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Post-implementation Review of IFRS 13 *Fair Value Measurement* Cover Note

Objective

- 1 The objective of this session is to obtain EFRAG TEG-CFSS views on the preliminary high-level feedback the IASB has received on the Request for Information on the Post-implementation Review of IFRS 13 *Fair Value Measurement*, which will be discussed by the ASAF at its December meeting. The ASAF paper summarising the key messages received is presented as agenda paper 11-02.

Background

- 2 The Request for Information was issued by the IASB on 25 May 2017 and the comment period ended on 22 September 2017. On 25 September 2017, EFRAG issued its summary of comments received in response to the Request for Information.
- 3 The IASB received 67 comment letters. The feedback received overall had two key messages:
 - (a) There are persistent differences in views between preparers and users on the unit of account issue (PxQ) and some of the disclosures; and
 - (b) There are currently less interest in Level 3 disclosures and overall fair value measurement because of a relatively stable economic environment along with regulatory developments and improvements.

Summary of preliminary high-level feedback the IASB has received

- 4 Fair value measurements are mostly used in accounting for financial instruments, business combinations and impairment testing. Investment property and biological assets measured at fair value tend to be measured at Level 3 fair value. There was a significant decrease in financial instruments measured at Level 3 fair value over the last decade, but an overall increase in Level 3 private equity investments.

Disclosures

- 5 Investors noted that the fair value measurement hierarchy is the most useful disclosure, including also the description of valuation processes/techniques and the disclosure of significant unobservable inputs. There was mixed views on the usefulness of reconciliation of changes in Level 3 measurements. Respondents noted that:
 - (a) the aggregation of different instruments makes them hard to use;
 - (b) significant proportion in “ other” category is not useful;

- (c) differences in the level of detail provided in disclosures hinders comparability; and
 - (d) Level 3 disclosures add clutter to financial statements if it is small portion of the entity's balance sheet.
- 6 Investor respondents made the following suggestions to improve disclosures:
- (a) expand disclosures for Level 1 and 2 assets to include (un)realised gains/losses;
 - (b) improve valuation techniques/inputs disclosures by including weighted averages in the unobservable inputs and removing outliers;
 - (c) remove the reconciliation of Level 3 instruments and require only the disclosure of the profit/loss effect and transfers between levels; and
 - (d) address the aggregation of disclosures issue.

Other topics

- 7 PxQ measurement was not relevant for most respondents but, when relevant, material differences was noted between PxQ and a valuation using a different method such as discounted cash flows.
- 8 Limited feedback was received on highest and best use, but there was general support for the concept. The main challenges are judgement on the "legally permissible" criteria, the amount of evidence required for the assessment and lack of understanding of the concept.
- 9 Limited feedback received on application of judgement in certain areas of fair value measurements. However, those that found it challenging required more examples and additional guidance.
- 10 Fair value measurement of biological assets was not relevant for most respondents, but challenging for most respondents for which it was relevant. The main challenges included measurement aspects of biological assets, point of recognition for immature assets and the extent of divergence in current practice. Many respondents requested additional guidance or educational material and suggested engagement with the valuation community to promote consistency.
- 11 Most respondents was familiar with the educational material on unquoted equities and requested additional guidance pertaining to significant value differences between valuation methods, application of premiums/discounts, problems with valuation of early stage equities, details on cost of capital calculations and dealing with multiple securities.
- 12 A large majority of the respondents noted that the convergence with US GAAP was important.

Consistency with feedback from EFRAG to the IASB

- 13 EFRAG undertook outreach throughout Europe. The feedback from the outreach was summarised in EFRAG's letter to the IASB which can be found [here](#). The feedback to the IASB was generally consistent with the results of the outreach conducted by EFRAG except for:
- (a) a stronger message from users of financial statements that highest and best use is very theoretical and highly subjective; and
 - (b) a recommendation that the IASB target simplified fair value disclosures for non-financial entities.

Questions for EFRAG TEG-CFSS

- 14 Do EFRAG TEG-CFSS members have any overall comments on the feedback received by the IASB on fair value measurement:
- (a) Disclosures;
 - (b) Unit of account;
 - (c) Highest and best use;
 - (d) Application of judgements;
 - (e) Fair value measurement of biological assets and unquoted equities; and
 - (f) Effects, convergence and other matters?
- 15 What action, if any, do EFRAG TEG-CFSS think the IASB should consider and why?
- 16 Do EFRAG TEG-CFSS think any of the suggestions relating to disclosures would bring significant benefits to the users of financial statements?

Agenda Papers

- 17 In addition to this cover note, agenda paper 11-02 (ASAF agenda paper 5) was uploaded for background purposes only.