

IFRS Taxonomy content

Common practice analysis— IFRS 13 *Fair Value Measurement*

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- To seek your **views on possible changes** to the IFRS Taxonomy content resulting from the common practice (CP) analysis of **IFRS 13 *Fair Value Measurement****
 - **Those slides** discuss modelling issues mostly related to the **sensitivity analysis**
 - The staff expects to bring the effect of the **CP analysis on the remaining IFRS 13 disclosure requirements at a future meeting**
- To **help identify areas where additional common practice analysis** may be useful

* Note: the possible changes are staff suggestions only. The changes will be reviewed by the IFRS Taxonomy Review Panel after considering your comments.

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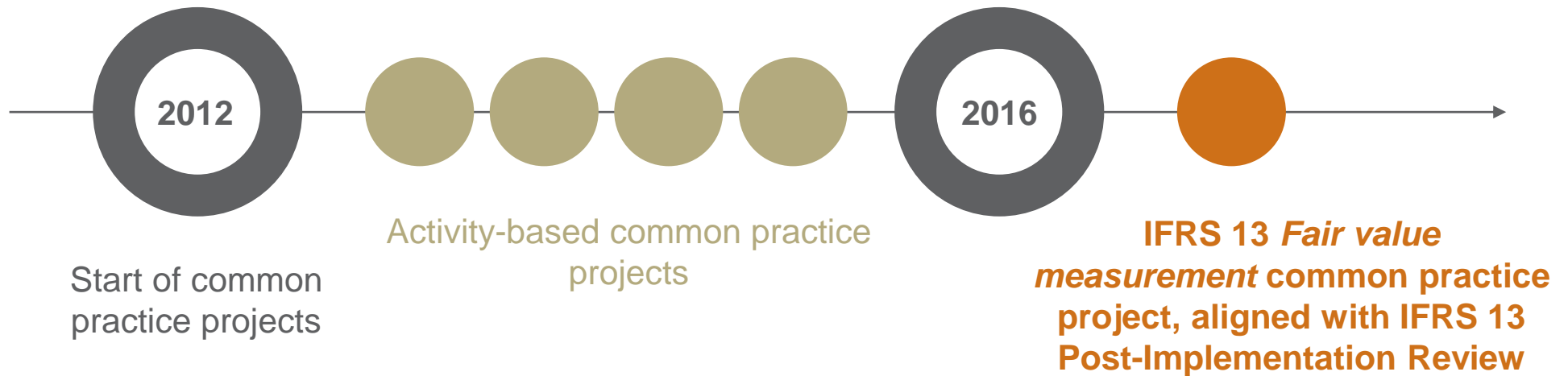
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Questions for ITCG members are on slides 23, 27 and 29

IFRS 13 CP—Background



- **IFRS 13 PIR conclusion:** In March 2018, the Board concluded that IFRS 13 is working as intended and no major changes are needed.

- To reflect the disaggregation of disclosures required by IFRS 13, the IFRS Taxonomy includes separate line items for each IFRS 13 disclosure for **assets**, **liabilities** and an **entity's own equity instruments**. For example:

Interest rate, significant unobservable inputs, assets

Interest rate, significant unobservable inputs, liabilities

Interest rate, significant unobservable inputs, entity's own equity instruments

- All suggestions to add line items in this ITCG paper are modelled for assets, but in each case we would add equivalent line items for liabilities and an entity's own equity instruments.



Possible changes — I. Sensitivity analysis

IFRS 13 disclosure requirements

	Applicable to	Disclosure requirement
IFRS 13 para. 93(h)(i)	All recurring level 3* fair value measurements	Narrative description of sensitivity of fair value measurement to changes in unobservable inputs
IFRS 13 para. 93(h)(ii)	Recurring level 3* fair value measurements— Financial instruments only**	Quantitative sensitivity analysis of fair value measurement to changes in unobservable inputs

*Refer to Appendix A for a description of the IFRS 13 fair value hierarchy

** The staff note that some companies voluntarily provide quantitative analysis for non-financial assets / liabilities (eg for investment properties)

Current IFRS Taxonomy elements

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Narrative sensitivity analysis

‘Description of sensitivity of fair value measurement to changes in unobservable inputs, assets’	Line item, Text
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Quantitative sensitivity analysis

‘Increase (decrease) in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets’	Line item, Monetary
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‘Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets’	
--	--

‘Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets’	
--	--

‘Description of how effect on fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions was calculated, assets’	Line item, Text
--	-----------------

The next slide shows an example of tagging of a quantitative analysis using the current modelling
See Appendix B1 for an example of tagging of a narrative sensitivity analysis using the current modelling

Example—Tagging quantitative sensitivity analysis using current modelling

Asset/ liability class	Valuation technique	Increase in fair value due to changes in input(s)	Decrease in fair value due to changes in input(s)	Description of how effect was calculated
Asset class A	Valuation technique I	3,000 CU	(3,000 CU)	'Discount rate was changed by +/- 5%'
Asset class B		...		
Liability class C		...		
Liability class D		...		

Increase in fair value measurement due to change in one or more unobservable inputs [...], assets

Decrease in fair value measurement due to change in one or more unobservable inputs [...], assets

'Description of how effect on fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions was calculated'



Classes of assets [axis]

Asset class A [member]

Valuation techniques used in fair value measurement [axis]

Valuation technique I [member]

Summary of possible changes (1/2)

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	Possible change*	Reason	Consistent with IAS 19/ IFRS 17**
1	Add 'significant unobservable inputs' axis and members	Entities commonly disclose quantitative and narrative sensitivity analyses disaggregated by significant unobservable input	Yes
2	Add line items for the increase (decrease) in fair value measurement to distinguish between increase and decrease in inputs	When quantitative sensitivity analyses are disaggregated by input, entities commonly disclose whether the increase and decrease in fair value are due to an increase or decrease in unobservable inputs.	Yes
3	Add numeric line items (Percent & Decimal) to describe how effect on fair value was calculated	Entities commonly quantify the increase or decrease in unobservable inputs that was used to calculate the effect on fair value	Percent: Yes Decimal: No

* Detailed analysis is provided on the next slides for each possible change

** We considered consistency of the possible changes with the IFRS Taxonomy modelling for similar quantitative sensitivity analyses in IAS 19 *Employee Benefits* and IFRS 17 *Insurance Contracts*

Summary of possible changes (2/2)

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	Staff suggestion	Reason	Consistent with IAS 19/IFRS 17
4	Add line items for the increase (decrease) in fair value measurement to distinguish between effect on profit or loss and effect on OCI	Entities commonly make a distinction in their sensitivity analysis between the effect on profit or loss and OCI	Yes (IFRS 17) (N/A for IAS 19)
5	Create separate tables for the sensitivity analysis	Entities commonly report the sensitivity analysis in the format of a table or under a separate heading within their disclosures on fair value measurement	Yes

The staff are not suggesting to remove or replace any elements—applying staff suggestions 1-5 all of the existing elements on slide 8 would be retained

Possible change ①— What is the issue?

- Entities commonly report both the narrative and quantitative sensitivity analyses **disaggregated by unobservable input**, eg:

Asset/ liability class	Valuation technique	Unobservable input	Increase in fair value due to change in input	Decrease in fair value due to change in input	Description of how effect was calculated
Asset class A	Valuation technique I	Unobservable input Y	3,000 CU	(3,000 CU)	[text]
		Unobservable input Z	2000 CU	(2000 CU)	[text]
Asset class B		...	...
Liability class C		...	...
Liability class D		...	...



Cannot be tagged using the IFRS Taxonomy
without using extensions

Possible change ①—Staff suggestion

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The staff suggest:

- Adding a '**Significant unobservable inputs**' axis to tag information disaggregated by unobservable input
 - Using the existing line items* on slide 25 as members for the axis.
-
- The staff note that such modelling would be consistent with modelling of similar sensitivity analyses in IAS 19 and IFRS 17.

Appendix B2 shows an example of tagging using the suggested 'significant unobservable inputs' axis for a narrative sensitivity analysis

*Line items for significant unobservable inputs exist in the IFRS Taxonomy for the disclosure of the value of significant unobservable inputs used in fair value measurement (IFRS 13.93(d)), see slide 25.

Possible change ② — What is the issue?

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- When the sensitivity of the fair value measurement is calculated by changing one unobservable input at a time, entities commonly disclose **whether the increase and decrease in fair value are due to an increase or decrease in unobservable inputs**.
- In other words, they specify the **direction** of the **relationship between the input and the fair value measurement**, eg:
 - A significant **increase** in unobservable input Y **decreases** fair value by 3000 CU
 - A significant **decrease** in unobservable input Y **increases** fair value by 3000 CU
- The existing line items for tagging the change in fair value measurement (see slide 8) do **not** capture the **direction** of the relationship between the unobservable inputs and the fair value, eg:

Increase (decrease) in fair value measurement due to change in one or more unobservable inputs (...), assets	Monetary
--	----------

- However, the current modelling for similar requirements in IAS 19 and IFRS 17 captures the direction of the relationship.

Possible change ② — Staff suggestion

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- **The staff suggest:** Adding line items to capture the direction of the relationship when the sensitivity is calculated by changing one unobservable input at a time:

Increase (decrease) in fair value measurement due to reasonably possible increase in unobservable input, assets	Monetary
Increase (decrease) in fair value measurement due to reasonably possible decrease in unobservable input, assets	Monetary

- However, the staff have also observed entities commonly calculate the effect on fair value by changing multiple inputs simultaneously, in which case the **existing** line items on slide 8 should be used, eg :
 - A simultaneous increase in unobservable input X and decrease in unobservable input Y would decrease fair value by 3000 CU.

Possible change ③—What is the issue? (1/2)

- Entities commonly **quantify** the change in unobservable inputs, eg:

Asset/ liability class	Valuation technique	Unobservable input	Change in unobservable input	Effect on fair value
Asset class A	Valuation technique I	Unobservable input Y	Increase by 5%	(3,000 CU)
			Decrease by 5%	3000 CU
		Unobservable input Z	Increase by 10%	2000 CU
			Decrease by 10%	(2000 CU)
Asset class B		...	...	...
Liability class C		...	...	...
Liability class D		...	...	...

- The IFRS Taxonomy currently only contains the **text** element ‘Description of how effect on fair value measurement [...] was calculated’

Possible change ③—What is the issue? (2/2)

- Our analysis of reporting practice has shown that when the **change** in unobservable inputs is **quantified**, it is **expressed in different ways**:

		<u>Change in unobservable input</u>	
		‘Absolute’ changes (in the same unit as the input)	‘Relative’ changes (in percentages)
<u>Value of input</u>	in a unit <i>other than a percentage</i> (eg expected cash flows, in EUR)	Eg an increase in expected cash flows of 2 million EUR.	Eg an increase of expected cash flows by 5%.
	a <i>percentage</i> (eg discount rate)	Eg a 2% increase (ie 200 basis points) in an 8% discount rate to a discount rate of 10%	Eg a 2% increase in an 8% discount rate to a discount rate of 8.16% (ie multiplied by 1.02)



Staff suggestion: introduce two types of numeric line items to tag change in unobservable inputs	Decimal item type	Percent item type
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Possible change ③—Staff suggestion

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- Add numeric line items to tag quantitative changes in unobservable inputs:

‘Absolute’ changes (see previous slide)	
Reasonably possible increase in unobservable input, assets	Decimal item type
Reasonably possible decrease in unobservable input, assets	Decimal item type

‘Relative’ changes (see previous slide)	
Percentage of reasonably possible increase in unobservable input, assets	Percent item type
Percentage of reasonably possible decrease in unobservable input, assets	Percent item type

- The staff note that modelling of similar sensitivity analyses in IAS 19 and IFRS 17 includes the ‘Percent’ elements but not the ‘Decimal’ elements.

Appendix B4 shows tagging of a quantitative sensitivity analysis using the suggested elements

Possible change ④—What is the issue?

- Entities commonly split the effect on fair value into (1) effect on profit or loss and (2) effect on other comprehensive income (OCI) or equity.
- This is consistent with the overall disclosure objective in IFRS 13 para. 91(b), ie the disclosures should help users assess the effect of the measurement on profit or loss or OCI.
- Example:

Sensitivity of fair values to reasonably possible alternative assumptions

	Reflected in profit or loss		Reflected in other comprehensive income	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
2015				
Private equity	27	(27)	74	(74)
Structured notes	–	–	–	–
Derivatives	1	(1)	–	–
	28	(28)	74	(74)

Possible change ④—Staff suggestion (1/2)

- Model by adding **line items** (similar to IFRS 17 modelling)
- Add two new line items for each of the three existing line items on slide 8* to tag the effect on fair value :

Increase (decrease) in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **profit or loss**, assets

Increase (decrease) in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **other comprehensive income**, assets

Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **profit or loss**, assets

Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **other comprehensive income**, assets

Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **profit or loss**, assets

Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, reflected in **other comprehensive income**, assets

*Line items on slide 8 would be the parents for the new items on this slide.

Possible change ④—Staff suggestion (2/2)

- Assuming we go ahead with possible change ②, add two new line items for each of the two new line items suggested on slide 15:

Increase (decrease) in fair value measurement due to reasonably possible **increase** in unobservable input, reflected in **profit or loss**, assets

Increase (decrease) in fair value measurement due to reasonably possible **increase** in unobservable input, reflected in **other comprehensive income**, assets

Increase (decrease) in fair value measurement due to reasonably possible **decrease** in unobservable input, reflected in **profit or loss**, assets

Increase (decrease) in fair value measurement due to reasonably possible **decrease** in unobservable input, reflected in **other comprehensive income**, assets

*Line items on slide 15 would be the parents for the items on this slide.

Possible change ⑤—Separate tables for sensitivity analysis

What is the issue?

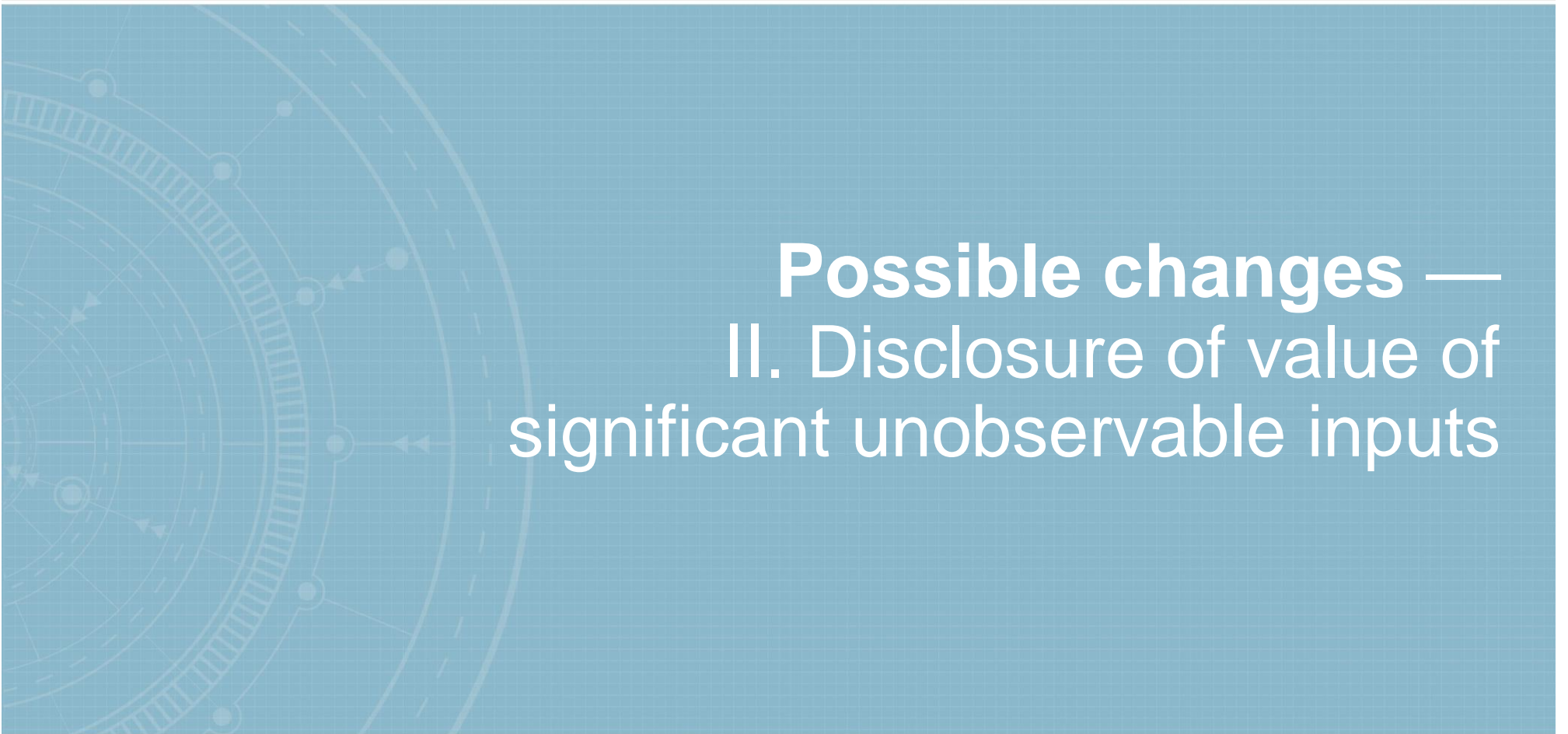
- The existing line items for the sensitivity analysis are included in the general ‘Disclosure of fair value measurement of assets/liabilities/ equity’ tables, together with many other disclosures.
- However:
 - Entities commonly report the sensitivity analysis in the format of a **table** or under a **separate heading** within their disclosures on fair value measurement.
 - The sensitivity analyses are included in a separate table for IAS 19 and IFRS 17.

Staff suggestion:

- **Create new tables and related text block elements** and add all the existing and new elements related to the **sensitivity analysis**.
- **(+)** Would support **text block tagging** which in turn would permit a user of the tagged data to more easily locate and extract the disclosures related to the sensitivity analysis.
- **(-)** Would add to the **size** of the IFRS Taxonomy

Questions for ITCG members on sensitivity analysis

- Do you agree with the following staff suggestions:
 - ➊ Add 'significant unobservable inputs' axis and members (slide 13)
 - ➋ Add line items for the increase (decrease) in fair value measurement to distinguish between increase and decrease in inputs (slide 15)
 - ➌ Add numeric line items (Percent & Decimal) to describe how effect on fair value was calculated (slide 18)
 - ➍ Add line items for the increase (decrease) in fair value measurement to distinguish between effect on profit or loss and effect on OCI (slides 20-21)
 - ➎ Create separate tables for the sensitivity analysis (slide 22)



Possible changes — II. Disclosure of value of significant unobservable inputs

I. Significant unobservable inputs— background

- Paragraph 93(d) of IFRS 13 requires an entity to disclose the value of inputs used in fair value measurement. This disclosure is currently modelled using **line items**:

Disclosure of significant unobservable inputs used in fair value measurement of assets [line items]	line items
Interest rate, significant unobservable inputs, assets	X.XX duration
Historical volatility for shares, significant unobservable inputs, assets	X.XX duration
Adjustment to mid-market consensus price, significant unobservable inputs, assets	X.XX duration
Current estimate of future cash outflows to be paid to fulfil obligation, significant unobservable inputs, assets	X duration
Financial forecast of profit or loss for cash-generating unit, significant unobservable inputs, assets	X duration
Financial forecast of cash flows for cash-generating unit, significant unobservable inputs, assets	X duration
Weighted average cost of capital, significant unobservable inputs, assets	X.XX duration
Revenue multiple, significant unobservable inputs, assets	X.XX duration
Constant prepayment rate, significant unobservable inputs, assets	X.XX duration
Probability of default, significant unobservable inputs, assets	X.XX duration

I. Significant unobservable inputs— line items or dimensional model? (1/2)

- Alternatively, this disclosure requirement could be modelled using a **dimensional approach**:
 - Addition of a ‘significant unobservable inputs’ axis with as members the existing 10 line items on slide 25.
 - Addition of three new line items, ie ‘significant unobservable input’ for assets, liabilities and an entity’s own equity instruments.
 - Deprecating 30 existing line items for assets, liabilities and entity’s own equity instruments.
- However, the staff suggests **keeping the existing line item model** because we think the benefits of changing the approach may not outweigh the costs (see next slide)

I. Significant unobservable inputs— line items or dimensional model? (2/2)

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Dimensional approach—considerations

in favour	against
<ul style="list-style-type: none">• Makes it easier to consume any extensions for inputs because they are linked to a known axis.• The staff suggested adding a ‘significant unobservable inputs’ axis for the sensitivity analysis (see slide 13).• Would result in fewer elements in total.	<ul style="list-style-type: none">• Changing the IFRS Taxonomy means there will be a cost of re-tagging for preparers and re-mapping for users.• No information about the type of different elements such as decimal, percent.

Question for ITCG members: Do you agree we should retain the modelling as line items for the disclosure of the value of significant unobservable inputs?

Note that IAS 19 IFRS Taxonomy modelling uses the line item approach for a similar disclosure, whereas IFRS 17 modelling uses a dimensional approach



Ideas for future common practice projects

- The staff has received feedback that the following are areas where additional CP elements may be required:
 - disclosure of financial instruments with characteristics of equity
 - presentation of primary financial statements for entities engaged in multiple activities, for example commercial and financial activities
 - subtotals such as EBITDA


Question for ITCG members

Do you have any suggestions for areas where common practice analysis may be useful?



Appendix A—IFRS 13 fair value hierarchy

- IFRS 13 categorises into three levels the inputs to valuation techniques used to measure fair value for assets or liability:
 - **Level 1 inputs:** Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
 - **Level 2 inputs:** Inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
 - **Level 3 inputs:** Significant unobservable inputs.
- In addition, IFRS 13 refers to the fair value measurement:
 - **Recurring:** required or permitted by IFRS Standard
 - **Non-recurring:** required or permitted by IFRS Standard in particular circumstances
 - eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount



Appendix B—Tagged examples of sensitivity analysis

B1. Example of tagging using current modelling for narrative sensitivity analysis (IFRS 13 IE66)

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The significant unobservable inputs used in the fair value measurement of the entity's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

Description of sensitivity of fair value measurement to changes in unobservable inputs, assets [line item]



Classes of assets [axis]

residential mortgage-backed securities [member—extension]

Narrative sensitivity analysis is required for all recurring Level 3 fair value measurements.

B2. Example of tagging using suggested unobservable inputs axis & existing line item for narrative analysis

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Valuation technique	Significant unobservable inputs	\$m	Range of estimates (weighted -average) for unobservable input	Fair value measurement sensitivity to unobservable inputs
Discounted cash flow	Rates of property appreciation - 6%	482.0	4%-8%	Significant increases in these inputs would result in higher fair values.
	Discount rates - 7.75%	482.0	5.75%-9.75%	Significant increases in these inputs would result in lower fair values.

Description of sensitivity of fair value measurement to changes in unobservable inputs, assets [line item]



Significant unobservable inputs [axis]

Rates of property appreciation [member—extension]

B3. Example of tagging of quantitative analysis disaggregated by input using existing and suggested line items

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Asset/ liability class	Valuation technique	Unobservable input	Change in unobservable input	Effect on fair value
Asset class A	Valuation technique I	Unobservable input Y	Increase	(3,000 CU)
			Decrease	3000 CU
		Unobservable input Z	Increase	2000 CU
			Decrease	(2000 CU)
Asset class B		...	...	...
Liability class C		...	...	...

Tagging using existing line items

Increase in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	3000
Decrease in fair value measurement due to change in one or more unobservable inputs to reflect reasonably possible alternative assumptions, assets	3000

→ Direction of relationship not clear

Tagging using suggested line items

Increase (decrease) in fair value measurement due to reasonably possible increase in unobservable input, assets	-3000
Increase (decrease) in fair value measurement due to reasonably possible decrease in unobservable input, assets	3000

→ Direction of relationship clear

B4. Example of use of suggested numeric elements for tagging change in unobservable inputs

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The reported value of owned forestry assets would change as follows should there be a change in these underlying assumptions:

€ million	2015
Effect of €1/tonne increase in net selling price	11
Effect of 1% increase in conversion factor (hectares to tonnes)	2
Effect of 1% increase in discount rate	(2)

Suggested Taxonomy elements		Unobservable inputs [axis] and members		
		Net selling price per tonne	Conversion factor	Discount rate
Reasonably possible increase in unobservable input, assets [Decimal item type]	Value	1		0.01*
	Unit	EUR/tonne		Percent*
Percentage of reasonably possible increase in unobservable input, assets [Percent item type]	Value		1	0.01**

* If a 1% increase means an absolute increase, eg increase from 15.2% to 16.2%

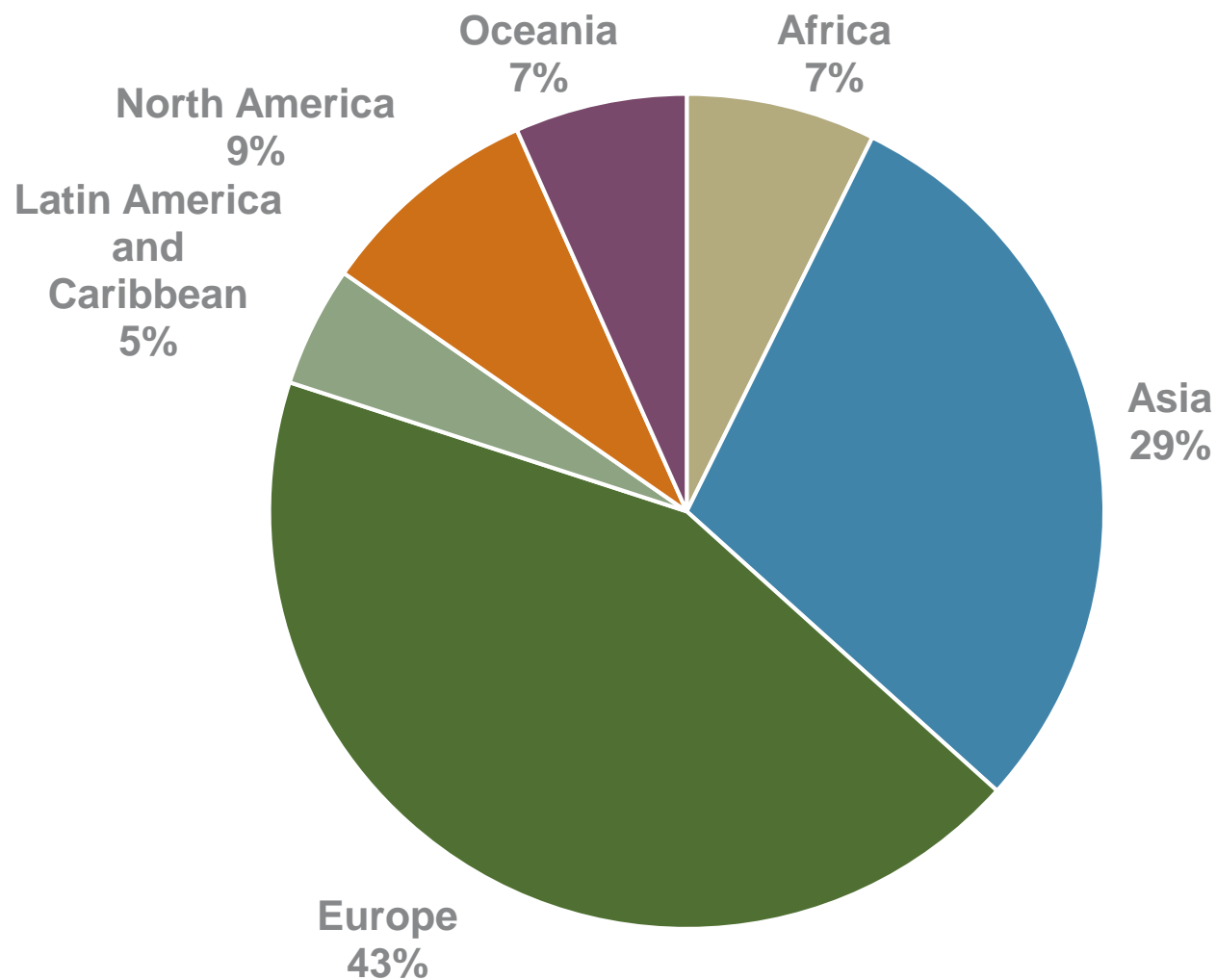
** If a 1% increase means a relative increase, eg increase from 15.2% to 15.35%



Appendix C— Sample description

Sample—Geographical distribution

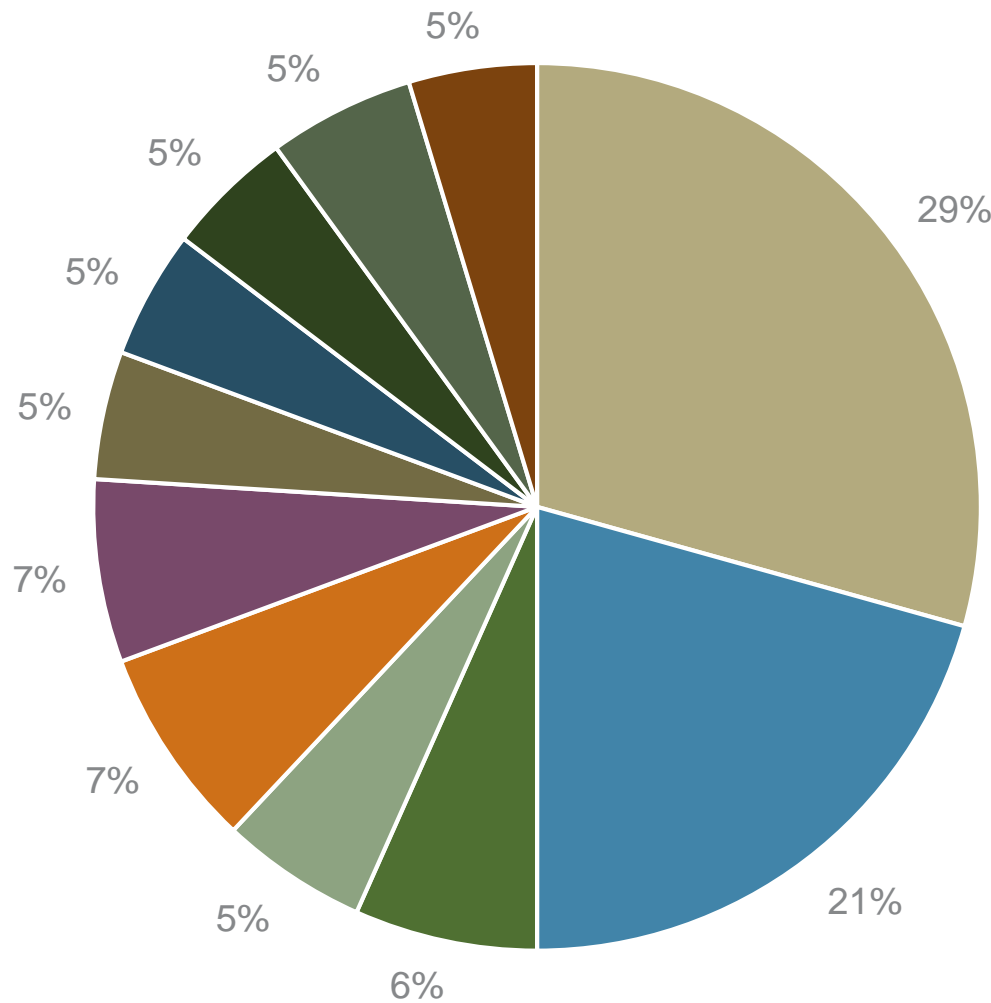
38



150 entities

Sample—Industry distribution

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150 entities

- Banks
- Real Estate
- Consumer Discretionary
- Consumer Staples
- Energy
- Healthcare
- Industrials
- Information Technology
- Materials
- Telecommunication Services
- Utilities

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