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Project	**Disclosure Initiative: Targeted Standards-Level Review of Disclosures**		
Paper topic	Preparer fieldwork results—IFRS 13 *Fair Value Measurement*		
CONTACT	Kathryn Donkersley	kdonkersley@ifrs.org	+44 (0) 20 7246 6970

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Purpose and structure of this paper

1. The purpose of this paper is to summarise preparer fieldwork findings on the fair value measurement proposals in the Exposure Draft *Disclosure Requirements in IFRS Standards—A Pilot Approach* (Exposure Draft) and ask the IASB if it has any questions or comments related to those findings.

2. This paper is structured as follows:

   (a) IFRS 13 fieldwork participants (paragraphs 3–5);

   (b) Fieldwork findings—overview (paragraphs 6–11);

   (c) Overall disclosure objective (paragraphs 12–13);

   (d) Removal of references to levels of the fair value hierarchy (paragraphs 14–27);

   (e) Assets and liabilities within each level of the fair value hierarchy (paragraphs 28–33);

   (f) Significant techniques and inputs used to determine fair value measurement (paragraphs 34–40);

   (g) Reasonably possible alternative fair value measurements (paragraphs 41–47);

   (h) Reasons for changes in fair value measurements (paragraphs 48–55);

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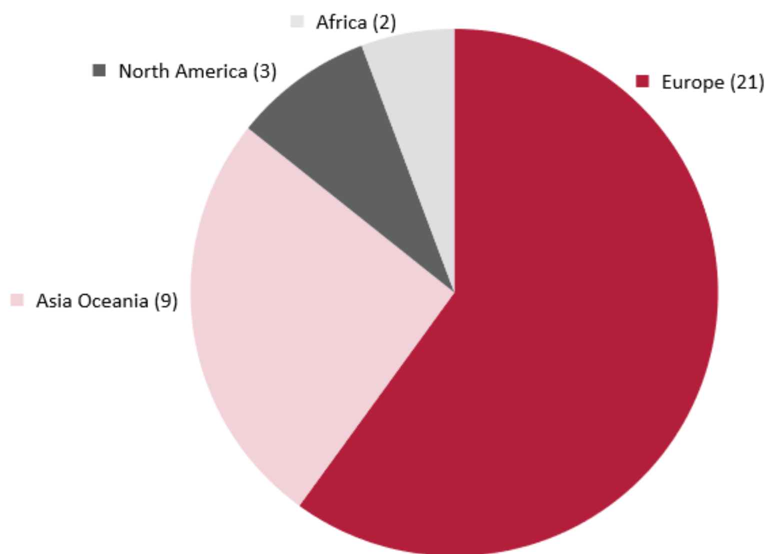
(i) Assets and liabilities not measured at fair value but for which fair value is disclosed (paragraphs 56–59); and

(j) Other fieldwork findings (paragraph 60).

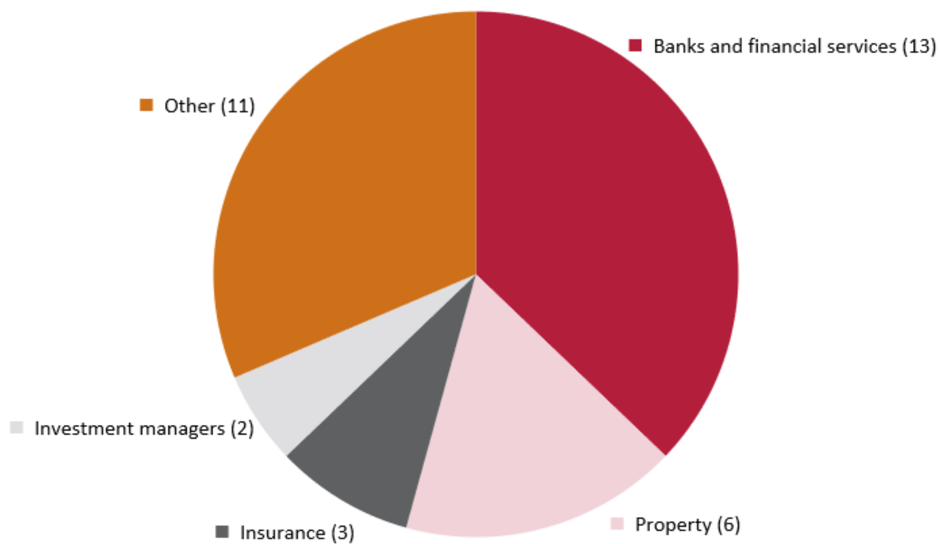
IFRS 13 Fieldwork participants

3. 35 of the 50 fieldwork participants applied the proposed disclosure requirements for IFRS 13.

4. The pie chart below summarises IFRS 13 fieldwork participants by jurisdiction:



5. The pie chart below summarises IFRS 13 fieldwork participants by industry:



Fieldwork findings—overview

6. Most participants found the proposed disclosure objectives for IFRS 13 clear and said they provided a useful basis for understanding the information needed by users of financial statements (users). However, consistent with the findings in Agenda Paper 11B, fieldwork participants expressed mixed views on whether they supported the IFRS 13 proposals overall. In light of the fieldwork, some participants strongly supported the proposals, some strongly disagreed with them, and there were a range of views in between those two extremes. This section summarises feedback:

    (a) from those that supported the proposals, including a summary of changes participants made to their disclosures applying the proposals (paragraph 8);

    (b) from those that did not support the proposals (paragraphs 9–10); and

    (c) about the costs of applying the proposals (paragraph 11).

7. The sections that follow summarise the fieldwork findings and feedback from participants about each technical aspect of the IFRS 13 proposals.

Participants that supported the IFRS 13 proposals

8. Some participants from all industries supported the proposed amendments to IFRS 13. They found the overall and specific disclosure objectives useful in explaining user needs and helping them to identify ways to make their disclosures more useful. Many of these participants had used the fieldwork as an opportunity to reconsider and improve their IFRS 13 note. Some said they would make improvements to the note in their next annual report—i.e., they would not wait for the proposals to be finalised. One participant—a bank—had shared their mock note with their own users who 'welcomed the new proposed note.' Others said the proposals enabled them to restructure, streamline or simplify their notes to better respond to user needs and to remove information that was not useful to users. Changes made by these participants included:

    (a) new or improved entity-specific, relevant information. For example:

- (i) descriptions of the fair value measurements that carry the most exposure to risks of changes in fair value and the significant assumptions and inputs contributing to those exposures;
- (ii) explanations of how and why fair value measurements have moved in the year—for example why transfers between levels of the fair value hierarchy have occurred;
- (iii) details about the classes of instrument categorised in each level—this information typically replaced repetition of the definitions of the levels of the fair value hierarchy from IFRS 13; and
- (iv) material, entity-specific information not explicitly identified in IFRS 13—for example, information about material fair value measurements within joint ventures or disaggregation of assets and liabilities measured at fair value by geographic location.

(b) removing information that is less useful to users, for example:

- (i) information about immaterial fair value measurements or immaterial movements in fair value measurements;
- (ii) explanations of standard valuation models that do not include any entity-specific content;
- (iii) information about valuation techniques for instruments no longer held by the entity; and
- (iv) repetition of requirements or definitions from IFRS 13.

(c) improving the communication effectiveness of retained information, for example, presenting:

- (i) an up-front summary of the carrying amount and fair value of recurring and non-recurring fair value measurements and items measured at amortised cost;
- (ii) a tabular summary of valuation techniques and significant inputs by class of instrument and level of the fair value hierarchy; and

(iii) previous narrative information about how and why fair value measurements had changed in the year in a tabular format.

Participants that did not support the IFRS 13 proposals

9. Other participants did not support the IFRS 13 proposals. Some participants from all industries said that the items of information named in the proposals were very similar to the current IFRS 13 requirements. These participants suggested that:

   (a) the costs of applying the proposals could outweigh the reporting benefits. Some said the proposals would not lead to any substantial change to their IFRS 13 note and, consequently, did not think the additional costs arising from increased application of judgement would be justified (see paragraph 11). Some non-banking participants—including most property companies—explained that their fair value measurements are straightforward. These participants said they already disclose all information that is relevant to users and, consequently, thought the proposals would have few reporting benefits.

   (b) the project objectives could be achieved in a less disruptive way—for example via:

      (i) educational initiatives to help entities apply the current IFRS 13 and materiality requirements more effectively; or

      (ii) adding to the current IFRS 13 requirements to capture the main technical changes brought about by the proposals (such as additional information for Level 2 fair value measurements or improved narrative explanations about how and why fair value measurements had changed during a reporting period).

10. Banks that did not support the proposals provided one or more of the following reasons:

   (a) some large banks thought they would have to disclose every item of information named in the proposals. This was generally because of concerns about audit or regulation—participants said that it would be difficult for a large bank to justify the exclusion of any item of information

from their fair value disclosures. Consequently, they thought the proposals would increase the volume of disclosure rather than making that disclosure more useful.

(b) some were concerned about the costs of applying the proposals (see paragraph 11). For example, they said the need to provide detailed information for some or all Level 2 fair value measurements would be extremely costly. This was often because of the high volume of Level 2 instruments held by banks.

(c) some were concerned that the proposals effectively introduced a fourth level of the fair value hierarchy—i.e., those Level 2 instruments about which users say they do not get sufficient information today. Some of these participants thought that if the levels of the fair value hierarchy are appropriately defined and applied, detailed information about instruments outside Level 3 should not be useful to users because the measurement of those instruments should not contain significant uncertainty. A few said they would prefer the IASB to reconsider the definitions of the levels rather than introduce a fourth level only for the purpose of disclosure.

(d) some were concerned about the effects of an increased need to apply judgement on such a regulated industry. They said disclosure of uniform and comparable information is important in the banking industry and would be reluctant to make changes to their disclosure without broad industry agreement about what would be disclosed. These participants think a prescriptive list of disclosure requirements is needed in the banking industry and said that if the IASB does not provide such a list then the banking industry, auditors and regulators would develop their own.

Costs of application

11. Fieldwork participants also provided mixed views about the costs of applying the IFRS 13 proposals:

(a) some participants said the proposals would be costly to implement. This was generally for similar reasons to those described in Agenda Paper

11B—i.e., they said there would be costs associated with increased application of judgement. In addition:

(i) some participants—particularly banks—were concerned about the costs of preparing the particular disclosure information required by the IFRS 13 proposals. For example, they were concerned about the costs of gathering and disclosing information for large volumes of Level 2 fair value measurements (see paragraphs 14–27) or determining reasonably possible alternative fair value measurements (see paragraphs 41–47).

(ii) one particular cost concern raised by many large group banks related to collecting information from large numbers of group entities. They said they would need to collect all information that could possibly be relevant to satisfying the disclosure objectives before being able to determine which of that information is material at group level.

(b) some participants thought the IFRS 13 proposals would not be unduly costly to implement. These participants said they already had the information necessary to comply with the requirements, or that the information was readily available. A few of these participants had discussed the IFRS 13 fieldwork with their auditors and did not foresee any undue costs relating to the audit process. However, some of the participants providing this feedback noted that the proposals would not result in any significant changes to their disclosed information.

(c) a few participants said that initial application of the proposals would be costly but that subsequent application would not be unduly costly. Initial costs would arise because of the need to change ways of thinking and processes (for example, involving additional departments in the determination of what to disclose) or to gather new information for the first time (for example, information about reasonably possible alternative fair value measurements).

Overall disclosure objective

Exposure Draft proposals

12. Paragraph 100 of the Exposure Draft proposed an overall disclosure objective for IFRS 13 that requires an entity to disclose information that enables users of financial statements to evaluate the entity's exposure to uncertainties associated with fair value measurements. That theme of uncertainty is then reflected throughout the proposed specific disclosure objectives.

Fieldwork findings

13. Few fieldwork participants commented specifically on the overall disclosure objective. Those that did found it helpful, saying that:
    - (a) they kept returning to the overall disclosure objective while preparing the fair value measurement note to 'sense check' whether, overall, they were giving the right information to users.
    - (b) the overall disclosure objective helped participants to review their information, reduce information that does not add value to users and incorporate any additional information that would help to meet user needs. For example, participants that had identified additional, entity-specific information to disclose that was not explicitly named in the proposals (see paragraph 8(a)(iv)) cited the overall disclosure objective as helpful.
    - (c) in their view, the proposed specific disclosure objectives were aligned with the overall disclosure objective.

Removal of references to levels of the fair value hierarchy

Exposure Draft proposals

14. The proposed specific disclosure objectives avoid referring to levels of the fair value hierarchy where possible and helpful. This was in response to user feedback that entities—particularly banks—sometimes provide detailed information for immaterial Level 3 fair value measurements and insufficient information for other, material, fair value measurements. The IASB's intention was to make clear that

entities should disclose material information about material fair value measurements, irrespective of where those measurements fall within the fair value hierarchy.

15. Missing material information identified during development of the Exposure Draft included information about exposure to uncertainty within an entity's Level 2 fair value measurement portfolio. This applies particularly to those Level 2 instruments that are close to the boundary with Level 3. The specific information an entity might need to disclose is captured within each of the proposed specific disclosure objectives for IFRS 13. This section summarises overall feedback on the principle of providing additional information—beyond that typically disclosed today—for fair value measurements outside Level 3.

Fieldwork findings

16. All banks and insurers commented on this aspect of the proposals, along with some other participants. Across all industries, some participants said they understood the intent of the proposals only after discussion with the IASB staff—i.e., the intent was not clear from the proposed requirements themselves. Some thought this could be addressed by including explanations from the Basis for Conclusions within the requirements.

Banks and insurers

17. Some banks and insurers said they would be unaffected by the removal of references to levels of the fair value hierarchy. This was because they view their entire Level 2 population as 'clear' Level 2 and not close to the Level 3 boundary. Consequently, these participants concluded that there was no material information to disclose about uncertainty in their Level 2 fair value measurements.

18. Of the banks and insurers that would make changes to their disclosures applying this proposal:

    (a) some would provide all items of information identified in the proposals for all fair value measurements, or all fair value measurements in Levels 2 and 3 of the fair value hierarchy.[1] In their view:

        (i) it would be difficult for a large bank to conclude that any disclosure item identified in IFRS 13 is immaterial;

        (ii) auditors would not permit them to exclude from their disclosures any item named in the proposals; or

        (iii) it would be difficult to justify why disclosure was provided about some, but not all Level 2 instruments. Consequently, it would be easier to provide the same disclosure for all items categorised in Level 2.

    (b) some would disclose additional information about those fair value measurements for which the entity had to apply judgement to determine that the item should be categorised in Level 2, rather than Level 3, of the fair value hierarchy. This might arise, for example, if the item was measured using some unobservable inputs, but those unobservable inputs were concluded to be insignificant to the overall measurement.

    (c) some would develop indicators of uncertainty based on fair value uncertainty ranges calculated and reported to satisfy regulatory requirements. These banks would disclose uncertainty information about those items above an established uncertainty threshold. This feedback predominantly came from UK banks.

    (d) some would disclose additional qualitative information about how they determined the categorisation of instruments to levels of the fair value hierarchy, with particular focus on the distinction between Level 2 and Level 3 and the observability of measurement inputs.

[1] Paragraph BC73(b)(ii) of the Basis for Conclusions on the Exposure Draft explained that: 'In practical terms, the Board expects entities applying [this proposal] to consider disclosing information about measurement uncertainty for material fair value measurements that are categorised within Level 2 but for which the categorisation is close to Level 3. The Board expects this approach would not necessitate the provision of detailed information for items in Level 1, or most items in Level 2, of the fair value hierarchy.'

19. Some banks agreed that information about exposure to uncertainty within the Level 2 portfolio would provide useful information to users. They agreed that such uncertainty exists and a few added that they already monitor—and in some cases disclose narrative information about—the population of Level 2 instruments to which this applies.

20. However, some banks said that requiring disclosure of information about the 'uncertain Level 2' population would effectively introduce a fourth level of the fair value hierarchy—they described this as 'Level 2b'. A few said that if this issue needs to be addressed, they would prefer the IASB to reconsider how the levels of the fair value hierarchy are defined and not introduce an additional level only for the purpose of disclosure. A few said they were unaware of users requiring additional information about Level 2 instruments and do not think any additional disclosure is needed.

21. Both South African participants noted that a lack of observable markets in this jurisdiction means banks typically have a significant balance of Level 2 fair value measurements largely comprised of over-the-counter instruments that are close to Level 1 in nature. Consequently, these participants thought concerns about potential uncertainty in their large Level 2 portfolios might be unwarranted.

22. Some banks questioned whether derivative valuation adjustments would trigger a requirement to disclose information about measurement uncertainty. Some of these participants thought that, if this were the case, information about measurement uncertainty would need to be disclosed for all derivative instruments.

23. Some banks were concerned about the cost of providing additional information about fair value measurements outside Level 3 of the fair value hierarchy. This was particularly prevalent among large banks with many reporting entities. These participants said that to comply with the proposals they would need to collect information about a huge number of Level 2 instruments. They suggested that the benefits of reporting additional information might not outweigh the cost.

24. Finally, a few banks said that instead of removing references to levels of the fair value hierarchy, they would prefer the IASB to prescriptively require the

additional information needed by users about fair value measurements outside Level 3.

Participants other than banks and insurers

25. Most participants other than banks and insurers said they would be unaffected by the removal of references to levels of the fair value hierarchy. This was because either:

    (a) all of their material fair value measurements are categorised in Level 3 of the fair value hierarchy. This finding was particularly common among property companies. These participants thought the detailed Level 3 disclosures they provide today are relevant and there is no additional relevant information to provide relating to other levels of the fair value hierarchy; or

    (b) they do not think any of their Level 2 fair value measurements are close to the boundary between Level 2 and Level 3. These participants concluded that there is no material exposure to uncertainty in their Level 2 portfolio and therefore no additional information is required beyond what they report today.

26. A few participants said it was unclear which circumstances would require them to provide detailed disclosures for fair value measurements outside Level 3 of the fair value hierarchy.

27. A few participants thought the only possible effect of removing references to levels of the fair value hierarchy was an increase in disclosure and, therefore, an increase in the costs of preparing those disclosures.

Assets and liabilities within each level of the fair value hierarchy

Exposure Draft proposals

28. Paragraph 103 of the Exposure Draft proposed a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand:

(a) the amount, nature and other characteristics of each class of assets and liabilities measured at fair value in the statement of financial position; and

(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.

29. Paragraph 104 explains that the information required by this specific disclosure objective is intended to help users assess the relative subjectivity in the entity's assessment of where fair value measurements are in the fair value hierarchy, and evaluate the effect of those measurements on the entity's financial position. The specific disclosure objective is followed by a mandatory requirement to disclose a breakdown of fair value measurements by class of asset and liability in each level of the fair value hierarchy and some further non-mandatory information that may enable an entity to meet the objective.

Fieldwork findings

30. Most fieldwork participants from all industries would not make any substantial changes to their current disclosures when applying this specific disclosure objective. A few banks said they already provide detailed information about the classes of asset and liability within each level of the fair value measurement hierarchy. They concluded that their current disclosures already satisfy the proposed specific disclosure objective and provide useful information to users.

31. A few banks questioned whether detailed disaggregation by class of asset and liability is necessary for items in Levels 2 and—especially—Level 1 of the fair value hierarchy. These participants said there is little exposure to uncertainty in these measurements and therefore questioned why users need such a breakdown. One of these participants was a smaller, unlisted bank and said that many of its users would not be interested in detail about each class of asset and liability measured at fair value. This participant suggested that information provided in response to this specific disclosure objective might not pass the cost-benefit test.

32. A few banks said that, applying the proposals, they would consider including a fourth fair value hierarchy level within the required breakdown of fair value measurements by class of asset and liability. This fourth level would represent the 'uncertain Level 2' portfolio (see paragraph 20).

33. A few participants said this specific disclosure objective created some confusion about the distinction between mandatory and non-mandatory items of information. These participants noted that the disclosure objective *requires* an entity to disclose 'information that enables users to understand the… nature and other characteristics' of assets and liabilities measured at fair value, while the non-mandatory items of information include 'a description of the nature, risks and other characteristics' of those assets and liabilities. Consequently, participants said it was unclear to them whether this item of information is a mandatory requirement.

Significant techniques and inputs used to determine fair value measurement

Exposure Draft proposals

34. Paragraph 107 of the Exposure Draft proposed a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand the significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value.

35. Paragraph 104 explains that the information required by this specific disclosure objective is intended to help users assess the sources of measurement uncertainties in the entity's determination of fair value measurements. The specific disclosure objective is followed by a list of non-mandatory items of information that may enable an entity to meet the objective.

Fieldwork findings

36. Some fieldwork participants—mostly banks—provided feedback on this specific disclosure objective. Some said the proposals prompted them to remove immaterial information (for example, information about valuation techniques for instruments no longer held), restructure or otherwise simplify their narrative disclosures about how fair value measurements are determined.

37. However, a few other participants said they include extensive disclosures in this area because it receives a lot of focus from regulators. These participants would

be reluctant to remove or simplify their disclosures. One added that disclosures could be improved and simplified if they were permitted to disclose narrative information that is the same every year outside the financial statements (for example, on the company website).

38. A few participants said that, applying the proposals, they would disclose additional information about valuation techniques and inputs for fair value measurements in Levels 1 and 2 of the fair value hierarchy. These participants suggested that the benefits of disclosing such information might not outweigh the costs. However, one participant agreed that—with reference to the overall disclosure objective (see paragraph 12)— relevant information about fair value measurement techniques and inputs would facilitate users' understanding of the level of uncertainty in different classes of assets and liabilities.

39. A few participants questioned how to interpret the word 'significant' in the specific disclosure objective. One participant thought this introduced a disclosure threshold that was lower than materiality.

40. A few participants said this specific disclosure objective created some confusion about the distinction between mandatory and non-mandatory items of information. These participants noted that the disclosure objective *requires* an entity to disclose 'information that enables users to understand significant techniques and inputs,' while the non-mandatory items of information include 'a description of the significant valuation techniques' and 'information about the significant inputs used.' Consequently, participants said it was not clear to them whether these items of information were mandatory requirements.

Reasonably possible alternative fair value measurements

Exposure Draft proposals

41. Paragraph 111 of the Exposure Draft proposed a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand alternative fair value measurements using inputs that were reasonably possible at the end of the reporting period. Paragraph 112 explains that the information required by this specific disclosure objective is

intended to help users evaluate the possible outcomes of the fair value measurements at the end of the reporting period, and evaluate how those possible outcomes might affect the future cash flows of the entity. The specific disclosure objective is followed by a list of non-mandatory items of information that may enable an entity to meet the objective.

42. IFRS 13 currently requires disclosure of the effects of reasonably possible changes in unobservable inputs on Level 3 fair value measurements (sensitivity analysis). Such a sensitivity analysis is not named in the non-mandatory items of information included in the proposals. This was in response to feedback from users that detailed line-by-line sensitivity analyses can be overly complex and do not always meet users' underlying need to understand how the fair value amounts included in the statement of financial position could vary. This is because assumptions rarely move in isolation and, consequently, sensitivity analyses based on individual assumptions rarely reflect any realistic scenario. The proposals in the Exposure Draft were intended to explain the underlying user need and allow entities to satisfy it in a simpler way than is typically done today.

Fieldwork findings

43. Most IFRS 13 fieldwork participants commented on this specific disclosure objective. A few supported the objective of simplifying disclosures about sensitivity. However, many participants—including all property companies—said they would retain their current sensitivity analysis to comply with the proposed specific disclosure objective (or would prefer to do so subject to agreement with their auditor). The sections below explain why this is, and summarise some additional specific feedback on observable inputs, portfolio risk management and the clarity of the proposed specific disclosure objective.

Why many participants would prefer to retain sensitivity analysis

44. Property companies said that sensitivity analysis provides more meaningful information to their users than an overall range of alternative fair value measurements. A few explained that individual assumptions—particularly capitalisation rate—were material to their property valuations and, consequently, the effects of those individual assumptions need to be disclosed. One added that

sensitivity analysis is encouraged by regulators and they would be reluctant to remove it.

45. Many banks, insurers and other participants would also retain their current sensitivity analysis. This is because:

    (a) in their view, sensitivity analysis provides more useful information to users than a range of alternative fair value measurements. This is because a range of alternative fair value measurements would:

        (i) prevent users from recalculating alternative fair values based on their own preferred assumption set;

        (ii) lead users to question whether they could trust the fair value amounts recognised in the statement of financial position; and

        (iii) be too aggregated to provide useful information for a diverse business.

    (b) determining an overall range of alternative fair value measurements would be more costly and time consuming than preparing a sensitivity analysis. Reasons for this included the need to gather sufficient information from across the business to determine potential overall ranges and, subsequently, apply judgement about what constitutes a reasonable range. Some added that the costs of gathering and analysing this information for high volumes of Level 2 instruments would exceed the potential benefits. A few said they did not think it would be possible to prepare this disclosure within reporting deadlines. A few added that their current systems used to generate sensitivity analyses are linked to other related information, such as risk disclosures required by IFRS 7 *Financial Instruments: Disclosures*, and that changing those systems would be problematic.

    (c) individual assumption sensitivity analyses are also used internally—for example to monitor the possible effects of a 'shock' on a specific market.

Portfolio risk management

46. Some banks and insurers raised a particular concern about instruments for which risk is managed on a portfolio basis, including those for which an economic or

effective hedging relationship is achieved. These participants were concerned that disclosing an overall range of alternative fair value measurements by class of asset or liability could give a misleading impression to users about the extent of risk exposure. Participants provided the following examples:

(a) disclosure of an overall high and an overall low position could lead a user to assume the worst-case scenario is the low position on all asset classes and the high position on all liability classes. Participants thought this would be misleading because, for example, interest rates will only move in one direction at any given time. Consequently, assuming the overall low on assets and the overall high on liabilities could happen simultaneously would overstate the entity's risk exposures.

(b) if a Level 3 item is hedged (effectively or economically) by a Level 2 instrument, reasonably possible alternative fair value measurements would need to be disclosed separately for the two sides of the hedging relationship. However, in practical terms, participants consider this risk exposure to be managed collectively and thus separate disclosure could overstate the likely risk. This issue would also apply if the hedged item and hedging instrument were in the same level of the fair value hierarchy but in different asset and liability classes.

Clarity of the specific disclosure objective

47. Many participants said the proposed disclosure objective was insufficiently clear:

(a) some participants said it was unclear how the disclosure objective differed—in practical terms—from the sensitivity analysis that IFRS 13 currently requires for Level 3 fair value measurements. These participants said they understood the intent of the objective (see paragraph 42) only after discussions with the IASB staff—i.e., they did not understand it from the Exposure Draft itself.

(b) a few participants—primarily property companies—thought the disclosure objective required them to re-perform their fair value measurements using different measurement *techniques* and disclose the results of applying those different techniques. This is different to the intent of the disclosure

objective—which is to require entities to consider alternative *inputs* (assumptions) rather than alternative techniques.

(c) a few participants said it was unclear which alternative inputs should be considered. For example, one property company observed that capitalisation rates might be different for overseas investors than for a domestic market and questioned which alternative inputs would be captured by the disclosure objective.

Reasons for changes in fair value measurements

Exposure Draft proposals

48. Paragraph 114 of the Exposure Draft proposed a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand the significant reasons for changes in the fair value measurement of each class of assets and liabilities measured at fair value. Paragraph 115 explains that the information required by this specific disclosure objective is intended to help users evaluate how transactions and other events during the reporting period have affected the entity's financial position and performance, and therefore identify amounts to include in their analyses.

49. This specific disclosure objective is followed by:

(a) a mandatory requirement to disclose a tabular reconciliation from opening to closing balances of recurring Level 3 fair value measurements ('Level 3 reconciliation'). Such a reconciliation is already required by IFRS 13; and

(b) some further non-mandatory information that may enable an entity to meet the objective. This includes an explanation of the significant reasons for changes in recurring fair value measurements other than those categorised in Level 3 of the fair value hierarchy.

Fieldwork findings

50. Many fieldwork participants—including most banks—commented on this aspect of the proposals. Many said that to comply with the specific disclosure objective

they would need to disclose additional information about reasons for changes in Level 2 fair value measurements.

51. However, many participants—including most banks—had concerns about disclosing information about reasons for changes in fair value measurement for items categorised outside Level 3 of the fair value hierarchy. Some banks explained that the Level 3 reconciliation is already onerous and costly to prepare, with a few adding that this requires manual processes, for example using excel spreadsheets. They typically have a much higher volume of instruments in Level 2 and, therefore, providing information about reasons for changes in the fair value measurement of those instruments would be costly. Some of these participants explained that this is the case even if the required information is explanatory only and not a movement table. This is because they would still have to collect and analyse detailed quantitative information to determine what is material for disclosure.

52. A few banks and insurers also questioned whether information about reasons for changes in fair value measurements outside Level 3 would be useful to users. These participants said that because instruments outside Level 3 are measured based on observable inputs, reasons for changes would relate to market developments and would not provide any entity-specific insights. Some of these participants understood why users say they do not get sufficient information for fair value measurements outside Level 3 today but thought the need could be better addressed via:

    (a) disclosures about how instruments had been categorised between different levels of the fair value hierarchy (see paragraph 18(d)); or

    (b) improved narrative explanations about the reasons for transfers between different levels of the fair value hierarchy.

53. Some participants expressed concerns about the Level 3 reconciliation being a mandatory requirement and how this interacts with the proposed specific disclosure objective and the non-mandatory information for items outside Level 3. Concerns included:

    (a) a few thought that the prescriptive requirement to disclose a Level 3 reconciliation overrides the overarching principle in the IFRS 13 proposals

of disclosing material information for material fair value measurements. These participants would interpret the prescriptive requirement as meaning that a reconciliation must be provided even if Level 3 fair value measurements are immaterial.

(b) a few noted that the specific disclosure objective requires information for each class of assets and liabilities while the requirement for a Level 3 reconciliation does not. One participant questioned whether they could interpret ‘classes’ of assets and liabilities as being equivalent to the categorisations in IFRS 9 *Financial Instruments* (i.e., amortised cost, fair value through profit or loss etc).

(c) a few questioned whether a tabular reconciliation is necessary for Level 3 fair value measurements and said they could provide more useful disclosures through qualitative explanations of how and why fair value measurements had moved during the reporting period.

(d) a few would interpret the overall set of proposals to mean they are required to disclose a tabular reconciliation of movements in Level 1 and Level 2 fair value measurements, or were concerned that their auditors would interpret the proposals this way.

54. A few banks did not agree with the requirement to separately disclose realised and unrealised gains and losses as part of the Level 3 reconciliation. They said collecting this information presents systems challenges and that the information is potentially misleading. For example, consider an instrument that is held for five years and for which fair value goes up and down over those five years. Participants said that, in their view, presenting all unrealised gains and losses may exaggerate overall fair value movements and volatility over the life of the instrument.

55. A few participants provided feedback about the examples of reasons for changes proposed in the Exposure Draft. They said:

(a) providing reasons for changes that ‘might be appropriate to include’ is not clear in terms of what is required. One participant suggested explaining in the requirements that the example reasons for changes ‘should be included if material and relevant to users’ understanding.’

(b) one participant disagreed with the inclusion of ‘the effect of foreign exchange rate differences’ as a reason for change that an entity might need to disclose. They explained that this is an embedded part of the total fair value gains or losses for a reporting period and they do not currently have the systems in place to separately extract that information. Furthermore, they thought this inclusion is inconsistent with paragraph 52(a) of IAS 21 *The Effects of Changes in Foreign Exchange Rates* which requires ‘disclosure of the amount of exchange differences recognised in profit or loss except for those arising on financial instruments measured at fair value through profit or loss in accordance with IFRS 9’ (*emphasis* added).

Assets and liabilities not measured at fair value but for which fair value is disclosed

Exposure Draft proposals

56. Paragraph 118 of the Exposure Draft proposed a specific disclosure objective requiring an entity to disclose information that enables users of financial statements to understand:

(a) the amount, nature and other characteristics of each class of assets and liabilities not measured at fair value but for which fair value is disclosed; and

(b) how the characteristics relate to the categorisation of those classes of assets and liabilities in the fair value hierarchy.

57. This specific disclosure objective is followed by:

(a) an explanation of what users would do with the information provided;

(b) a mandatory requirement to disclose the fair value measurement for each class of asset and liability not measured at fair value but for which fair value is disclosed by level of the fair value hierarchy; and

(c) some further non-mandatory information that may enable an entity to meet the objective.

Fieldwork findings

58. Some fieldwork participants—mostly banks—commented on this aspect of the proposals. Many of these participants questioned whether information provided in response to this specific disclosure objective would be useful to users. In their view, there is no reasonable basis on which to determine fair value for instruments that are held—for example—to collect cash flows. Consequently, information disclosed about fair value of these items is not reliable or useful and does not represent any accurate realisable value. Some banks added that the disclosures they already provide about the fair value of assets and liabilities not measured at fair value are time consuming and complex to prepare and that, in their view, users rarely take any notice of these disclosures.

59. Some participants said they would not change their current disclosures when applying this specific disclosure objective. Others said that they would disclose additional information—for example, about which level of the fair value hierarchy items would fall into. However, participants did not think the additional information would be useful to users and said the costs of complying with this specific disclosure objective would outweigh the benefits.

Other fieldwork findings

60. The following additional feedback was provided by a few participants. They said:

    (a) additional illustrative examples would help them to understand what the IASB had in mind with the specific disclosure objectives. This feedback came from the same participants who said that they understood the intent of some or all of the proposals better from discussion with the staff than they did from the Exposure Draft. Conversely, one participant said there was a risk that any illustrative examples would just be copied by entities and discourage the application of judgement.

    (b) it is unclear how the proposals would interact with the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. These participants questioned whether information about exposure to uncertainty in fair value measurements would overlap with IFRS 7 risk disclosures.

(c) the IASB should retain the statement in paragraph 93(d) of IFRS 13 that *'an entity is not required to create quantitative information… if quantitative unobservable inputs are not developed by an entity when measuring fair value'*. Participants said this is particularly important when fair value is determined using external valuers or offers because, in these cases, it is not possible for an entity to quantify unobservable inputs.

(d) the IASB should consider the requirements in IAS 34 *Interim Financial Reporting* when finalising the proposed amendments to IFRS 13. One bank said it would not be possible to prepare the disclosure information required by the proposals for an interim period without significant investment in systems and processes.

(e) the proposals require a level of granularity that may require entities—particularly those in regulated industries such as banking—to report sensitive market information.

Question for the IASB

Does the IASB have any questions or comments about the fieldwork findings on IFRS 13?