STAFF PAPER

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IASB Meeting

Project	**Post-implementation Review of IFRS 13 *Fair Value Measurement***		
Paper topic	Project background		
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Introduction

1. The International Accounting Standards Board (the Board) has been conducting a Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement* (IFRS 13) to assess the effect of the Standard on financial reporting. The purpose of a PIR, as set out in the IFRS Foundation's due process is to evaluate whether the Standard is working as the Board intended.[1] In particular, the Board aims to assess whether:
   (a) the information required by IFRS 13 is useful to users of financial statements;
   (b) areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and
   (c) 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.

[1] The IFRS Foundation's due process is set out in the *IASB and IFRS Interpretations Committee Due Process Handbook* and can be found at: http://www.ifrs.org/groups/due-process-oversight-committee/pages/due-process-handbook/

2. IFRS 13 defines fair value, sets out in a single IFRS Standard a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS Standard requires or permits an item to be measured at fair value.[2] The focus of this PIR is on assessing the effect of IFRS 13 and not assessing the effect of any other IFRS Standards that require or permit fair value measurement.

3. IFRS 13 is the result of a convergence project with the US standard-setter, Financial Accounting Standards Board (the FASB). IFRS 13 is largely converged with Topic 820 *Fair Value Measurement* (Topic 820) in US generally accepted accounting principles (US GAAP). The US Financial Accounting Foundation (FAF) is responsible for PIRs of US GAAP. The FAF has already completed its PIR of Topic 820 and concluded the Topic 820 met its objectives and had no unanticipated consequences.[3] The FASB is considering changes to requirements for disclosures about fair value measurement, as a part of its Disclosure Framework project. Appendix A includes more details on the changes considered.

4. This paper provides background information on:

   (a) IFRS 13 and main changes arising from the Standard (paragraphs 6–13);

   (b) Phase 1 of the PIR of IFRS 13 (paragraphs 14–20); and

   (c) Phase 2 of the PIR including the Request for Information (paragraphs 21–23).

5. This paper has no questions for the Board.

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[2]Appendix C includes an overview of the IFRS Standards that require or permit fair value measurement.
[3] The FAF PIR Report on Topic 820 can be found at: http://www.accountingfoundation.org/cs/ContentServer?c=Document_C&cid=1176163848391&d=&pagename=Foundation%2FDocument_C%2FFAFDocumentPage&utm_campaign=download&utm_medium=%2Ffinancial-reporting-network%2Finsights%2F2014%2Ffaf-post-implement-report-address-fair-value-measure.aspx&utm_source=page

IFRS 13 and main changes arising from the Standard

Project history and objectives

6. The Board added the Fair Value Measurement project (the project) to its agenda in 2005 because IFRS Standards provided inconsistent guidance on fair value measurement. That inconsistency contributed to diversity in practice and reduced the comparability of financial statements. The objective of the project was to define fair value, establish a framework for measuring fair value and require disclosures about fair value measurements.

7. The FASB started a project on fair value measurement in 2003. In 2006, the FASB issued SFAS 157 *Fair Value Measurement* (now incorporated in Topic 820).

8. In 2009, the Board published an Exposure Draft *Fair Value Measurement*. The most common comments received were that the Board and the FASB should work together to develop converged fair value measurement and disclosure requirements. The Board and the FASB (the boards) agreed to work together in October 2009 under a Memorandum of Understanding.

9. As one result of the joint deliberations in June 2010:

   (a) FASB issued a proposed Accounting Standards Update *Fair Value Measurement and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*; and

   (b) the Board issued an Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*.

10. The Board's Exposure Draft in June 2010 proposed disclosure of a measurement uncertainty analysis (ie a range of exit prices that could have been reasonable estimates at the measurement date). In response to the feedback received on the Exposure Draft, the Board decided that it would need to perform additional analysis before requiring a disclosure of quantitative measurement uncertainty analysis. Therefore this requirement was not included in IFRS 13. The Board has not performed any additional analysis on this topic since it issued IFRS 13.

11. In 2011, the boards issued converged Standards—IFRS 13 and amended Topic 820. IFRS 13 became effective on 1 January 2013.[4] Appendix B of this paper describes the main differences between the Standards at their issuance.

12. Since the issuance of the Standards, the boards have made minor amendments to enhance or clarify the original requirements but have not modified the requirements substantially, and there has been no significant impact on the level of convergence.[5]

Changes arising from IFRS 13

13. IFRS 13 introduced:

    (a) a revised definition of fair value that:

        (i) provides clarification on fair value as an exit price;
        (ii) conveys more clearly that fair value is a market-based measurement and not an entity-specific measurement; and
        (iii) states explicitly that the fair value is measured at the measurement date.

    (b) a definition of the key concepts in the fair value framework. This framework assumes that a hypothetical and orderly transaction takes place. Some concepts within that framework are market participants, orderly transaction, principal and most advantageous markets.

    (c) the application of the concept of highest and best use in the fair value measurement of non-financial assets.

    (d) the requirement that the fair value of a liability reflects the effect of non-performance risk.

    (e) a fair value hierarchy (ie Level 1, Level 2 and Level 3 inputs).

    (f) guidance on valuation technique(s) to be used for measuring fair value.

[4] The amendments in Topic 820 were effective for interim and annual periods beginning after 15 December 2011 for public companies and for annual periods beginning after 15 December 2011 for non-public entities.
[5] Agenda Paper 7B discussed at the Board's meeting in January 2017 provides more details about the convergences with US GAAP and can be found on the January meeting page at: http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx

(g) a portfolio exception. IFRS 13 provides explicit requirements for entities to consider the effects of offsetting positions in market or counterparty credit risks.

(h) guidance on measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased.

(i) enhancement and harmonisation of the requirements to disclose information about fair value measurements.

Phase 1 of the PIR of IFRS 13

14. The Board conducts PIRs in two phases. Phase 1 consists of an initial assessment to establish the scope of the PIR. For phase 1 of the PIR on IFRS 13, the Board:

(a) reviewed Board and third-party materials to identify potentially challenging areas of application; for example, the project summary and feedback statement published when the Standard was issued, submissions to the IFRS Interpretations Committee and subsequent research and education materials that have been developed.

(b) held meetings with both users and preparers of financial statements, audit firms, valuation specialists, regulators, national standard-setters, and IFRS advisory groups. In the meetings, we asked stakeholders to share their overall experience of applying IFRS 13 and to identify matters they think need to be considered further.

(c) carried out a scoping review of existing academic research and other literature.[6]

(d) collected a list of matters that stakeholders raised as potential areas for further research.[7]

[6] Agenda Paper 7D presented to the Board in its January 2017 meeting discusses scoping of academic research and can be found on the meeting page at: http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx

[7] Agenda Paper 7C presented to the Board in its January 2017 meeting summarises the main matters identified during outreach in phase 1 of the PIR and can be found on the meeting page at: http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx

Findings from the work done in phase 1

15. Overall, many stakeholders reported that IFRS 13 has worked well and brought significant improvements to financial reporting. In sharing their experience of IFRS 13, stakeholders also mentioned matters that they thought warrant consideration during the PIR. Most of those matters are grouped below in three categories:

    (a) new matter identified in phase 1;

    (b) matters identified in phase 1 on which the Board has done work in the past; and

    (c) other matters raised in phase 1.

New matter identified in phase 1

16. Nearly all the stakeholders we spoke with during phase 1 of the PIR mentioned disclosure usefulness. Many users of financial statements said that disclosures about fair values were important although they found many of the disclosures provided in financial statements generic, reducing the usefulness of the information. Most preparers said that some disclosure requirements for Level 3 fair value measurements are burdensome and fail to reflect entities' business management. These preparers questioned whether the disclosures are useful to investors. In particular, many preparers questioned whether disclosures are useful when they are aggregated and cover a number of assets or liabilities.

Matters identified in phase 1 on which the Board has done work in the past

17. Many stakeholders referred to the measurement proposals in the Board's 2014 Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*. Those proposals relate to an issue commonly referred to as the 'P×Q' issue. Many stakeholders suggested that the Board should consider this topic further, because, in their view, IFRS 13 sets out no clear guidance on whether entities should prioritise Level 1 inputs or the unit of account in determining fair value for investments in joint ventures and associates and cash-generating units.

18. Several stakeholders, in particular preparers and national accounting standard-setters in Asia and Oceania, suggested that the Board should consider further the

application of the concept of 'highest and best use' when entities are measuring the fair value of non-financial assets. Those stakeholders were concerned about the implications of applying highest and best use in measuring groups of operating assets. In these stakeholders' experience, applying highest and best use might result in assets being measured at a low amount or at nil when using a residual valuation method. The IFRS Interpretations Committee and the Board discussed a similar concern in 2012 and 2013 when considering a stakeholder's question on how IAS 41 *Agriculture* relates to IFRS 13 when valuing biological assets using the residual valuation method.[8]

Other matters raised in phase 1

19. Several stakeholders stated that the Board should consider further how entities apply some of the judgements required by IFRS 13. These stakeholders reported that when entities apply IFRS 13, they may encounter challenges determining when a market is 'active' and establishing when unobservable inputs are 'significant'.

20. Several stakeholders, particularly from emerging markets, stated that fair value is difficult to determine when markets are inactive or when there are no markets. Frequently mentioned examples included biological assets (in particular produce growing on bearer plants) and unquoted equity instruments.

Phase 2 of the PIR including the Request for Information

21. In January 2017, the Board decided to proceed with phase 2 of the PIR of IFRS 13 and conduct the following activities[9]

    (a) issue a Request for Information (RFI)[10] with questions in the areas mentioned in paragraph 22;

    (b) review academic literature relating to IFRS 13;

[8] The IASB *Update* from this discussion can be found at: http://media.ifrs.org/2013/IASB/May/IASB-Update-May-2013.html
[9] The IASB *Update* from this discussion can be found at: http://www.ifrs.org/-/media/feature/news/updates/iasb/2017/iasb-update-jan-2017.pdf
[10] The RFI can be found at: http://www.ifrs.org/-/media/project/pir-ifrs-13/published-documents/request-for-information-pir-ifrs-13.pdf

(c) conduct outreach on the questions included in the RFI, with additional consultations with investors and preparers to assess what information is useful and what information is costly to prepare in respect of disclosures about fair value measurement; and

(d) gather additional evidence to supplement the information received from the above activities.

22. The Board decided that phase 2 would focus the scope of the PIR on:

(a) the effectiveness of disclosures about fair value measurements;

(b) the unit of account and fair value measurement of quoted investments;

(c) the application of judgement in specific areas; and

(d) the application of highest and best use when measuring the fair value of non-financial assets.

In addition, the Board decided that the PIR would explore whether there is a need for education on measuring the fair value of biological assets and unquoted equity instruments.

23. The RFI was issued on 25 May 2017 and the deadline for responses was 22 September 2017.

Appendix A–*Proposed ASU Fair Value Measurement (Topic 820), Disclosure Framework and the feedback received*

A1. The FASB published the proposed Update in December 2015.[11] Its comment period ended on 29 February 2016. The proposed Update forms part of the FASB's disclosure framework project.[12]

A2. The main proposals in the proposed Update, together with their underlying basis, are:

a. to remove the following disclosure requirements:[13]

i. the amounts of transfers between Level 1 and Level 2 of the fair value hierarchy, and the reasons for them.[14] The main reasons for these proposals are that in many cases the transfers do not provide useful information about the economic fundamentals for a particular instrument and can result in misleading information about the liquidity of an instrument; and

ii. the policy for the timing of transfers between levels, valuation policies and procedures for Level 3 fair value measurements.[15] Those disclosures did not seem to be useful in assessing prospects for cash flows and users generally did not object to their removal.

b. to clarify that the 'narrative description of the sensitivity of fair value measurement to changes in unobservable inputs'[16] should be a 'narrative description of the uncertainty of the fair value

[11] The FASB's proposed Accounting Standards Update can be found at: http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167664088&acceptedDisclaimer=true

[12] The FASB issued a proposed FASB Concepts Statement aiming to improve the effectiveness of the disclosure requirements in March 2014. The FASB is also reviewing disclosure requirements in other areas such as inventory, income taxes and defined benefit pensions and other postretirement plans.

[13] In addition to those amendments, the proposed Update proposes to remove for private companies the change in unrealised gains and losses for the period included in earnings (or changes in net assets) on recurring Level 3 fair value measurements held at the end of the reporting period.

[14] This disclosure requirement corresponds to paragraph 93(c) of IFRS 13.

[15] These disclosure requirements correspond to paragraph 93(g) of IFRS 13.

[16] Paragraph 93 (h) (i) of IFRS 13 requires: '[…] a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. […]'.

measurement as of the reporting date' rather than information about sensitivity to changes in the future.[17] The purpose of this proposed amendment is to achieve closer alignment with the concepts in the FASB's proposed Concepts Statement.[18]

c. the proposed Update proposes to add the following disclosure requirements:[19]

   i. for recurring fair value measurements of assets and liabilities held at the end of the reporting period, changes in unrealised gains or losses for the period included in other comprehensive income (OCI) and profit or loss (or changes in net assets) disaggregated for each of the levels in the fair value hierarchy. These proposals extend the current requirements, which apply only unrealised gains or losses arising from Level 3 fair value measurements. These proposals respond to users' views that such information would be useful.

   ii. the range, weighted average and time period used to develop significant unobservable inputs for Level 3 fair value measurements. These proposals respond to users stating that such information was useful for their analyses. In particular, the weighted average of significant unobservable inputs was deemed to be useful because their range can be wide due to entities' high level of aggregation by class of asset.

A3. The FASB received 51 comment letters on the proposed Update. The respondents were mainly preparers, professional and preparers' association

[17] The proposed Update proposes the following amendments: '[…] a narrative description of the ~~sensitivity~~ uncertainty of the fair value measurement ~~to changes in unobservable inputs if~~ and how a change in ~~those~~ unobservable inputs to ~~a~~ different ~~amount~~ amounts might result in a significantly higher or lower fair value measurement at the reporting date. […]'

[18] The proposed Update proposes two additional amendments to achieve closer alignment with the concepts in the FASB's proposed Concepts Statement. These are (for private companies) to no longer require a reconciliation for recurring Level 3 fair value measurements and (for investments in certain entities that calculate NAV – net asset value) to require disclosure of the timing of liquidation of an investee's assets and the date when restrictions from redemption will lapse (see proposed amendments in paragraphs 820-10-50-2G and 820-10-50-6A(b) and (e) of the proposed Update).

[19] These proposals would not be extended to private companies.

groups and accounting firms. No users responded to the proposed Update. The main comments were as follows: [20]

a. nearly all respondents agreed with the removal of disclosures as they were not considered to result in the elimination of decision-useful information.

b. many respondents also agreed that clarifying that the narrative description of the sensitivity of fair value measurements to changes in unobservable inputs is about the uncertainty of the fair value measurements, rather than their sensitivity to future changes, would reduce diversity in the application and interpretation of the requirement.

c. many respondents questioned the usefulness of the information resulting from the proposed disclosure requirement on changes in unrealised gains and losses.

d. many respondents expressed concerns that there is not a consistent method for calculating the weighted average of significant unobservable inputs. Most respondents disagreed with the proposed requirement dealing with the time period used to develop significant unobservable inputs. Many respondents stated that there was no clear benefit to users arising from this information given the level of aggregation at which the time period would be disclosed.

A4. The FASB will continue its re-deliberations on the proposed Update. In addition, the FASB staff plans to conduct outreach with investors and other financial statement users on the proposed Update.

[20] The FASB's comment letter summary can be found at: http://www.fasb.org/cs/ContentServer?c=Document_C&pagename=FASB%2FDocument_C%2FDocumentPage&cid=1176168197244

Appendix B–Differences between the Standards at their issuance

A1. At the date of their issuance, the boards noted the following differences between the Standards:

a. Net asset value (NAV) as a measure of fair value—Topic 820 provides a practical expedient that permits an entity with an investment in an investment company to use as a measure of fair value in specific circumstances the reported NAV without adjustment. When IFRS 13 was issued, IFRS Standards did not have accounting requirements specific to investment companies. Because of this, the Board decided that it would be difficult to identify when such a practical expedient could be applied. Consequently, IFRS 13 does not include such practical expedient.[21]

b. Financial liabilities with a demand feature—Topic 825 *Financial Instruments* and Topic 942 *Financial Services—Depository and Lending* describe the fair value measurement of a deposit liability as the amount payable on demand at the reporting date. IFRS 13 states, however, 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.[22]

c. Differences in disclosure requirements:[23]

i. The amounts disclosed for the fair value measurements categorised within Level 3 of the fair value hierarchy might differ because IFRS Standards generally do not allow net presentation for derivatives.

ii. IFRS 13 requires a quantitative sensitivity analysis for financial instruments that are measured at fair value and categorised within Level 3 of the fair value hierarchy.[24] That

[21] See paragraph BC238 of IFRS 13.
[22] See paragraph 47 of IFRS 13.
[23] See paragraph BC238 (c) of IFRS 13.
[24] See paragraph 93 (h) (ii) of IFRS 13.

disclosure was previously in IFRS 7 *Financial Instruments: Disclosures*.

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

A2. In addition, there are minor differences in style between the Standards.[25]

[25] See paragraph BC237 of IFRS 13.

Appendix C– Main uses of fair value in IFRS Standards and disclosures required in IFRS 13

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 and the instrument	Yes	Yes[26]
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 if an active market exists for the asset	Yes[27]	Yes
IAS 40 *Investment Property*	**Optional**, accounting policy choice	Yes	Yes[27]
IAS 41 *Agriculture*	**Required**, fair value less costs to sell for most biological assets	Yes	Yes

[26] Fair value measurement disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40)

[27] 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.

Information required to be disclosed by IFRS 13									
Information	Items measured at fair value						Items not measured at fair value, fair value disclosed		
	Recurring[28]			Non-recurring[29]					
	L1	L2	L3	L1	L2	L3	L1	L2	L3
Fair value at the end of the reporting period	✓	✓	✓	✓	✓	✓	✓	✓	✓
Reasons for the measurement				✓	✓	✓			
Level within the fair value hierarchy	✓	✓	✓	✓	✓	✓	✓	✓	✓
Transfers between the levels in the hierarchy	✓	✓	✓						
Policy for determining when transfers between the hierarchy levels have occurred	✓	✓	✓						
Description of valuation technique(s) and inputs used		✓	✓		✓	✓		✓	✓
Changes to valuation technique and reason(s)		✓	✓		✓	✓		✓	✓
Quantitative information about significant unobservable inputs			✓			✓			
Reconciliation from opening to closing balances (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 description)			✓						
Sensitivity to reasonably possible changes in assumptions (quantitative, 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 IFRS 13 is applied (financial instruments only)	✓	✓	✓						

[28] Recurring items—IFRS Standards require or permit fair value measurement in the statement of financial position at the end of each reporting period.

[29] Non-recurring items—IFRS Standards require or permit fair value measurement in the statement of financial position in particular circumstances.