**IFRS 13 *Fair Value Measurements* – Public consultation (General)**

Issued 3 July 2017

Comments should be submitted by 8 September 2017.

Please note that this version of the survey may contain more questions than the web-based version as the web-based version does not ask questions that are irrelevant in the context of answers previously supplied.

**Objective of this public consultation**

The IASB has launched a post-implementation review (PIR) of IFRS 13 Fair Value Measurement. The purpose of a PIR is to evaluate if the Standard is working as the IASB intended. In order to prepare a response to the IASB’s Request for Information, EFRAG is calling for evidence from preparers, auditors and academics across Europe.

This questionnaire has been developed to assist constituents in contributing their views. EFRAG would also like to receive examples of practices that are perceived as particularly noteworthy. EFRAG will not publicise the names of any organisations or individuals who have provided examples, but will attempt to identify common elements and themes to use as underlying evidence for its report to the IASB.

## Part 1: General information about respondent

It is easier for us to understand the information you give us if we know what your role is in relation to financial reporting and what your experience is in relation to measuring fair value.

Please tell us:

|  |  |
| --- | --- |
| Your name: |  |
| If you are responding  for an organisation: |  |
| * Type of organisation: |  |
| * Job title / role: |  |
| * Country: |  |
| Contact details, including email address: |  |
| Are you a (please select all that apply): |  |
| * Preparer of financial statements |  |
| * Auditor |  |
| * Regulator |  |
| * Academic |  |
| * National Standard Setter |  |
| * Other – please explain |  |

|  |  |  |  |
| --- | --- | --- | --- |
| How extensive is your experience in relation to the measurement of the following items at fair value (including where fair value is used in measuring recoverable amount)? | | | |
| Type of item | The extent of your experience with fair value measurements | | |
| Little | Some | Much |
| 1. Property, plant and equipment |  |  |  |
| 1. Intangible assets including goodwill |  |  |  |
| 1. Investment properties |  |  |  |
| 1. Biological assets |  |  |  |
| 1. Investments in subsidiaries, joint ventures or associates |  |  |  |
| * Quoted investments |  |  |  |
| * Unquoted investments |  |  |  |
| 1. Other financial instruments |  |  |  |
| * Quoted investments |  |  |  |
| * Unquoted investments |  |  |  |
| 1. General experience |  |  |  |
| 1. Other (please explain) |  |  |  |

## Part 2: Fair value measurement disclosure

The main information disclosed about Level 3 fair value measurements are:

* + - * + quantitative information about the significant unobservable inputs used in the valuation technique(s);
        + reconciliations from opening to closing balances;
        + descriptions of valuation processes used by the entity; and
        + sensitivity to changes in significant unobservable inputs—a narrative description for all fair value measurements and a quantitative analysis for financial instruments measured at fair value.

1. *How useful do you find the main information required disclosed for Level 3 fair value measurements?*

|  | Very useful | Useful | Moderately useful | Slightly useful | Not useful | Don’t know |
| --- | --- | --- | --- | --- | --- | --- |
| Quantitative information about the significant unobservable inputs used in the valuation technique(s) |  |  |  |  |  |  |
| Reconciliations from opening to closing balances |  |  |  |  |  |  |
| Descriptions of valuation processes used by the entity |  |  |  |  |  |  |
| Sensitivity to changes in significant unobservable input |  |  |  |  |  |  |

Constituents have suggested that the following factors impaired the usefulness of Level 3 disclosures:

* the aggregation of disclosures for dissimilar underlying assets so that the disclosures are not sufficiently granular; and
* the disclosure of generic information rather than entity specific information.

1. *In your experience of Level 3 fair value measurements, to what extent do the following affect the usefulness of the information:*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | A lot | A little | Neutral | A little less | A lot less | Don’t know |
| Aggregation |  |  |  |  |  |  |
| Disclosures of information that is not entity-spesific |  |  |  |  |  |  |
| Other factors: (please explain which factor) |  |  |  |  |  |  |

1. *How costly are the following Level 3 fair value measurement disclosures to prepare?*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **How costly?** | | | | | |
|  | Very costly | Costly | Moderately costly | Slightly costly | Not costly | N/A |
| The minimum disclosures required for each class of assets and liabilities measured at fair value (IFRS 13.93) |  |  |  |  |  |  |
| Identifying the classes of assets and liabilities for which disclosures should be provided  (IFRS 13.94) |  |  |  |  |  |  |
| Others information  (IFRS 13.95-99) |  |  |  |  |  |  |

1. *Is there other fair value information (not currently required) that would be useful? If yes, please explain what that information is and why you think it would be useful. Please provide any examples of the disclosure of such information.*

|  |  |
| --- | --- |
| Type of information | Why would it be useful |
|  |  |

**Part 3:** **The P\*Q issue**

In September 2014 the IASB proposed that the unit of account for:

* + *investments in subsidiaries, joint ventures and associates,* the investment as a whole for classification of the investment.
  + *quoted investments*, the product of the quoted price (P) for the individual financial instruments that make up the entity’s investment and the quantity of financial instruments (Q), or P×Q, must be used for the measurement on the investment.

Many respondents agreed with the first point but disagreed with the second point. Many users of financial statements preferred fair value measurement on the basis of P×Q.

1. *The following example illustrates the two views:*

*Entity A hold 70% of entity B’s share capital Entity B’s shares are publicly traded in an active market and quoted at € 1 per share.*

*Fair value measurement at P\*Q € 70*

*Fair value measurement including control premium € 75*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | A lot | A little | Neutral | A little less | A lot less | Don’t know |
| How useful do you find the measurement basis P\*Q? |  |  |  |  |  |  |
| How useful do you find the measurement including the control premium? |  |  |  |  |  |  |

*Please explain:*

|  |  |
| --- | --- |
| Your reasons for the preference indicated above. |  |
| How your answer would change If the fair value of the investment in Entity B included a discount rather than a control premium (i.e. € 65 instead of € 75). |  |

1. *How frequent are quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units measured at fair value?*

*Please provide examples of circumstances in the comment box*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Very frequently | Frequently | Occasionally | Rarely | Never | N/A | Comment |
|  |  |  |  |  |  |  |

1. *How material are the differences between P×Q and other valuation techniques for the measurement of quoted investments?*

*Please provide examples of circumstances in the comment box*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Very material | Material | Neutral | Somewhat material | Not material | N/A | Comment |
|  |  |  |  |  |  |  |

1. *Is there anything else that you think the IASB should consider relating to this area*?

**Part 4: Highest and best use of non-financial assets**

The highest and use of a non-financial asset (for example a building) is the use by market participants that would maximise the value of the asset. IFRS 13 requires the highest and best use 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.

1. The example below illustrates how fair value measurement using highest and best use conflicts with fair value measurement based on current use.

*An entity acquires a plantation as part of a business combination. The current value of the plantation is € 100 (land € 70; biological asset € 30). At acquisition date the land has fair value of € 120 based on the alternative use as a commercial property (highest and best use of the plantation, including demolishing the biological asset and getting permission to redevelop).*

* + 1. What is the fair value of the assets?

|  |  |
| --- | --- |
| (a) | The value of the land is € 120 and the biological asset is € 0. |
| (b) | The value of the land and the biological asset remains its current use (i.e. land € 70 and € 30 respectively). The entity simply disclose the value of the highest and best use. |

* + 1. Please provide a reason for your answer in (i)
    2. Would guidance in this area address the above issue?

|  |  |  |
| --- | --- | --- |
| Yes | No | Reason |
|  |  |  |

* + 1. Should the guidance be part of the standard or educational material?

|  |  |  |
| --- | --- | --- |
| IFRS 13 | Educational guidance | Reason |
|  |  |  |

1. *The assessment of an asset’s highest and best use is*:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Do you agree with statement below? | | | | | | Reason |
|  | Strongly agree | Agree | Neutral | Disagree | Strongly disagree | N/A |
| (i) conceptually sound; |  |  |  |  |  |  |  |
| (ii) practical to implement |  |  |  |  |  |  |  |

1. *Are there many instances where the current use of assets are different from their highest and best use? Please provide a reason if this is the case:*

|  |  |  |  |
| --- | --- | --- | --- |
| Yes | No | N/A | Reason |
|  |  |  |  |

**Part 5: Application of judgement in specific areas**

IFRS 13 requires the use of judgement when measuring the fair value of an asset or a liability. The areas in which applying judgement is considered most challenging are:

* assessing whether a market is active; and
* assessing if an input is a significant unobservable input (Level 3).

1. *How difficult is it to assess whether a market for a particular instrument is active?*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Type of instrument | The extent of difficulty | | | | |
| Very diffult | Difficult | Neutral | Easy | Very easy |
| Property, plant and equipment |  |  |  |  |  |
| Intangible assets including goodwill |  |  |  |  |  |
| Investment properties |  |  |  |  |  |
| Biological assets |  |  |  |  |  |
| Investments in subsidiaries, joint ventures or associates |  |  |  |  |  |
| * Quoted investments |  |  |  |  |  |
| * Unquoted investments |  |  |  |  |  |
| Financial instruments |  |  |  |  |  |
| * Quoted investments |  |  |  |  |  |
| * Unquoted investments |  |  |  |  |  |
| Other (please specify which) |  |  |  |  |  |

1. *How difficult is it to assess whether an input is unobservable and significant to the entire measurement?*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Type of instrument | The extent of difficulty | | | | |
| Very diffult | Difficult | Neutral | Easy | Very easy |
| Property, plant and equipment |  |  |  |  |  |
| Intangible assets including goodwill |  |  |  |  |  |
| Investment properties |  |  |  |  |  |
| Biological assets |  |  |  |  |  |
| Investments in subsidiaries, joint ventures or associates |  |  |  |  |  |
| * Quoted investments |  |  |  |  |  |
| * Unquoted investments |  |  |  |  |  |
| Financial instruments |  |  |  |  |  |
| * Quoted investments |  |  |  |  |  |
| * Unquoted investments |  |  |  |  |  |
| Other (please specify which) |  |  |  |  |  |

**Part 6: Fair value measurement for biological assets and unquoted equity instruments**

Some constituents pointed out that measuring fair value is challenging in inactive markets or in the absence of a market; for example, for some biological assets or unquoted equity instruments. The following question aims to explore whether there is a need for further guidance.

*Measuring biological assets at fair value*

1. are any aspects of the measurement

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Challenging? | | Additional guidance helpful? | |  |
|  | Yes | No | Yes | No | Reason |
| Assessing if a market is active |  |  |  |  |  |
| Valuation techniques to determine fair value |  |  |  |  |  |
| Other: …… |  |  |  |  |  |

*Measuring unquoted equity instruments at fair value*

1. Have you used the educational material on unquoted equity instruments within the scope of IFRS 9 *Financial Instruments*?

|  |  |
| --- | --- |
| Yes | No |
|  |  |

1. How useful have you found it?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Very useful | Useful | Neutral | Somewhat useful | Not useful | N/A | Reason |
|  |  |  |  |  |  |  |

1. Are there other items for which educational guidance would be useful?

**Part 7: Effects and convergence**

The IASB issued IFRS 13 in 2011 to improve the comparability of financial statements, reduce diversity in practice and simplify financial reporting. The requirements are largely converged with US generally accepted accounting principles (US GAAP). The IASB thought that enhanced consistency of fair value measurements under US GAAP and IFRS Standards, and consistent disclosures about fair value measurements would increase the usefulness of information for users of financial statements.

1. *Do you think IFRS 13 should be simplified?*

|  |  |  |
| --- | --- | --- |
| Yes | No | Don’t know |
|  |  |  |

1. *What changes do you recommend?*
2. *How much did IFRS 13 improve your ability to assess future cash flows?*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| A lot | A little | Neutral | A little less | A lot less | Don’t know |
|  |  |  |  |  |  |

1. *Please provide us with examples of how you use information provided by entities about their fair value measurements. Please include the detail of any adjustments you make to the measurements.*
2. *How much did IFRS 13 improve your ability to compare fair value measurements between:*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | A lot | A little | Neutral | A little less | A lot less | Don’t know |
| different reporting periods for the same entity? |  |  |  |  |  |  |
| different entities? |  |  |  |  |  |  |

1. *The convergence of IFRS 13 with US GAAP has been helpful?*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Very helpful | Helpful | Neatral | Slightly helpful | Not helpful | N/A | Reason |
|  |  |  |  |  |  |  |

1. *The convergence of IFRS 13 with US GAAP is important?*

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Very important | Important | Fairly important | Slightly important | Not important | N/A | Reason |
|  |  |  |  |  |  |  |

**Part 8: Other matters**

1. *Are there other matters that you think the IASB should be aware of as it performs the PIR of IFRS 13? If so, please explain why and provide examples*