IFRS® Foundation

ITCG call

Monday 11 June 2018

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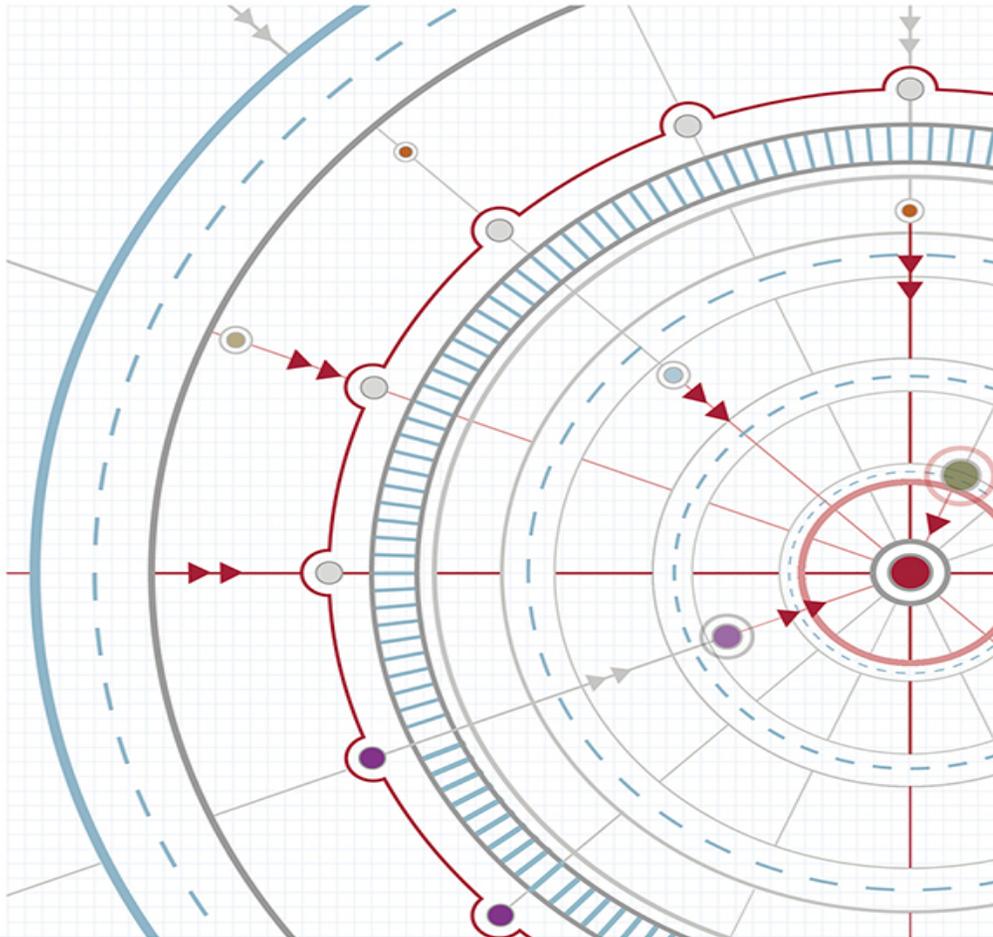
IFRS Taxonomy content

Common practice analysis - IFRS 13 *Fair value measurement*

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Overview

IFRS

Background

Timeline

Overview – April-June

- April ITCG – sensitivity analysis
- May IFRS Taxonomy Review Panel – techniques & inputs
- June IFRS Taxonomy Review Panel– sensitivity analysis
- **June ITCG – techniques & inputs**

Review – July-August

- Follow up issues, if any
- IFRS Taxonomy Review Panel review Proposed IFRS Taxonomy Update
- ITCG review IFRS Taxonomy Files

Publication – September

- Proposed IFRS Taxonomy Update
- Proposed IFRS Taxonomy Files
- Supporting materials: IFRS Taxonomy in PDF and HTML, Comparison between IFRS Taxonomies

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IFRS 13 CP—Background

2012

2016

Start of common practice projects

Activity-based common practice projects

IFRS 13 *Fair value measurement* common practice project, aligned with IFRS 13 Post-Implementation Review
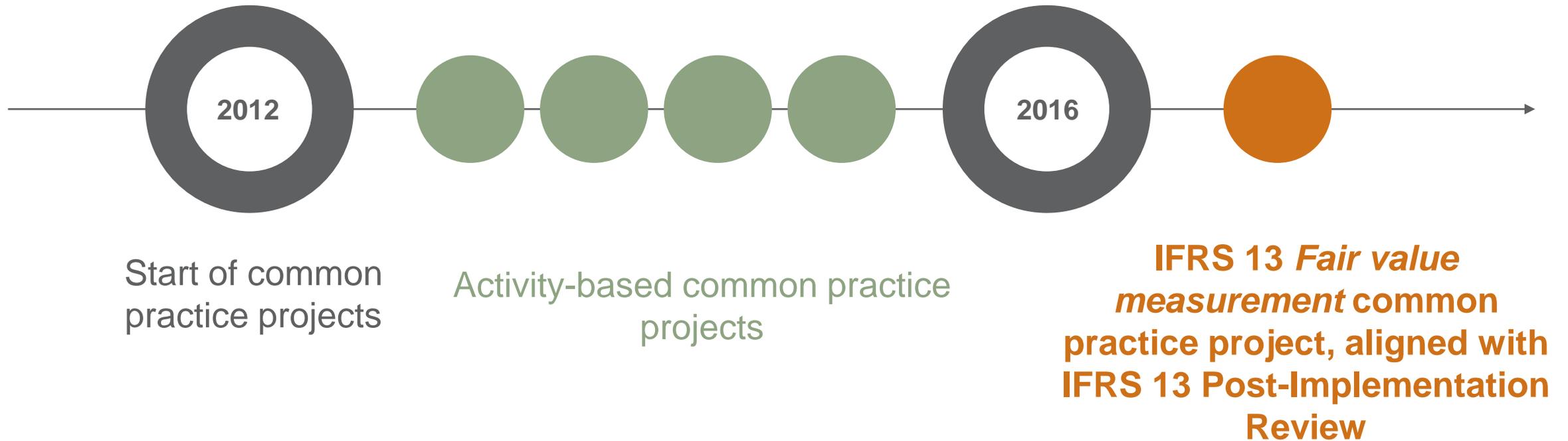
- **IFRS 13 PIR conclusion:** In March 2018, the Board concluded that IFRS 13 is working as intended and no major changes are needed.

IFRS 13 CP—Background

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

Staff analysis

❶ Valuation techniques—background

- Paragraph 93(d) of IFRS 13 requires an entity to disclose valuation techniques used in fair value measurement. Implementation Guidance and Illustrative Examples include examples of those techniques.

- The following table shows how the IFRS Taxonomy reflects those requirements for assets:

Valuation techniques used in fair value measurement [axis]	axis	IFRS 13.93 d Disclosure
Valuation techniques [member]	member[default]	IFRS 13.93 d Disclosure
Market approach [member]	member	IFRS 13.62 Example
Market comparable companies [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Market comparable prices [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Matrix pricing [member]	member	IFRS 13.B7 Example
Consensus pricing [member]	member	IFRS 13.B5 Example, IFRS 13.IE63 Example
Cost approach [member]	member	IFRS 13.62 Example
Income approach [member]	member	IFRS 13.62 Example
Discounted cash flow [member]	member	IFRS 13.B11 a Example, IFRS 13.IE63 Example
Option pricing model [member]	member	IFRS 13.B11 b Example, IFRS 13.IE63 Example
Multi-period excess earnings method [member]	member	IFRS 13.B11 c Example

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- The staff propose to add a new element reported commonly in practice: **'Net Asset Value'**

Legend:

Market approach [member]
Cost approach [member]
Income approach [member]
Net asset value [member]

Existing elements
Proposed elements

- **Proposed documentation label**: 'This member stands for a valuation technique that compares the value of assets and liabilities.'

- **Reference:** 'Net asset value' is used in Illustrative Examples to IFRS 13 paragraph IE63. Hence we propose to add two references to this element based on common practice and examples.

- **Relationship**: We suggest locating 'Net Asset Value' at the same level as 'Market approach', 'Cost Approach' and 'Income Approach'. This is based on Educational material on IFRS 13 Fair Value Measurement which notes that 'Net Asset Value' can be based on a combination of these three approaches.

❶ Valuation techniques—proposed changes

- The staff proposes to add a new element reported commonly in practice: **'Income capitalisation approach'**.

Income approach [member]
Discounted cash flows [member]
Income capitalisation approach [member]
(…)

- **Proposed documentation label**: This member stands for a valuation technique consistent with the income approach. Capitalising is a process applied to an amount representing some measure of economic income in order to convert that economic income amount to an estimate of present value.

- The proposed documentation label is based on a description of the capitalisation model in Educational material on IFRS 13 Fair Value Measurement

- Paragraph 93(d) of IFRS 13 requires an entity to disclose inputs used in the fair value measurement. Implementation Guidance and Illustrative Examples include examples of those inputs.

- The following table shows how the IFRS Taxonomy reflects those requirements for assets:

Disclosure of significant unobservable inputs used in fair value measurement of assets [line items]	line items	
Interest rate, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.B36 a $_{Example}$
Historical volatility for shares, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.B36 b $_{Example}$
Adjustment to mid-market consensus price, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.B36 c $_{Example}$
Current estimate of future cash outflows to be paid to fulfil obligation, significant unobservable inputs, assets	X $_{duration}$	IFRS 13.B36 d $_{Example}$
Financial forecast of profit or loss for cash-generating unit, significant unobservable inputs, assets	X $_{duration}$	IFRS 13.B36 e $_{Example}$
Financial forecast of cash flows for cash-generating unit, significant unobservable inputs, assets	X $_{duration}$	IFRS 13.B36 e $_{Example}$
Weighted average cost of capital, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.93 d $_{Example}$, IFRS 13.IE63 $_{Example}$
Revenue multiple, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.93 d $_{Example}$, IFRS 13.IE63 $_{Example}$
Constant prepayment rate, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.93 d $_{Example}$, IFRS 13.IE63 $_{Example}$
Probability of default, significant unobservable inputs, assets	X.XX $_{duration}$	IFRS 13.93 d $_{Example}$, IFRS 13.IE63 $_{Example}$

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- The staff propose to add 4 elements reported commonly in practice:

Discount rate, significant unobservable inputs, assets	percent
Rent, significant unobservable inputs, assets	decimal*
Capitalisation rate, significant unobservable inputs, assets	percent
Credit spread, significant unobservable inputs, assets	percent

* The staff observed that rent is disclosed using different units such as 'per square meter' or 'per square foot" and 'per month' or 'per year'. The staff proposes using the decimal element type to allow an entity to specify the appropriate reporting unit.

- For all proposed significant unobservable inputs the staff suggest using documentation labels that are similar to the existing documentation labels for other inputs, using the following format: ' [Name of input] used as a significant Level 3 unobservable input for assets.'

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- Paragraph 93(e) of IFRS 13 requires an entity to disclose reconciliation from opening to closing balance with specified changes as follows:

Reconciliation of changes in fair value measurement, assets [abstract]
Assets at beginning of period
Changes in fair value measurement, assets [abstract]
Gains (losses) recognised in profit or loss, fair value measurement, assets
Gains (losses) recognised in other comprehensive income, fair value measurement, assets
Purchases, fair value measurement, assets
Sales, fair value measurement, assets
Issues, fair value measurement, assets
Settlements, fair value measurement, assets
Transfers into Level 3 of fair value hierarchy, assets
Transfers out of Level 3 of fair value hierarchy, assets
Total increase (decrease) in fair value measurement, assets
Assets at end of period

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③ Reconciliation—proposed changes

- The staff propose to add one element that is reported commonly in practice:

| Translation differences, fair value measurement, assets | monetary |

- **Element rejected:**

| Disposals, fair value measurement, assets | monetary |

Reason for rejecting: The IFRS Taxonomy includes an element related to sales (see previous slide). The staff think that entities mostly use 'disposals' as a synonym for 'sales'.

❹ Transfers between levels—background

- Paragraph 93(c) of IFRS 13 requires an entity to disclose transfers between Level 1* and Level 2* and the reason for those transfers.

- In addition, paragraph 93(e)(iv) of IFRS 13 requires an entity to disclose transfers into and out of Level 3*, as part of the reconciliation (see slide 13) and the reason for those transfers.

- The following table shows how the IFRS Taxonomy reflects those requirements for assets:

Transfers out of Level 1 into Level 2 of fair value hierarchy, assets held at end of reporting period	$X_{duration}$	IFRS 13.93 c $_{Disclosure}$
Description of reasons for transfers out of Level 1 into Level 2 of fair value hierarchy, assets	text	IFRS 13.93 c $_{Disclosure}$
Transfers out of Level 2 into Level 1 of fair value hierarchy, assets held at end of reporting period	$X_{duration}$	IFRS 13.93 c $_{Disclosure}$
Description of reasons for transfers out of Level 2 into Level 1 of fair value hierarchy, assets	text	IFRS 13.93 c $_{Disclosure}$

Transfers between Level 1 and Level 2

Transfers into Level 3 of fair value hierarchy, assets	$X_{duration, debit}$	IFRS 13.93 e (iv) $_{Disclosure}$
Transfers out of Level 3 of fair value hierarchy, assets	$(X)_{duration, credit}$	IFRS 13.93 e (iv) $_{Disclosure}$
Description of reasons for transfers into Level 3 of fair value hierarchy, assets	text	IFRS 13.93 e (iv) $_{Disclosure}$
Description of reasons for transfers out of Level 3 of fair value hierarchy, assets	text	IFRS 13.93 e (iv) $_{Disclosure}$

Transfers into and out of Level 3

*See Appendix for a description of the fair value hierarchy

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Transfers between levels—proposed changes

- The staff proposes to add two line items reported commonly in practice:

Statement that there were no transfers between level 1 and level 2 of fair value hierarchy, assets	text
Statement that there were no transfers between level 1, level 2 or level 3 of fair value hierarchy, assets	text

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Summary of additions and question

| Disclosure	Suggested additions	Reference
IFRS 13.93(d)—valuation techniques	1. Net asset value [member]	Slides 9-10
	2. Income capitalisation [member]	
IFRS 13.93(d)—significant unobservable inputs	1. Discount rate [line item]	Slide 12
	2. Rent [line item]	
	3. Capitalisation rate [line item]	
	4. Credit spread [line item]	
IFRS 13.93(e)—reconciliation	1. Translation differences, fair value measurement, assets [line item]	Slide 14
IFRS 13.93(c) and (e)(iv)—transfers between levels	1. Statement that there were no transfers between level 1, level 2 or level 3 of fair value hierarchy, assets [line item]	Slide 16
	2. Statement that there were no transfers between level 1 and level 2 of fair value hierarchy, assets [line item]	

Question: Do you agree with the proposed additions?

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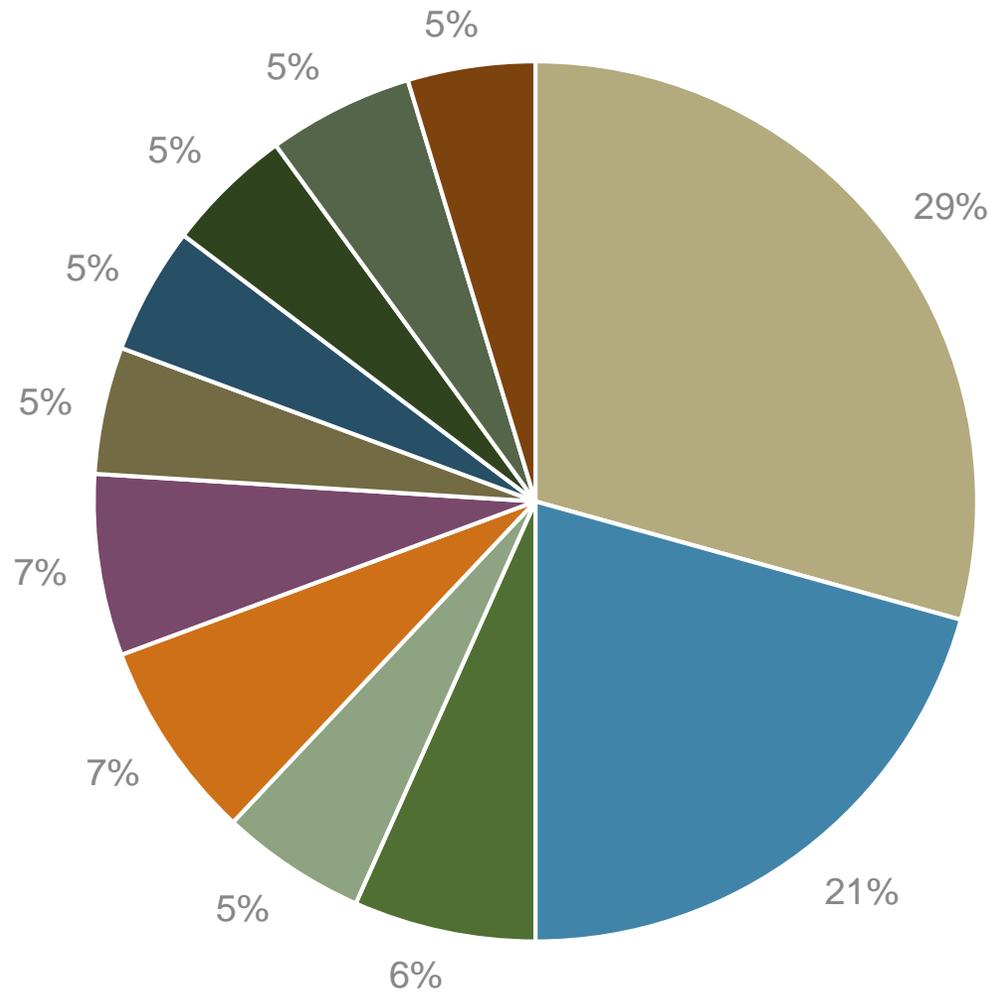# Appendix — Sample description & Fair value hierarchy

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Sample—Geographical distribution
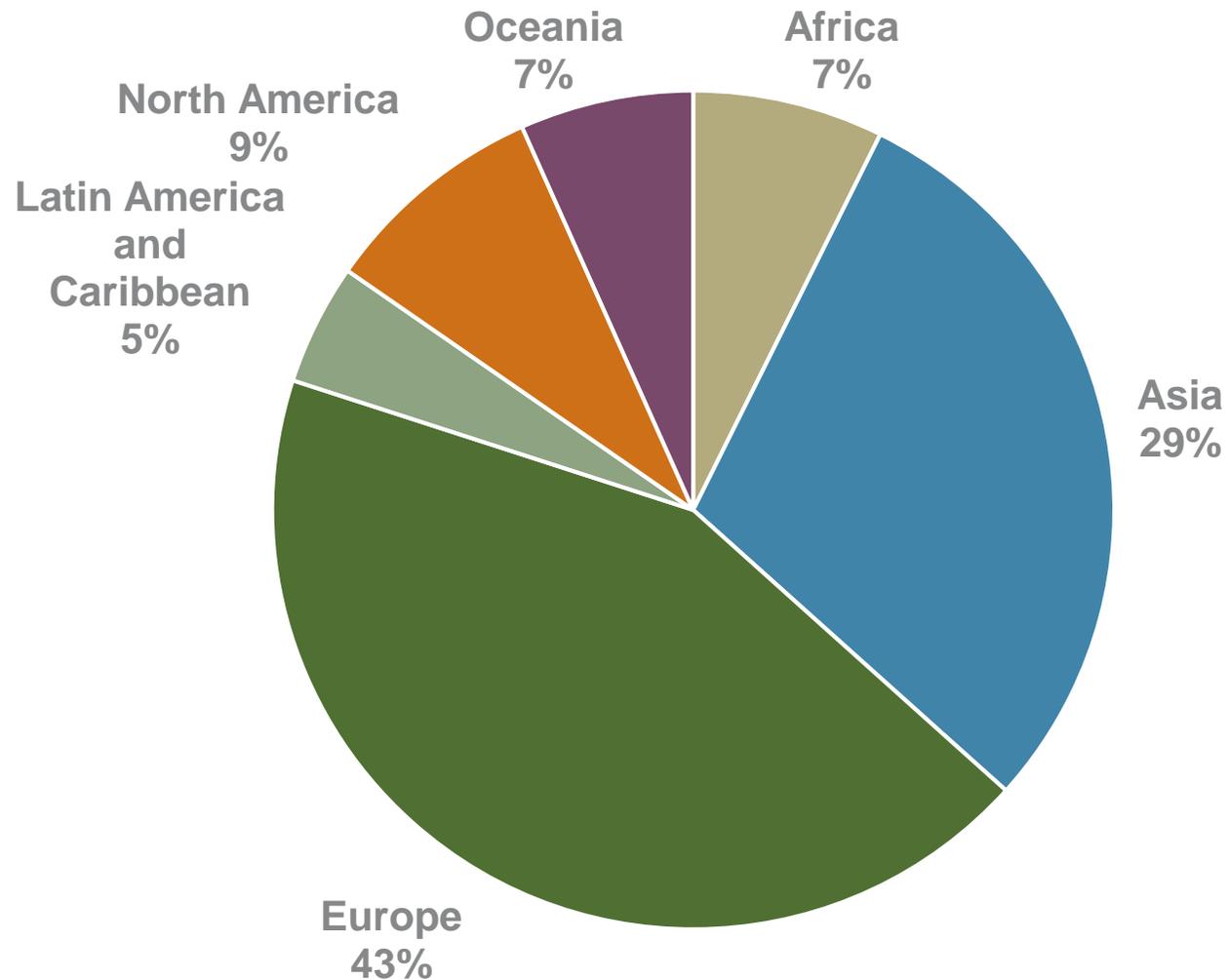
150 entities

Sample—Industry distribution

150 entities

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

Fair value hierarchy

IFRS 13 categorises into three levels the inputs to valuation techniques used to measure fair value for assets or liabilities:

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.

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