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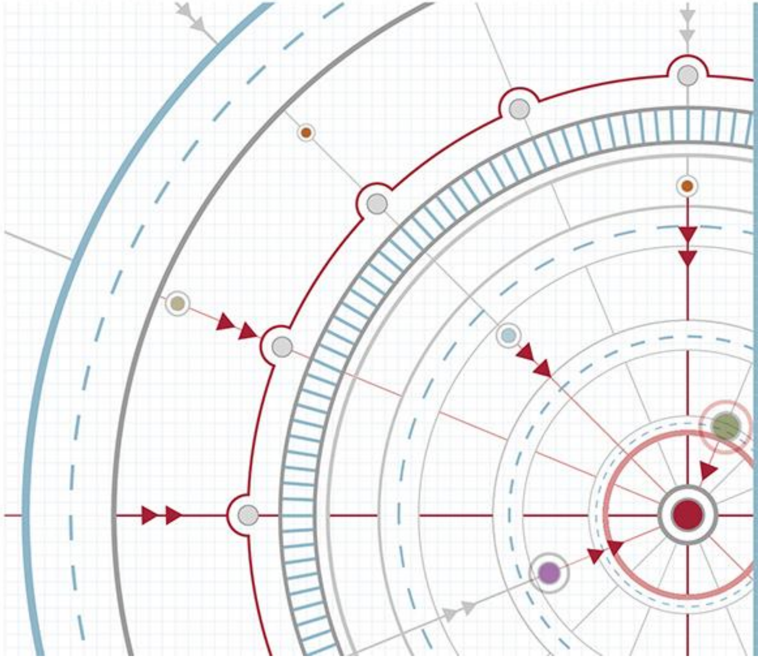

IFRS Interpretations Committee meeting

8 November 2016

Agenda Paper 12

IFRS 13 *Fair Value Measurement*

Post-implementation Review—Phase 1 outreach

The views expressed in this presentation are those of the presenter, not necessarily those of the International Accounting Standards Board (the Board) or IFRS Foundation.

Contents

Purpose of the meeting

- Part of phase 1 of the PIR and aims to help the Board identify any major issues that entities encountered when implementing the Standard.
- The slides:
  - provide you with information about the PIR of IFRS 13 *Fair Value Measurement*.
  - summarise the most significant issues the team has heard about so far
  - ask you to comment on the list of issues identified and describe any additional major issues which have made the implementation of IFRS 13 challenging.

Background—PIR

- The Board’s due process requires a review of new standards after they have been applied internationally for two years.
- The PIR involves:
  - an initial identification and assessment of the matters to be examined; and
  - a public consultation by the Board in the form of a Request for Information (RFI), including review of academic literature and other evidence gathering as appropriate.
- The PIR concludes with a Feedback Statement that presents the Board’s findings and sets out the steps it plans to take, if any, as a result of the review.

Background—scope of the PIR

- The Due Process Handbook requires that the PIR considers the issues that were important or contentious during the development of the Standard as well as any issues that have come to the attention of the Board after the Standard was published.

Background—why was IFRS 13 developed?

IAS 36	IAS 39/IFRS 9	IAS 40	IAS 41	Etc.

Topic 820 in US GAAP (*)

IFRS 13

- Single source of measurement guidance
- Clear measurement objective
- Consistent and transparent disclosures about fair value

(*): Topic 820 codified FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*.

Scope of the PIR of IFRS 13

- IFRS 13 applies when another IFRS Standard requires or permits fair value measurements (FVM) or disclosures about FVM.
- The requirements in IFRS 13 set out how to measure fair value and what information to disclose in relation to fair value.
- Only IFRS 13 requirements are under review—ie the *principles and methods* of *FVM* and *disclosures* about fair value, *not what* assets and liabilities should be measured at fair value and *when* to measure them, both of which are addressed in other Standards.

US GAAP PIR of Topic 820

- Topic 820 in US GAAP converged with IFRS 13
- The US Financial Accounting Foundation (FAF) completed its PIR of Topic 820 in 2014. Among its findings were:
  - Topic 820 met its objectives and provided decision-useful information to investors;
  - the benefits exceeded the costs; but
  - some stakeholders questioned the adequacy and completeness of disclosures and the Standard's relevance to certain types of entities.
- The FASB responded that it would address some points identified in the PIR in its disclosure-related projects and in its research on pensions.
- Project **Disclosure Framework—Disclosure Review: Fair Value Measurement** currently in progress

(*): Paragraphs BC237–238 of IFRS 13 describe the differences between IFRS 13 and Topic 820.

Interpretations Committee work on IFRS 13

- Agenda decision: May 2015 - Fair value hierarchy with third-party consensus prices are used;
- Issues referred to the IASB:
  - May 2013 The interaction between Level 1 inputs the portfolio exception; considered as a part of the IASB's unit of account project[1]. The project was later stopped by the IASB and awaiting findings from the PIR.
  - April 2012 Valuation of biological assets (Highest and best use). The project stopped and awaiting findings from the PIR. Noted the issue did not seem widespread.
- Annual improvements:
  - 2010-2012 short term receivables and payables
  - 2011-2013 scope of paragraph 52 (portfolio exception)

Note 1 The Board discussed this issue along with the interaction between the unit of account and the fair value measurement of quoted investments and quoted cash-generating units, the Unit of account project. The Board included an example illustrating the application of the portfolio exception in its Exposure Draft (ED) published in September 2014. The comments received on the example did not reveal significant diversity in practice. Accordingly, the Board decided that it was unnecessary to publish the proposed illustrative example in IFRS 13 as a separate document.

Summary of feedback received so far

- Several stakeholders said the standard is generally working well
- However, many stakeholders expressed concern about fair value disclosures. They questioned disclosure usefulness and quality of preparation, with disclosures often seen as boilerplate
- Several also mentioned issues already discussed by the Interpretations Committee and the IASB, in particular the unit of account (PxQ)

Questions for the Interpretations Committee members

- Is the feedback on IFRS 13 the staff have received so far consistent with your experience of implementation of IFRS 13?
- Are there any additional major issues which you have seen make the implementation of IFRS 13 challenging? If yes, please describe and categorise the issues you have come across—see next slide
- Do you think the issues brought to the staff's attention so far require further investigation? If so, do you have any specific suggestions?
- Do you have any comments or questions about the IFRS 13 PIR?

Categories of identified IFRS 13 issues

- which type of asset or liability (eg financial instrument related)?
- measurement or disclosure related?
- does the issue arise due to:
  - the requirements in IFRS 13, or
  - requirements that are missing from IFRS 13, or
  - the requirements in other IFRS Standards?
- is the issue unique to a particular industry or economic environment?

Appendix 1: Main uses of fair value in IFRS Standards

IFRS Standard	How is fair value used?	IFRS 13 measurement applies	IFRS 13 disclosures apply
IFRS 3 *Business Combinations*	**Required**, with some exceptions	Yes	No
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	**Threshold**, 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	Yes	Yes*
IAS 16 *Property, Plant and Equipment*	**Optional**, accounting policy choice	Yes	Yes
IAS 19 *Employee Benefits*	**Required**, for pension plan assets only	Yes	No
IAS 36 *Impairment of Assets*	**Threshold**, required if fair value less costs of disposal is lower than the carrying amount and higher than value in use	Yes	No
IAS 38 *Intangible Assets*	**Optional**, accounting policy choice	Yes	Yes
IAS 40 *Investment Property*	**Optional**, accounting policy choice	Yes	Yes*
IAS 41 *Agriculture*	**Required**, fair value less costs to sell	Yes	Yes

* FVM disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40).

IFRS

Appendix 2: Fair value disclosure requirements in IFRS 13

Disclosure requirements	Item measured at fair value						Item measured at cost, fair value disclosed		
	Recurring			Non-recurring					
	L1	L2	L3	L1	L2	L3	L1	L2	L3
Fair value at end of reporting period	✓	✓	✓	✓	✓	✓	✓	✓	✓
Reasons for the measurement				✓	✓	✓			
Level within fair value hierarchy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers between the levels in the hierarchy	✓	✓	✓						
Policy for determining when transfers between hierarchy have occurred	✓	✓	✓						
Description of valuation technique and inputs used		✓	✓		✓	✓		✓	✓
Changes to valuation technique and reasons		✓	✓		✓	✓		✓	✓
Quantitative information about significant unobservable inputs			✓			✓			
Reconciliation of opening and closing balance (including information on transfers in or out)			✓						
Unrealised gains/losses recognised in profit or loss			✓						
Description of valuation processes and policies			✓			✓			
Sensitivity to changes in unobservable inputs (narrative)			✓						
Sensitivity to reasonably possible change in assumptions (quantitative, for financial instruments only)			✓						
If highest and best use differs from current use, reasons why (non-financial assets only)	✓	✓	✓	✓	✓	✓	✓	✓	✓
If portfolio exception in paragraph 48 of the standard is applied (financial instruments only)	✓	✓	✓						

Recurring: IFRS Standards require or permit FVM at the end of each reporting period ie; FVM for financial instruments, property, plant & equipment, intangible assets, investment property and agricultural assets carried at fair value are recurring

Non-recurring: IFRS Standards require or permit FVM in particular circumstances ie:
Fair value measurement for assets held for sale and impaired assets are non-recurring

Contact us

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