IFRS

STAFF PAPER

November 2019

IASB® Meeting

Project	**Disclosure Initiative: Targeted Standards-level Review of Disclosures**
Paper topic	IFRS 13 Items of information for disclosure

CONTACTS	Aishat Akinwale	aakinwale@ifrs.org	+44 (0) 20 7246 6910
	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970

Purpose of this paper

1. The purpose of this paper is to present staff analysis and recommendations about the items of information that could be used to meet the specific disclosure objectives for IFRS 13 *Fair Value Measurement* that the Board tentatively decided on at its September 2019 meeting.

Structure of this paper

2. The paper is structured as follows:
   (a) Background (paragraphs 3-4)
   (b) Approach to staff analysis and recommendations (paragraphs 5-18)
   (c) Items of information to meet the specific disclosure objectives for:
      (i) items measured at fair value (paragraphs 19-51)
      (ii) items *not* measured at fair value but for which fair value is disclosed (paragraphs 52-58)
   (d) Existing IFRS 13 disclosure requirements not captured by the specific disclosure objectives (paragraphs 59-70)
   (e) Appendix A: Summary of staff recommendations in this paper
   (f) Appendix B: Mapping of existing IFRS 13 disclosure requirements to staff recommendations in this paper

(g) Appendix C: Illustrative examples of information to meet specific disclosure objectives

Background

3. At its July 2018 meeting, the Board selected IFRS 13 as one of the two Standards on which to test the draft Guidance for the Board to use when developing and drafting disclosure objectives and requirements in future (draft Guidance).

4. At its May 2019 meeting, the Board tentatively decided:

   (a) that the first step of the test should be to use feedback from stakeholders about fair value measurement disclosures to develop and clearly articulate disclosure objectives. The Board made decisions about these objectives at its September 2019 meeting (see ***September 2019 Agenda Paper 11A***).

   (b) to subsequently proceed with linking the specific disclosure objectives to existing IFRS 13 disclosure requirements and refining the proposals by considering:

      (i) any disclosure information required by IFRS 13 that cannot be linked to a specific objective; and

      (ii) any information identified by users as useful that is not currently required by IFRS 13.

   That is the focus of this paper.

Approach to staff analysis and summary of staff recommendations

5. This paper should be read alongside Agenda Paper 11A. That paper provides our analysis on the use of language and summarises our approach to analysing items of information to meet the specific disclosure objectives in IFRS 13.

6. For each specific disclosure objective, we have analysed:

   (a) whether existing IFRS 13 disclosure requirements can be linked to the objective; and

   (b) in some cases, whether any additional items of information should be considered for inclusion based on stakeholder feedback.

7. Our staff recommendations take a consistent approach to the following two areas:

   (a) disclosure requirements by level of the fair value hierarchy (paragraphs 9-17); and

   (b) disclosure requirements for recurring and non-recurring fair value measurements (paragraph 18).

8. A complete summary of all recommendations is included in Appendix A.

Disclosure requirements by level of the fair value hierarchy

9. IFRS 13 currently requires a number of disclosures only for items in Level 3 of the fair value hierarchy. Paragraph BC187 of IFRS 13 states that those disclosures were developed in response to user requests for more information about Level 3 fair value measurements.

10. Since IFRS 13 was issued in May 2011, the Board has received feedback from stakeholders, including preparers and users—through our detailed outreach and the post-implementation review (PIR) of the Standard—on the practical outcome of those specific disclosure requirements.

11. Preparers tell us these disclosures are costly to prepare and that users rarely have questions about them. Meanwhile, users have expressed concerns about the application of materiality to fair value disclosures. They tell us that preparers often provide detailed information about immaterial fair value measurements and insufficient information about material fair value measurements. For example, if Level 2 fair value measurements are material and Level 3 fair value measurements are immaterial, users tell us they would rather see detailed and relevant disclosures about Level 2 than Level 3.

12. Furthermore, some users are of the view that if an item falls within the grey area between clearly Level 2 and clearly Level 3, an entity might be motivated to categorise the item as Level 2 to avoid having to prepare detailed disclosures. Users also tell us that, if such 'grey area' items are material, detailed disclosure is important to them.

13. In light of all feedback received, we think it is unhelpful to list specific items of information for disclosure only for particular levels of the fair value hierarchy. All

feedback received indicates that, in practical terms, this approach encourages preparers to:

(a) focus their disclosure on Level 3 fair value measurements, even when these are immaterial; and

(b) disclose little information about other fair value measurements, even where these are material.

14. Consequently, in the recommendations that follow, we have avoided making reference to specific levels of the fair value hierarchy. We think such an approach is necessary to address the grey areas between items categorised in Level 2 and Level 3 of the fair value hierarchy. However, we acknowledge that this approach would require preparers to make judgements about which items measured at fair value they should provide disclosure for. In particular, this relates to the specific disclosure objectives about:

(a) significant techniques and inputs (paragraphs 30-34);

(b) drivers of change in the fair value measurements (paragraphs 35-44); and

(c) range of reasonably possible fair values (paragraphs 45-51).

15. We think preparers could apply judgment based on the level of subjectivity in an item's fair value measurement. Therefore, we think this approach would not necessitate detailed information for Level 1 items and most Level 2 items. However, we expect material information about Level 2 items that require significant amounts of judgement would be captured by the disclosures.

16. Some say items requiring a significant amount of judgment would always be categorised in Level 3. However, we understand that this is not the case in practice. Furthermore, we think there will always be a 'grey area' at the boundary between levels. Level 2 items that users would like to see information about are those that are close to the Level 3 'boundary'. We note that any such information constitutes material information about a material item in the financial statements. Consequently, that information is already captured by the overarching requirements of IAS 1 *Presentation of Financial Statements*. We do not expect our recommended approach to result in *any* additional information beyond that which is material and should already be disclosed.

17. In most cases, we expect the main practical impact of our recommended approach will be to help preparers remove immaterial disclosure from the financial statements. This is because it will discourage companies from applying items of information to all Level 3 items in a checklist fashion and instead to think more broadly about what should be disclosed about their fair value measurements.

Disclosure requirements for recurring and non-recurring fair value measurements

18. The disclosures in IFRS 13 differentiate fair value measurements that are recurring from those that are non-recurring. Paragraph BC186 of IFRS 13 states that this distinction was based on user requests to include the same principles for disclosing information about fair value measurement in IFRS 13 that are in US GAAP. We did not receive feedback from users to suggest that such distinction is no longer necessary. Consequently, in the recommendations that follow, we have retained any such differentiation for those existing disclosure requirements that can be linked to an objective.

Items of information to meet the specific disclosure objectives for items measured at fair value

19. At its September 2019 meeting, the Board tentatively decided to include four specific disclosure objectives in IFRS 13 for an asset, a liability or an entity's own equity instrument ("an item") that is measured at fair value in the statement of financial position.

20. These objectives would require an entity to disclose information that enables users of financial statements to:

    (a) understand the items within each level of the fair value hierarchy (paragraphs 21-29).

    (b) understand the significant techniques and inputs used (paragraphs 30-34).

    (c) understand the drivers of change in the fair value measurements (paragraphs 35-44).

    (d) understand the range of reasonably possible fair values (paragraphs 45-51).

Items within each level of the fair value hierarchy

Background

21. The Board tentatively decided to include the following specific disclosure objective in IFRS 13:

> An entity shall disclose information that enables users of financial statements to understand the amount, nature and other characteristics of the classes of assets, liabilities and an entity's own equity instruments within each level of the fair value hierarchy

22. Subject to drafting, the Board also tentatively decided to explain in IFRS 13 that users need such information to:

    (a) assess the relative subjectivity in the assessment of where the entity's assets, liabilities and own equity instruments are in the fair value hierarchy; and

    (b) evaluate the effect of the fair value measurements on the financial position of the entity.

Items of information for disclosure

23. This specific disclosure objective is intended to capture information that enables users to assess the 'quality' of fair value measurements. That is, users want to assess whether an item categorised within Level 2 of the fair value hierarchy appears closer to the items within Level 3 or those within Level 1.

Existing IFRS 13 disclosure requirements

24. Staff have analysed whether existing IFRS 13 disclosure requirements can be linked to the specific disclosure objective in paragraph 21:

Paragraph in IFRS 13		Staff analysis—should the requirement be linked to the specific disclosure objective in paragraph 21?
93(a)	for recurring and non-recurring fair value measurements, the fair value measurements at the end of the reporting period, and for non-recurring measurements, the reasons for measurement.	Information captured by this requirement addresses user needs about the *amount* recognised within each level of the fair value hierarchy. Therefore, we think this information should be linked to the objective.
93(b)	for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)	Information captured by this requirement addresses user needs about understanding what items are in each level of the fair value hierarchy. Therefore, we think this information should be linked to the objective.
98	for a liability measured at fair value and issued with an inseparable third-party credit enhancement, disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability	We did not receive any feedback from users on the information captured by this requirement. However, the draft Guidance requires the Board to consider disclosures necessary to support the recognition and measurement requirements in the Standard, even if that information was not identified by users. We think the information captured by this requirement provides users with relevant information about the *characteristics* of a liability measured at fair value. Therefore, we think this information should be linked to the objective.

Other useful information not currently required by IFRS 13

25. CMAC members have provided feedback that a breakdown of items within each level of the fair value hierarchy, along with clear descriptions of those items, is useful for their analysis. Such information is important because it enables users to understand the *nature and other characteristics* referred to in the objective.

26. Consequently, staff think the Board should include in IFRS 13 that while not mandatory, describing the nature, characteristics and risks associated with the items in each level of the fair value hierarchy may enable an entity to meet the objective. This is likely to be necessary for those items whose one-line description, in a table of assets and liabilities by level of the fair value hierarchy, is not sufficiently clear or self-explanatory to enable user understanding. Where

an entity provides such disclosure in accordance with other IFRS Standards and in a separate note from the fair value note, we think the entity could use cross-referencing.

Staff conclusion and recommendation

27. We think it would not be possible to comply with an objective about the amount included in each level of the hierarchy without disclosing the fair value measurements by level of the fair value hierarchy. Consequently, we think the Board should include this item of information using the prescriptive ‘shall’ language.

28. Consequently, staff recommend that the Board:

    (a) *require an entity to disclose*, for recurring and non-recurring fair value measurements, the fair value measurements at the end of the reporting period by level of the fair value hierarchy within which those measurements are categorised in their entirety.

    (b) include in IFRS 13 that, while not mandatory, the following items of information may enable an entity to meet the objective in paragraph 21 for recurring and non-recurring fair value measurements:

        (i) description of the nature, characteristics and risks of the assets, liabilities and own equity instruments in each level of the fair value hierarchy (or a cross reference to where that information is disclosed).

        (ii) description of any inseparable third-party credit enhancement and whether such enhancement is reflected in the fair value measurement.

29. Staff have provided an example to illustrate the kind of information that entities could provide to comply with the specific disclosure objective in this area—see Appendix C.

Question 1
Does the Board agree with the staff recommendation in paragraph 28?

Significant techniques and inputs used

Background

30. The Board tentatively decided to include the following specific disclosure objective in IFRS 13:

> An entity shall disclose information that enables users of financial statements to understand the significant techniques and inputs used in deriving its fair value measurements

31. The Board also tentatively decided to explain in IFRS 13 that users need such information to assess the measurement uncertainties associated with the determination of the fair value measurements.

Items of information for disclosure

Existing IFRS 13 disclosure requirements

32. Staff have analysed whether existing IFRS 13 disclosure requirements can be linked to the specific disclosure objective in paragraph 30:

Paragraph in IFRS 13		Staff analysis—should the requirement be linked to the specific disclosure objective in paragraph 30?
93(d)	for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy:	Information captured by these requirements is directly responsive to user information needs. Therefore, we think this information should be linked to the objective.
	… a description of the valuation technique(s) and inputs used in the fair value measurement	
	… if there has been a change in valuation technique, disclose that change and the reason(s) for making it	
93(d)	for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, provide quantitative information about the significant unobservable inputs used in the fair value measurement	Preparers consistently say this information is particularly costly to prepare. However, users tell us that preparers often provide the information for measurements that are not material in their case. We think, when particular fair value measurements are material,

		quantitative information about the *significant* inputs used, whether observable or unobservable, are important in meeting the objective. Therefore, we think this information should be linked to the objective. For the reasons described in paragraphs 9-17 of this paper, we recommend removing reference to particular levels from the items of information. This is because users tell us that there are some 'grey areas' between levels of the fair value hierarchy and that there are cases in which they would like to see this information for material fair value measurements other than those in Level 3.
93(i)	for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use (*Note*—Paragraph 27 of IFRS 13 requires the highest and best use (HBU) of a non-financial asset to be considered when measuring its fair value, even if that use is different from the asset's current use)	We did not receive any feedback from users on the information captured by these requirements. However, the draft Guidance requires the Board to consider disclosures necessary to support the recognition and measurement requirements, even if that information was not identified by users. We think information captured by these requirements help users to understand *how* the entity determined its fair value measurement. Therefore, we think these sets of information should be linked to the objective.
96	If an entity makes an accounting policy decision to use the exception in paragraph 48 [of IFRS 13], it shall disclose that fact (*Note*—the exception allows an entity to measure a group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risks.)	

Staff conclusion and recommendation

33. Staff recommend that the Board include in IFRS 13 that, while not mandatory, the following items of information may enable an entity to meet the objective in paragraph 30 for recurring and non-recurring fair value measurements:

(a) description of the significant valuation techniques used in the fair value measurement.

(b) if there has been a change in valuation technique, description of the change and the reason(s) for making it.

(c) description of the significant inputs used in the fair value measurement, for example, quantitative information or narrative information.

(d) description of that fact that, and reason(s) why, the highest and best use of a non-financial asset differs from its current use.

(e) description of the fact that an entity makes an accounting policy decision to use the valuation exception in paragraph 48 of IFRS 13 for financial assets and financial liabilities.

34. We considered whether the items of information in paragraph 33(a) and 33(e) should be included in IFRS 13 using the prescriptive ‘shall’ language, noting that:

(a) the description of the item of information in paragraph 33(a) is similar to the objective for this information; and

(b) it could be argued that the information described in paragraph 33(e) is always relevant <u>if</u> the entity makes that accounting policy choice (and the effect of that choice is material).

However, we have not recommended that approach. This is because we think their disclosure would not always be *essential* to meet the objective in paragraph 30. For comparison, we think no fair value note in the financial statements would be complete without the recommended information in paragraph 28(a) (for which we have recommended prescriptive language).

Question 2
Does the Board agree with the staff recommendation in paragraph 33?

Drivers of change in the fair value measurement

Background

35. The Board tentatively decided to include the following specific disclosure objective in IFRS 13:

> An entity shall disclose information that enables users of financial statements to understand the drivers of change in the fair value measurements from the beginning of a reporting period to the end of that period

36. The Board also tentatively decided to explain in IFRS 13 that users need such information to evaluate how the entity's fair value measurements are affected by significant transactions and other events during the period.

Items of information for disclosure

Existing IFRS 13 disclosure requirements

37. Staff have analysed whether existing IFRS 13 disclosure requirements can be linked to the specific disclosure objective in paragraph 35:

Paragraph in IFRS 13		Staff analysis—should the requirement be linked to the specific disclosure objective in paragraph 35?
93(c)	for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred	Users have indicated that transfers between levels is an important driver of change for them to incorporate into their analysis. This is not limited to transfers between Level 1 and Level 2 but relates to all transfers (see paragraph 39(a)). Therefore, we think information about transfers between levels of the fair value hierarchy should be linked to the objective.
93(e)	for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately: i. total gains or losses for the period recognised in profit or loss, and the line item(s) in	Information captured by these requirements is directly responsive to the objective . Therefore, we think these sets of information should be linked to the objective. However, we think these sets of information should not be limited only to level 3 fair value measurements. This is for the reasons described in paragraphs 9-17 of this paper. User needs about drivers

profit or loss in which those gains or losses are recognised ii. total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised iii. purchases, sales, issues and settlements (each of those types of changes disclosed separately) iv. the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred.	of change in fair value measurements relate to *material* fair value measurements rather than specifically to Level 3 items. Finally, we note that a reconciliation is one way of meeting the objective, however it is not the only way (see paragraphs 40-42).
93(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in [paragraph 93(e)(i)] included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised	

Other useful information not currently required by IFRS 13

38. The IFRS Taxonomy team undertakes common reporting practice projects to identify information that is frequently disclosed by preparers but not specifically required by IFRS Standards. In early 2019, the IFRS Taxonomy team completed a common practice review of IFRS 13.

39. The common practice review identified the following items that companies commonly disclosed about the drivers of change in fair value measurement:

(a) a narrative statement when there have been no transfers between levels of the fair value hierarchy. Note that in our detailed outreach, some users identified transfers into and out of the levels as some of the most important items in fair value measurement disclosures. Consequently, we agree that disclosing—when relevant—that no transfers have been made during the period is useful information to users; and

(b) the quantitative effect of foreign exchange rates on fair value measurements.

Different ways of meeting the disclosure objective

40. Staff think the feedback from users in our detailed outreach suggests there might be more cost-effective ways of meeting the specific disclosure objective than a reconciliation. For example, if there are only one or two material drivers of change in fair value measurements during a reporting period, a concise explanation of those changes and their amounts may fulfil user information needs.

41. This is also consistent with feedback to the *Request for Information* on the PIR of IFRS 13. Those respondents suggested that the Board replace the existing reconciliation requirement with either:

(a) disclosure of specific information; or

(b) narrative description of changes in period.

42. Consequently, in developing the recommendation below, we have treated a reconciliation as *one* way of meeting the objective—but not the only way.

Staff conclusion and recommendation

43. Staff recommend that the Board include in IFRS 13 that, while not mandatory, the following items of information may enable an entity to meet the specific disclosure objective in paragraph 35 for recurring fair value measurements:

(a) information about significant drivers of change during the period (see paragraph 44), for example by:

(i) narrative explanation; or

(ii) tabular reconciliation.

(b) reasons for any transfers during the period and the entity's policy for determining when transfers are deemed to have occurred.

(c) disclosure of the fact when there have been no transfers during the period.

44. Examples of drivers of changes include but are not limited to:

(a) the amounts of any transfers between levels of the fair value hierarchy.

(b) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.

(c) total gains or losses for the period in 44(b) included in profit or loss that is attributable to the change in unrealised gains or losses, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

(d) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in profit or loss in which those gains or losses are recognised.

(e) purchases, sales, issues and settlements.

(f) effect of foreign exchange rate differences.

Question 3
Does the Board agree with the staff recommendation in paragraph 43?

Range of reasonably possible fair values

Background

45. The Board tentatively decided to include the following specific disclosure objective in IFRS 13:

> An entity shall disclose information that enables users of financial statements to understand the range of reasonably possible fair values at the reporting date for the assets, liabilities and an entity's own equity instruments measured at fair value

46. The Board also tentatively decided to explain in IFRS 13 that users need such information to:

(a) evaluate the possible effects of an entity's fair value measurements on the financial statements; and

(b) evaluate how reasonably possible changes in fair value measurements might affect the entity's cash flows.

Items of information for disclosure

Existing IFRS 13 disclosure requirements

47. Staff have analysed whether existing IFRS 13 disclosure requirements can be linked to the specific disclosure objective in paragraph 45:

Paragraph in IFRS 13		Staff analysis—should the requirement be linked to the specific disclosure objective in paragraph 45?
93(h)(i)	for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, 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	Information captured by this requirement helps users to understand the overall directional effect of a change in unobservable inputs on fair value measurement. This is directly responsive to the objective. Therefore, we think this information should be linked to the objective.
93(h)(i)	for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, if there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, a description of those interrelationships and how they might magnify or mitigate the effects of changes in the unobservable inputs on the fair value measurement	We think there will be cases in which explanation of interrelationships between inputs will help users to understand the range of reasonably possible fair value measurements. This might be the case, for example, if a material change in one input would always lead to a material change in a different input. Therefore, we think this information should be linked to the objective.
93(h)(ii)	for recurring financial assets and financial liabilities categorised within Level 3 of the fair value hierarchy, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, state the fact and the effect of those changes	Similar to the above, we think there will be cases in which information about the effect of changing one or more inputs will help users to understand the range of reasonably possible fair value measurements. This might be the case, for example, if changing one input would have a material effect on that

		overall range. Therefore, we think this information should be linked to the objective.
93(h)(ii)	for recurring financial assets and financial liabilities categorised within Level 3 of the fair value hierarchy, disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated.	We think there will be cases in which information about how the effect of an alternative input was calculated will help users to understand the range of reasonably possible fair value measurements. This might be the case, for example, when there are multiple possible ways of calculating such a change. Therefore, we think this information should be linked to the objective.

Removing references to sensitivity analysis

48. Feedback during the PIR of IFRS 13 indicated that stakeholder understanding of the existing requirements on sensitivity analysis could be improved. In particular, some stakeholders see sensitivity analysis as a forward-looking disclosure about possible future changes and not a disclosure about measurement uncertainty as at the reporting date.

49. The US standard setter, the Financial Accounting Standards Board (FASB) received the same feedback on Topic 820 *Fair Value Measurement*, which is substantially converged with IFRS 13. As part of its amendments to the disclosure requirements in Topic 820 (completed in August 2018), the FASB removed specific references to ‘sensitivity’.

50. Consequently, in linking the information captured by these existing requirements with the specific disclosure objective, we think it is important to use wording that relates directly to measurement uncertainty at the reporting date. This is reflected in our recommendation below.

Staff conclusion and recommendation

51. Staff recommend that the Board include in IFRS 13 that, while not mandatory, the following items of information may enable an entity to meet the specific disclosure objective in paragraph 45 for recurring fair value measurements:

(a) description of the uncertainty from the use of significant inputs if those inputs could have reasonably been different at the reporting date and resulted in a significantly higher or lower fair value measurement.

(b) the range of possible fair values reflecting the higher and lower fair value measurement using the reasonably possible alternative inputs at the reporting date.

(c) description of interrelationships between inputs used in fair value measurement and how they magnify or mitigate the effect of changes in inputs on fair value measurement.

(d) disclosure of how the effect of changes to reflect reasonably possible alternative inputs were calculated.

Question 4

Does the Board agree with the staff recommendation in paragraph 51?

Items of information to meet the specific disclosure objectives for items *not* measured at fair value but for which fair value is disclosed

Background

52. At its September 2019 meeting, the Board tentatively decided to include the following specific disclosure objective in IFRS 13 for items that an entity is not required to measure at fair value in the statement of financial position but for which the entity discloses fair value in the notes to the financial statements:

> An entity shall disclose information that enables users of financial statements to understand the amount, nature and other characteristics of the classes of assets and liabilities within each level of the fair value hierarchy

53. The Board also tentatively decided to include a similar explanation about why users need the information as described in paragraph 22.

Items of information for disclosure

Existing IFRS 13 disclosure requirements

54. Paragraph 97 of IFRS 13 requires that:

> "For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose information required by 93(b), (d) and (i) [of IFRS 13]"

55. Therefore, staff have analysed whether the following existing IFRS disclosure requirements can be linked to the specific disclosure objective in paragraph 52 for items *not* measured at fair value but for which fair value is disclosed:

<table>
<tr><th colspan="2">Paragraph in IFRS 13</th><th>Staff analysis—should the requirement be linked to the specific disclosure objective in paragraph 52?</th></tr>
<tr><td>93(b)</td><td>for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3)</td><td>Similar to the staff analysis in paragraph 24, we think information captured by this requirement addresses user needs about what items are in each level of the fair value hierarchy. Therefore, we think this information should be linked to the objective.</td></tr>
<tr><td rowspan="4">93(d)</td><td>for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy:</td><td rowspan="5">Users have provided feedback that they do not need detailed information about fair value for items not measured at fair value but for which fair value is disclosed (see <u>September 2019 Agenda Paper 11A</u>).

These existing requirements capture such detailed information. They are not directly responsive to the objective. Therefore, we think these sets of information should not be linked to the objective.</td></tr>
<tr><td>… a description of the valuation technique(s) and inputs used in the fair value measurement</td></tr>
<tr><td>… if there has been a change in valuation technique, disclose that change and the reason(s) for making it</td></tr>
<tr><td>… quantitative information about the significant unobservable inputs used in the fair value measurement</td></tr>
<tr><td>93(i)</td><td>for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.</td></tr>
</table>

Other useful information not currently required by IFRS 13

56. This specific disclosure objective is the same as that described in paragraph 21 for items that are measured at fair value. Therefore, staff think the Board should

include the same recommended items of information as described in paragraph 28, with the exception of the item in paragraph 28(b)(ii) about inseparable third-party credit enhancements. We think such information is only relevant for items measured at fair value.

Staff conclusion and recommendation

57. We think it would not be possible to comply with an objective about the amount by level of hierarchy without disclosing the fair value measurements by level of the fair value hierarchy. Consequently, we think the Board should include this item of information using the prescriptive ‘shall’ language. This is the same approach to our recommendation for the similar objective for items measured at fair value.

58. Consequently, staff recommend that the Board:

(a) *require an entity to disclose* the fair value measurements at the end of the reporting period by level of the fair value hierarchy within which those measurements are categorised in their entirety.

(b) include in IFRS 13 that, while not mandatory, a description of the nature, characteristics and risks of the assets, liabilities and own equity instruments (or a cross reference to where that information is disclosed) may enable an entity to meet the objective in paragraph 52).

Question 5
Does the Board agree with the staff recommendation in paragraph 58?

Existing IFRS 13 disclosure requirements not captured by the specific disclosure objectives

59. The staff analysis and recommendations in paragraphs 21-58 cover all the existing IFRS 13 disclosure requirements with a few exceptions. These exceptions relate to the existing requirements:

(a) about factors to consider in providing fair value disclosures (paragraphs 60-62);

(b) to disclose valuation processes (paragraphs 63-64);

(c) about determining the appropriate classes of assets and liabilities and when transfers between levels have occurred (paragraphs 65-67); and

(d) to present quantitative information in a tabular format (paragraphs 68-70).

Factors to consider in providing fair value disclosures

60. Paragraph 92 of IFRS 13 requires an entity to consider the following factors in determining the information to provide to meet the disclosure objective in the Standard:

(a) the level of detail necessary to satisfy the disclosure requirements.

(b) how much emphasis to place on each of the various requirements.

(c) how much aggregation or disaggregation to undertake.

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

61. We think this requirement has been captured by the high-level, catch-all disclosure objective that the Board has tentatively decided to include in IFRS 13. The objective says that an entity should:

(a) disclose information for users to evaluate an entity’s exposure to uncertainties associated with fair value measurements; and

(b) consider the level of detail necessary to satisfy the specific disclosure objectives and ensure that any useful information about the entity’s fair value measurement is not obscured by a large amount of significant detail.

62. In addition, we think the specific disclosure objectives and the items of information are detailed enough to ensure entities provide the necessary information to meet user needs. Consequently, we recommend that the requirement in paragraph 92 of IFRS 13 should not be linked to any specific disclosure objective.

Question 6
Does the Board agree with the staff recommendation in paragraph 62?

Valuation processes

63. Paragraph 93(g) of IFRS 13 requires an entity to disclose the valuation processes used for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy.

64. Staff recommend that the Board should not retain this existing disclosure requirement because:

    (a) it does not relate to any of the specific disclosure objectives the Board has tentatively decided to include in IFRS 13. User feedback from our detailed outreach, as well as during the PIR of IFRS 13, is that the information is not useful for their analysis. Rather, users indicated that the information captured by the specific disclosure objectives in paragraphs 21 and 30 would be more relevant for their analysis on the relative subjectivity of fair value measurements.

    (b) as part of its amendments to Topic 820, the FASB removed the same requirement to disclose valuation processes. The FASB made this decision in response to feedback from its stakeholders that the usefulness of the information does not justify the cost of providing it.

Question 7
Does the Board agree with the staff recommendation in paragraph 64?

Determining appropriate classes of assets and liabilities and the policy for transfers between levels

65. Paragraph 94 of IFRS 13 contains requirements about how an entity determines the appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided. Furthermore, paragraph 95 of IFRS 13 contains requirements about how an entity determines its policy for the timing of transfers between levels of the fair value hierarchy.

66. These existing requirements help an entity to determine what to disclose in complying with one or more of the other existing disclosure requirements in IFRS 13. Similarly, we think these paragraphs will be helpful to an entity in

determining how to comply with the specific disclosure objectives described in this paper. In particular, we think:

(a) the information captured by the requirement in paragraph 94 of IFRS 13 would help an entity to meet the specific disclosure objective about items within each level of the fair value hierarchy (see paragraphs 21-29).

(b) the information captured by the requirement in paragraph 95 of IFRS 13 would help an entity to meet the specific disclosure objective about drivers of change in the fair value measurement from one period to another (see paragraphs 35-44).

67. Consequently, we recommend that the information included in these existing requirements should be linked to the specific disclosure objectives referred to in paragraph 66.

Question 8
Does the Board agree with the staff recommendation in paragraph 67?

Presentation format

68. Paragraph 99 of IFRS 13 requires an entity to present quantitative disclosures required by the Standard in a tabular format unless another format is more appropriate.

69. Staff acknowledge that preparers must consider how best to communicate the information it provides to meet the specific disclosure objectives. However, we think the drafting of the specific disclosure objectives along with the items of information to meet the objective is sufficient in helping preparers to effectively communicate the information in the best possible way.

70. Consequently, we recommend that the Board should not retain the disclosure requirement in paragraph 99 of IFRS 13.

Question 9
Does the Board agree with the staff recommendation in paragraph 70?

Appendix A: Summary of staff recommendations in this paper

Specific disclosure objectives	Why do users need this information?	Staff's recommended items of information
For assets, liabilities and own equity instruments *measured at fair value* in the statement of financial position		
An entity shall disclose information that enables users of financial statements to understand the amount, nature and other characteristics of the classes of assets, liabilities and an entity's own equity instruments within each level of the fair value hierarchy	(a) Assess the relative subjectivity in the assessment of where the entity's assets, liabilities and own equity instruments are in the fair value hierarchy; and (b) Evaluate the effect of the fair value measurements on the financial position of the entity.	1. An entity shall disclose the fair value measurements at the end of the reporting period by level of the fair value hierarchy within which those measurements are categorised in their entirety. 2. While not mandatory, the following may enable an entity to meet the objective: (a) description of the nature, characteristics and risks of the assets, liabilities and own equity instruments in each level of the fair value hierarchy (or a cross-reference to where that information is disclosed). (b) description of any inseparable third-party credit enhancement and whether such enhancement is reflected in the fair value measurement.
Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be made requires judgement. An entity considers: (a) the nature, characteristics and risks of the asset, liability or own equity instrument; and (b) the level of the fair value hierarchy within which the fair value measurement is categorised The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, in complying with the specific disclosure objective, an entity should permit sufficient reconciliation to the line items presented in the statement of financial position.		

<table>
<tr><td>An entity shall disclose information that enables users of financial statements to understand the significant techniques and inputs used in deriving its fair value measurements</td><td>Assess the measurement uncertainties associated with the determination of the fair value measurements</td><td>While not mandatory, the following may enable an entity to meet the objective:
1. description of the significant valuation techniques used in the fair value measurement.
2. if there has been a change in valuation technique, description of the change and the reason(s) for making it.
3. description of the significant inputs used in the fair value measurement, for example, quantitative information or narrative information.
4. description of the fact that, and reasons why, the highest and best use of a non-financial asset differs from its current use.
5. description of the fact that an entity makes an accounting policy decision to use the valuation exception in paragraph 48 of IFRS 13 for financial assets and financial liabilities.</td></tr>
<tr><td>An entity shall disclose information that enables users of financial statements to understand the drivers of change in the fair value measurements from the beginning of a reporting period to the end of that period</td><td>Evaluate how the entity’s fair value measurements are affected by significant transactions and other events during the period</td><td>While not mandatory, the following may enable an entity to meet the objective:
1. information about the significant drivers of change during the period (see below), for example by:
(a) narrative explanation; or
(b) tabular reconciliation.
2. reasons for any transfers during the period and the entity’s policy for determining when transfers are deemed to have occurred.
3. the fact when there have been no transfers during the period.</td></tr>
<tr><td colspan="3">Examples of drivers of changes include but are not limited to:
(a) the amounts of any transfers between levels of the fair value hierarchy.
(b) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.
(c) total gains or losses for the period in (b) above included in profit or loss that is attributable to the change in unrealised gains or losses, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.
(d) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in profit or loss in which those gains or losses are recognised.
(e) purchases, sales, issues and settlements.
(f) effect of foreign exchange rate differences.</td></tr>
</table>

<table>
<tr><td colspan="3">Examples of policies for determining the timing of transfers include:
(a) the date of the event of change in circumstances that caused the transfer.
(b) the beginning of the reporting period.
(c) the end of the reporting period.</td></tr>
<tr><td>An entity shall disclose information that enables users of financial statements to understand the reasonably possible fair values at the reporting date for the assets, liabilities and an entity’s own equity instruments measured at fair value</td><td>(a) Evaluate the possible effects of an entity’s fair value measurements on the financial statements; and

(b) Evaluate how reasonably possible changes in fair value measurements might affect the entity’s cash flows.</td><td>While not mandatory, the following may enable an entity to meet the objective:
1. description of the uncertainty from the use of significant inputs if those inputs could have reasonably been different at the reporting date and resulted in a significantly higher or lower fair value measurement.
2. the range of possible fair values reflecting the higher and lower fair value measurement using the reasonably possible alternative inputs at the reporting date.
3. description of interrelationships between inputs used in fair value measurement and how they magnify or mitigate the effect of changes in inputs on fair value measurement.
4. how the effect of a change to reflect reasonably possible alternative inputs were calculated.</td></tr>
<tr><td colspan="3">For assets, liabilities and own equity instruments not measured at fair value but for which fair value is disclosed</td></tr>
<tr><td>An entity shall disclose information that enables users of financial statements to understand the amount, nature and other characteristics of the classes of assets and liabilities within each level of the fair value hierarchy</td><td>(a) Assess the relative subjectivity in the assessment of where the entity’s assets and liabilities would be in the fair value hierarchy; and

(b) Assess the potential effect of items not measured at fair value on the financial position of the entity.</td><td>1. An entity shall disclose the fair value measurements at the end of the reporting period by level of the fair value hierarchy within which those measurements are categorised in their entirety.
2. While not mandatory, a description of the nature, characteristics and risks of the assets, liabilities and own equity instruments (or a cross-reference to where that information is disclosed) may enable an entity to meet the objective.</td></tr>
</table>

Appendix B: Mapping of existing IFRS 13 disclosure requirements compared to staff recommendations in this paper

Paragraph in IFRS 13	Has this been linked to a specific disclosure objective?
92	***No***—this has already been captured as part of the high-level, catch-all objective (see paragraphs 60-62)
93(a)	***Yes***—to the specific disclosure objective around items within each level of the fair value hierarchy (see paragraphs 21-29)
93(b)	
93(c)	***Yes***—to the specific disclosure objective around drivers of change in the fair value measurements (see paragraphs 35-44)
93(d)	***Yes***—to the specific disclosure objective around significant techniques and inputs (see paragraphs 30-34)
93(e)	***Yes***—to the specific disclosure objective around drivers of change in the fair value measurements (see paragraphs 35-44)
93(f)	
93(g)	***No***—see paragraphs 63-64
93(h)	***Yes***—to the specific disclosure objective around range of reasonably possible fair values (see paragraphs 45-51)
93(i)	***Yes***—to the specific disclosure objective around significant techniques and inputs (see paragraphs 30-34)
94	***Yes***— to the specific disclosure objective around items within each level of the fair value hierarchy (see paragraphs 21-29)
95	***Yes***— to the specific disclosure objective around drivers of change in fair value measurements (see paragraphs 35-44)
96	***Yes***— to the specific disclosure objective around significant techniques and inputs (see paragraphs 30-34)
97	***Partly***—this relates to items not measured at fair value but for which fair value is disclosed. Some of the existing requirements that apply to the specific disclosure objective around items within each level of the fair value hierarchy have been linked (see paragraphs 52-58)
98	***Yes***—to the specific disclosure objective around items within each level of the fair value hierarchy (see paragraphs 21-29)
99	***No***—see paragraphs 68-70

Appendix C: Illustrative examples of information to meet specific disclosure objectives

Items within each level of the fair value hierarchy

The following example illustrates the information an entity might disclose to meet the specific disclosure objective in IFRS 13, about the items within each level of the fair value hierarchy, described in paragraph 21. This example modifies Illustrative Example 60 on IFRS 13.

Assets and liabilities held at fair value

The following table categorise the Group's assets and liabilities held at fair value as at 31 December 2018 by level of the fair value hierarchy in which they have been categorised.

Description	Quoted prices in active markets (Level 1) £m	Other observable inputs (Level 2) £m	Unobservable inputs (Level 3) £m	**Total £m**
Assets				
Trading equity securities	130	23	-	**153**
Derivatives:				
Interest rate contracts	-	57	-	57
Foreign exchange contracts	-	43	-	43
Credit contracts	-	-	38	38
Commodity futures contracts	78	-	-	78
Commodity forward contracts	-	20	-	20
Total derivatives	78	120	38	**236**
Total assets	**208**	**143**	**38**	**389**
Liabilities				
Trading liabilities	(66)	(18)	-	**(84)**
Contingent consideration liabilities (see below)			(400)	**(400)**
Derivatives:				
Interest rate swaps	-	(60)	-	(60)
Cross-currency swaps	-	(17)	-	(17)
Index-linked swaps	-	(50)	-	(50)
Commodity forward contracts	-	(29)	-	(29)
Total derivatives		(156)		**(156)**
Total liabilities	**(66)**	**(174)**	**(400)**	**(640)**

Contingent consideration payable measured in Level 3 at £400 million relate to the acquisition in 2017 of the ABC Enterprise business. This consideration is expected to be paid over a number of years. It will vary in line with the total revenue for the relevant products and movements in foreign currencies. Further information about the related contingencies are provided in Note 25, 'Contingent consideration liabilities'.