Disclosure Initiative- Targeted Standards-level Review
Application of the draft Guidance to IFRS 13

Objective

1 The objective of the paper is to provide an overview of the tentative decisions made by the IASB in applying its new draft Guidance to the disclosures requirements in IFRS 13 *Fair Value Measurement*.

2 The paper presents the main decisions made by the IASB together with a comparison with current requirements.

Background

3 At its July 2018 meeting, the IASB selected IAS 19 Employee Benefits and IFRS 13 Fair Value Measurement as the two IFRS Standards on which to test the new draft Guidance to use when developing and drafting disclosure requirements with a twofold objective:

(a) Test and improve the draft Guidance; and

(b) Improve the disclosure requirements of selected Standards in order to provide more useful information to primary users of financial statements.

4 The IASB made tentative from November 2019 through March 2020 decisions about disclosures in those Standards. This agenda paper provides an overview of the IASB's tentative decisions and a comparison between the IASB's tentative decisions and the disclosure requirements on IFRS 13.

5 This agenda paper presents the proposed changes to IFRS 13 and provides a comparison with existing disclosure requirements.

6 Agenda paper 05-03 similarly illustrates proposes changes to IAS 19.

Disclosure objectives

Summary of tentative decisions

7 The IASB tentatively decided to include **a high-level, catch-all disclosure objective** in IFRS 13 requiring an entity to:

(a) Disclose information that enables users of financial statements to evaluate an entity's exposure to uncertainties associated with its fair value measurements. The disclosed information should, in particular, enable users to understand the significance of assets, liabilities and of an entity's own equity instruments measured at fair value; how the fair value measurements have been determined; and how changes in those measurements affect the entity's financial statements; and

(b) Consider the level of detail necessary to satisfy the specific disclosure objectives (also set out in this Update) and ensure that any useful information about the entity's fair value measurements is not obscured by a large amount of insignificant detail.

8 The IASB also tentatively decided to include **specific disclosure objectives** in IFRS 13. These objectives would require an entity to disclose information that enables users of financial statements to:

(a) 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;

(b) Understand the significant techniques and inputs used in deriving its fair value measurements;

(c) Understand the significant drivers of changes in the fair value measurements from the beginning of a reporting period to the end of that period; and

(d) 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.

Comparison with current IFRS 13

9 IFRS 13 requires an entity to disclose information that helps users of its financial statements assess both of the following:

(a) For assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements; and

(b) For fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

Assets, liabilities and own equity instruments measured at fair value in the statement of financial position

Summary of tentative decisions

<u>Amount, nature, and other characteristics</u>

10 The IASB has tentatively decided that an entity shall disclose the fair value measurements at the end of the reporting period for recurring and non-recurring measurements by the level of the fair value hierarchy within which those measurements are categorised in their entirety.

11 While not mandatory, the following may enable an entity to meet the objective for recurring and non-recurring fair value measurements:

(a) 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); and

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

12 The IASB also tentatively decided to link the information included in the disclosure requirement in paragraph 94 of IFRS 13 to this objective.

<u>Significant techniques and inputs used in deriving its fair value measurements</u>

13 The IASB has tentatively decided that an entity shall disclose the fact if it makes an accounting policy decision to use the valuation exception in paragraph 48 of IFRS 13 for financial assets and financial liabilities.

14 While not mandatory, the following may enable an entity to meet the objective for recurring and non-recurring fair value measurements:

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

(b) A description of any change in valuation technique and the reason(s) for making it;

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

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

<u>Drivers of change in the fair value measurements from the beginning of a reporting period to the end of that period</u>

15 The IASB has tentatively decided an entity would be required to disclose a reconciliation from the opening to the closing balances of recurring fair value measurements classified in Level 3 of the fair value hierarchy, the following may enable an entity to meet the objective for recurring fair value measurements:

(a) Information about the significant drivers of change during the period (see below), for example by:

(i) narrative explanation; or

(ii) tabular reconciliation.

(b) The reasons for any transfers between levels of the fair value hierarchy during the period and the entity's policy for determining when transfers are deemed to have occurred.

16 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; and

(f) Effect of foreign exchange rate differences.

17 The IASB also tentatively decided to link the information included in the disclosure requirement in paragraph 95 of IFRS 13 to this objective.

<u>Possible fair values at the reporting date for the assets, liabilities and an entity's own equity instruments measured at fair value</u>

18 The IASB has tentatively decided while not mandatory, the following may enable an entity to meet the objective for recurring fair value measurements:

(a) A description of the uncertainty caused by 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) A 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; and

(d) How the effect of a change to reflect reasonably possible alternative inputs was calculated.

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

19 The IASB has tentatively decided that, 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.

20 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.

Comparison with current IFRS 13

21 The IASB has analysed that most of the existing disclosure requirements in IFRS 13 could be linked to the specific disclosure objectives as defined. This relates in particular to current paragraphs 93 (a) (b) (c) (d) (f) (h) (i) , 96, 98 and 99 of IFRS 13 (describing information to meet the current objective of IFRS 13 to explain 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 as well as significant techniques and inputs used in deriving its fair value measurements).

22 The IASB tentatively proposes to remove the requirements in:

(a) Paragraph 92 regarding the specific factors to consider in determining how to meet the disclosure objective. The IASB considers that this information is captured by the high-level, catch-all disclosure objective.

(b) Paragraph 93 (g) regarding disclosure of the valuation processes used for recurring and non-recurring fair value measurements categorised within Level 3 as it does not relate to any of the specific disclosure objectives the IASB has tentatively decided to include in IFRS 13. The IASB received feedback from users that the information is not useful.

23 As a reminder to meet the disclosure objective, the following minimum disclosures are required by current IFRS 13 for each class of assets and liabilities measured at fair value

(a) The fair value measurement at the end of the reporting period;

(b) For non-recurring fair value measurements, the reasons for the measurement; and

(c) The level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

24 For assets and liabilities held at the reporting date that are measured at fair value on a recurring basis:

(a) The amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, and

(b) The reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred, separately disclosing and discussing transfers into and out of each level

25 For fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy,

(a) A description of the valuation technique(s) and the inputs used in the fair value measurement, and

(b) Any change in the valuation techniques and the reason(s) for making such change (with some exceptions)

26 For fair value measurements categorised within Level 3 of the fair value hierarchy: the quantitative information about the significant unobservable inputs used in the fair value measurement (with some exceptions).

27 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 changes during the period attributable to the following:

(a) 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 – separately disclosing the amount 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;

(b) 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;

(c) Purchases, sales, issues and settlements (each of those types of changes disclosed separately; and

(d) 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. Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

28 For fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity.

29 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(a) 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. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, the entity also provides a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement; and

(b) For financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated.

30 If the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

Questions for EFRAG TEG

31 Does EFRAG TEG have comments or preliminary views on the update provided on the IASB's tentative decisions regarding IFRS 13?