
IASB[®] meeting

Date	May 2023
Project	Disclosure of deferred difference between fair value and transaction price (IFRS 7 IG)
Topic	Potential annual improvement
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Introduction

1. We have been informed about an inconsistency between paragraph 28 of IFRS 7 *Financial Instruments: Disclosures* and paragraph IG14 of its accompanying illustrative guidance in *Guidance on implementing IFRS 7*¹. The inconsistency arose when, upon the issuance of IFRS 13 *Fair Value Measurement* in May 2011, the International Accounting Standards Board (IASB) made a consequential amendment to paragraph 28 of IFRS 7 but made no corresponding amendments to paragraph IG14 of IFRS 7.
2. The IFRS Interpretations Committee (Committee) discussed this matter at its meeting in March 2023—see [Agenda Paper 6B](#) for that meeting.
3. The objective of this paper is:
 - (a) to provide the IASB with background on the matter and staff analysis, including consideration of the Committee's discussion; and

¹ For brevity, in this agenda paper, we refer to paragraphs in the *Guidance on implementing IFRS 7* as paragraphs of IFRS 7.

- (b) to ask the IASB whether it agrees with our recommendation to include a proposed amendment to paragraph IG14 of IFRS 7 in the next *Annual Improvements to IFRS Accounting Standards Cycle* (annual improvements).

Structure of this paper

- 4. This paper includes:
 - (a) [Background information](#);
 - (b) [Staff analysis](#), including consideration of the Committee’s discussion and transition requirements;
 - (c) [Staff recommendations and question for the IASB](#);
 - (d) [Appendix A—recommended proposed amendment to paragraph IG14 of IFRS 7](#); and
 - (e) [Appendix B—consequential amendment to paragraph 28 of IFRS 7 upon the issuance of IFRS 13](#).

Summary of staff recommendations

- 5. We recommend that the IASB:
 - (a) propose an amendment to paragraph IG14 of IFRS 7 to improve its consistency with paragraph 28 of IFRS 7; and
 - (b) include this proposed amendment in its next annual improvements cycle.

Background information

- 6. Paragraph B5.1.2A(b) of IFRS 9 *Financial Instruments* requires an entity to defer a difference between the fair value at initial recognition of a financial instrument and its transaction price if the fair value is not evidenced by a quoted price in an active market for an identical instrument or based on a valuation technique that uses only

data from observable markets. The entity recognises that deferred difference in profit or loss in subsequent periods only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the instrument. The requirements in paragraph B5.1.2A of IFRS 9 were previously in paragraph AG76 of IAS 39 *Financial Instruments: Recognition and Measurement* (as amended at October 2009).

7. The IASB issued IFRS 13 in May 2011 and made consequential amendments to several IFRS Accounting Standards, including to paragraph AG76 of IAS 39 (now paragraph B5.1.2A of IFRS 9) and paragraph 28 of IFRS 7. As a result of that amendment, paragraph 28 of IFRS 7 states:

In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the entity shall disclose by class of financial asset or financial liability:

- (a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9).
- (b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.

(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

8. Appendix B to this paper reproduces the consequential amendment to paragraph 28 of IFRS 7 upon the issuance of IFRS 13.

9. Paragraph IG14 of IFRS 7 illustrates some of the disclosure requirements in paragraph 28 of IFRS 7. Paragraph IG14 of IFRS 7 states, in part:

At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique. In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 *Financial Instruments* and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

...

10. The first two sentences of paragraph IG14 of IFRS 7 reflect prior wording in paragraph 28 of IFRS 7—that is, before paragraph 28 was amended by IFRS 13. As a result, some of the wording in paragraph IG14 of IFRS 7 is not consistent with wording in paragraph 28 of IFRS 7.

Question raised

11. The question raised is whether the IASB should amend paragraph IG14 of IFRS 7 to better align its wording with paragraph 28 of IFRS 7 and eliminate the inconsistency between the two paragraphs.

Staff analysis

12. The May 2011 consequential amendment to paragraph 28 of IFRS 7 updated that paragraph to align it with concepts and terminologies used in IFRS 13. Paragraph 28:
- (a) *before the consequential amendment*—required disclosure when there is ‘a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique’.
 - (b) *after the consequential amendment*—requires disclosure when an entity does not recognise a gain or loss on initial recognition (which, applying paragraph B5.1.2A of IFRS 9, is the difference between the fair value at initial recognition and the transaction price). This may occur because the ‘fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets’.
13. Furthermore, the consequential amendment added subparagraph 28(c) of IFRS 7 to require disclosure of ‘why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value’.

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14. The May 2011 consequential amendments made to paragraph 28 of IFRS 7 were not made to paragraph IG14 of IFRS 7². Therefore, there is an inconsistency between paragraph 28 of IFRS 7 and its illustrative guidance in paragraph IG14 of IFRS 7.
15. In our view, this matter can be efficiently resolved by amending paragraph IG14 of IFRS 7 to better align its wording with paragraph 28 of IFRS 7 (see Appendix A to this paper). Our proposed amendments would reflect in paragraph IG14 of IFRS 7 the requirements discussed in paragraph 12(b) of this paper, conform wording in paragraph IG14 with requirements in IFRS 9 and IFRS 13 and improve internal consistency within the example. We do not think it is necessary, and we do not recommend, to include amendments to paragraph IG14 of IFRS 7 to illustrate the disclosure requirement in subparagraph 28(c) of IFRS 7³ or to make other editorial (non-technical) changes to the illustrative example.

Does this matter meet the annual improvements criteria?

16. Paragraphs 6.10–6.13 of the [Due Process Handbook](#) include the criteria for annual improvements. To meet these criteria, the proposed solution would need to be limited to:
- (a) clarifying the wording in an Accounting Standard, which involves either replacing unclear wording in existing Accounting Standards or providing requirements where an absence of requirements is causing concern; or
 - (b) correcting relatively minor unintended consequences, oversights or conflicts between existing requirements.

² IFRS 9, as issued in July 2014, amended paragraph IG14 of IFRS 7 to update references to paragraphs in IFRS 9 and to make minor related changes.

³ At its [February 2023](#) meeting, the IASB tentatively decided to propose an amendment to paragraph IG1 of IFRS 7 to add a statement that the implementation guidance accompanying IFRS 7 does not illustrate all the requirements in IFRS 7.

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17. In our view, our proposed solution to amend paragraph IG14 of IFRS 7 (see Appendix A to this paper) meets these criteria and would efficiently resolve the matter. Such an amendment would improve consistency between paragraph 28 of IFRS 7 and its illustrative guidance in paragraph IG14 of IFRS 7. It would not propose a new (or change an existing) principle or requirement.
18. Although, strictly speaking, an amendment to the Guidance on implementing IFRS 7 may not be required—because such guidance accompanies, but is not part of, an IFRS Accounting Standard—we see benefit in removing the potential for confusion related to paragraph IG14 as described in this paper. We note that the IASB previously amended illustrative examples through annual improvements; Illustrative Example 13 accompanying IFRS 16 *Leases* was amended through [Annual Improvements to IFRS Standards 2018–2020](#). In addition, at its February 2023 meeting the IASB tentatively decided to propose an amendment to paragraph IG1 of IFRS 7 as part of annual improvements.

The Committee's discussion

19. The Committee discussed this potential annual improvement at its March 2023 meeting. All Committee members agreed, or did not disagree, with our analysis and preliminary views.
20. A few Committee members commented on the wording of the recommended proposed amendments to paragraph IG14 of IFRS 7 (see Appendix A to this paper). In particular:
- (a) one Committee member noted that the opening sentence of paragraph IG14 of IFRS 7 differs from that of paragraph 28 of IFRS 7 (see Appendix B to this paper) and asked whether both should instead fully align.
 - (b) one Committee member suggested adding the words '(ie a Level 2 input)' to the recommended proposed amendments to paragraph IG14 of IFRS 7 (suggested new text is underlined):

...and that fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor is based on a valuation technique that uses only data from observable markets (ie a Level 2 input).

Staff analysis of the Committee input

21. After considering the input of the Committee, we recommend that the IASB propose an amendment to paragraph IG14 of IFRS 7 as set out in Appendix A to this paper. We recommend no changes to the wording of the amendment in response to Committee members' suggestions because:
- (a) the opening sentences of paragraph IG14 of IFRS 7 and paragraph 28 of IFRS 7 were already worded differently before the consequential amendment to paragraph 28 of IFRS 7 was made. While we do not propose fully aligning the opening sentences of paragraph IG14 of IFRS 7 and paragraph 28 of IFRS 7, our recommended proposed amendment would nonetheless better align the wording of the two paragraphs.
 - (b) defining 'fair value ... based on a valuation technique that uses only data from observable markets' as a Level 2 input would go beyond the requirements set out in paragraph 28 of IFRS 7. The paragraph only states:

...nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9).
22. Because the proposed amendment is to non-authoritative material accompanying IFRS 7, there is no need for the IASB to consider transition.

Staff recommendations and question for the IASB

23. Based on our analysis in this agenda paper, we recommend the IASB, as part of its next annual improvements cycle, amend paragraph IG14 of IFRS 7 (see Appendix A to this agenda paper).

Question for the IASB

Does the IASB agree with our recommendations:

- a. to propose an amendment to paragraph IG14 of IFRS 7 to improve its consistency with paragraph 28 of IFRS 7; and
- b. to include this proposed amendment in its next annual improvements cycle?

Appendix A—recommended proposed amendment to paragraph IG14 of IFRS 7

- A1. Our proposed amendment to paragraph IG14 of IFRS 7 is set out below. New text is underlined and deleted text is struck through.

~~At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets. However, when, after initial recognition, an entity will use a valuation technique that incorporates data not obtained from observable markets, there may be a difference between the transaction price at initial recognition and the amount determined at initial recognition using that valuation technique.~~ In some cases, the transaction price of a financial instrument differs from its fair value at initial recognition, and that fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor is based on a valuation technique that uses only data from observable markets.

In these circumstances, the difference will be recognised in profit or loss in subsequent periods in accordance with IFRS 9 *Financial Instruments* and the entity's accounting policy. Such recognition reflects changes in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with some of the requirements in paragraph 28:

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price ~~is~~ is of CU15 million ~~is the fair value at initial recognition.~~

The entity determines that the transaction price does not represent the fair value of the financial assets at ~~After~~ initial recognition, The the entity applies will

~~apply~~ a valuation technique to measure the financial assets' fair value. This valuation technique uses inputs other than data from observable markets.

At initial recognition, the fair value of the financial assets measured using that same valuation technique ~~is~~ ~~would have resulted in an amount of~~ CU14 million, which differs from the transaction price ~~fair value~~ by CU1 million.

The entity has existing differences yet to be recognised in profit or loss of CU5 million at 1 January 20X1.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the ~~fair value at initial recognition (which, in accordance with IFRS 13 and IFRS 9, is generally the transaction price)~~ and the fair value measured ~~amount determined~~ at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IFRS 9, the fair value of an instrument at initial recognition ~~inception~~ is normally the transaction price. If the transaction price differs from the fair value measured ~~amount determined~~ at initial recognition ~~inception~~ using the valuation technique, that difference is [description of the entity's accounting policy].

The differences yet to be recognised in profit or loss are as follows:

	31 Dec X2	31 Dec X1
	CU million	CU million
Balance at beginning of year	5.3	5.0
New transactions	–	1.0
Amounts recognised in profit or loss during the year	(0.7)	(0.8)
Other increases	–	0.2
Other decreases	(0.1)	(0.1)
Balance at end of year	<u>4.5</u>	<u>5.3</u>

Appendix B—consequential amendment to paragraph 28 of IFRS 7 upon the issuance of IFRS 13

B1. The following table reproduces the consequential amendment made to paragraph 28 of IFRS 7 upon the issuance of IFRS 13. New text is underlined and deleted text is struck through.

Before the consequential amendment	Consequential amendment made ⁴	Current version
<p>If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at</p>	<p>If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74–AG79 of IAS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG76 of IAS 39 are met. It follows that there could be a difference between the fair value at</p>	<p>In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph B5.1.2A of IFRS 9). In such cases, the entity shall disclose</p>

⁴ In addition to this consequential amendment, upon the issuance of IFRS 9 *Financial Instruments* (Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39) in November 2013, references to paragraphs in IAS 39 were replaced with references to paragraphs in IFRS 9.

<p>initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument:</p> <p>(a) its accounting policy for recognising that difference in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price (see paragraph AG76A of IAS 39); and</p> <p>(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.</p>	<p>initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: <u>In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph AG76 of IAS 39). In such cases, the entity shall disclose by class of financial asset or financial liability:</u></p> <p>(a) its accounting policy for recognising <u>in profit or loss the</u> that difference</p>	<p>by class of financial asset or financial liability:</p> <p>(a) its accounting policy for recognising in profit or loss the difference between the fair value at initial recognition and the transaction price to reflect a change in factors (including time) that market participants would take into account when pricing the asset or liability (see paragraph B5.1.2A(b) of IFRS 9).</p> <p>(b) the aggregate difference yet to be recognised in profit or loss at the beginning and end of the period and a reconciliation of changes in the balance of this difference.</p>
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	<p><u>between the fair value at initial recognition and the transaction price in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price take into account when pricing the asset or liability (see paragraph AG76A AG76(b) of IAS 39).</u> and</p> <p>...</p> <p>(c) <u>why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.</u></p>	<p>(c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.</p>
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