‘relevant’? How wide bid/ask spread?	Quantitative or qualitative assessment? A point in time or over time? Use of third-party prices or brokers? Treatment of adjustments to observable inputs
Internal or industry specific guidance is available and used by some	Specific methods have been adopted for this assessment and materiality considered

IFRS

Highest and best use for non-financial assets – feedback

The application of the HBU concept can be challenging…

What is ‘legally permissible’?

How much evidence is required?

Difficulty understanding the concept

Challenges pronounced in environments with unclear legal rules.
In practice the assessment usually concludes that the current use is the HBU.

Measurement of biological assets – feedback

Measurement of biological assets at fair value can be challenging for preparers

Difficulty with the measurement of immature assets, including point of recognition

Difficulty with the measurement of inputs including: quality, quantity, yield and stage of growth of biological assets

Reliability assessment

Diversity in practice

Valuation experts say they have appropriate valuation techniques and ongoing application usually not challenging. A few expect divergence to decline as valuation practice develops.

Measurement of unquoted equities – feedback

Reminder: *Unquoted equity instruments within the scope of IFRS 9 Financial Instruments:* educational material issued in 2012.

Measurement of unquoted equities at fair value can be challenging…

- Significant differences in results of valuation methods
- Application of premiums and discounts
- Valuation of early-stage equities
- Dealing with complex capital structure
- Details of cost of capital estimates

Stakeholders are familiar with 2012 education material.

Stakeholders refer to widely used industry valuation guides, such as International Private Equity and Venture Capital Valuation Guidelines.

Follow up and next steps

Overall assessment

IFRS 13 is working well in practice and has improved financial reporting.

Follow up to the PIR of IFRS 13

Feed the PIR findings regarding the usefulness of disclosures into the work on Better Communication in Financial Reporting.

Continue liaising with the valuation profession, monitor new developments in practice and promote knowledge development and sharing.

Conduct no other follow-up activities as a result of findings from the PIR.

Follow up in Better Communication in Financial Reporting

Improvement to consider	How could the improvement be achieved?	How it fits with Better Communication in Financial Reporting?
Appropriate disaggregation: information about the fair value measurement of assets and liabilities with different characteristics disaggregated.	More guidance on how to disaggregate, and/or illustrative examples/case studies of good disaggregation.	The Primary Financial Statements project discusses principles of aggregation and disaggregation.
Improving consistency of what is presented within notes, for example for valuation techniques and inputs used.	Case studies of good disclosure or illustrative examples.	Principles of Disclosures project (POD) issued the Better Communication: *Making Disclosures More Meaningful* case studies in October 2017. The POD team have recommended that the Board review the practical effect of these case studies, and other related documents, in Q2 2019. New case studies could also be developed.
Ensuring entity-specific information is included, for example on how entity determines whether there is an active market or a significant unobservable input	Case studies of good disclosure or illustrative examples.	
Use of tables and better placement.	Case studies of good disclosure or illustrative examples.	
Emphasising material information and omitting immaterial items.	IFRS Practice Statement 2 Making Materiality Judgements on materiality has useful examples that could help entities omit immaterial information.	It is too early to assess whether Practice Statement 2 *Making Materiality Judgements* will encourage improvements in this area.

Follow up in Better Communication in Financial Reporting (continued)

Improvement to consider	How could the improvement be achieved?	How it fits with Better Communication in Financial Reporting?
Requiring additional disclosures for Level 2 measurements; in particular disclosures about unrealised gains and losses recognised in profit or loss.	Amendment to IFRS 13.	The POD team have recommended that the Board undertake a standards-level review of disclosures and IFRS 13 could be chosen for that review.
Make it clear that quantitative sensitivity analysis is not a forward-looking disclosure about possible future changes but rather about measurement uncertainty at the measurement date.	Amendment to IFRS or non-authoritative supporting materials. Other communication material, for example an Investor Perspectives article.	
Follow-up on trend for voluntary disclosure of a quantitative sensitivity analysis for investment property measured at fair value.	If this information is useful to investors, a requirement could be added via amendment to IFRS 13.	

Next steps

- The Board has concluded work on PIR.
- The Board will publish a Project Summary and Feedback Statement in the second half of 2018, summarising the project's findings and planned follow-up.

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