

IFRS in Focus

IASB issues Request for Information as part of its Post-Implementation Review of IFRS 13

Contents

Why is the RFI being issued?

Initial consultation

Request for Information

Comment period

This edition of IFRS in Focus outlines the contents of the *Request for Information* (RFI) issued by the International Accounting Standards Board (IASB) as part of the Post-Implementation Review (PIR) of IFRS 13 *Fair Value Measurement*.

The Bottom line:

- Feedback from the initial phase of the PIR indicated that IFRS 13 is generally working well.
- The initial review highlighted four main areas for deeper consideration by the IASB:
 - (i) The effectiveness of the information about Level 3 fair value measurements, particularly the use of generic “boilerplate” language and inappropriate aggregation of information;
 - (ii) Measuring the fair value of quoted investments in subsidiaries, joint ventures and associates;
 - (iii) How to apply the highest and best use concept to a group of non-financial assets; and
 - (iv) Challenges encountered when assessing whether markets are active and whether unobservable inputs are significant.
- The RFI is also seeking comments on whether any educational guidance is necessary on how to determine the fair value of biological assets and unquoted equity instruments.
- Responses to the RFI are due by 15 September 2017.

Why is the RFI being issued?

The RFI is part of the process of gathering information about the implementation of IFRS 13.

Initial consultation

In the first phase of the PIR, the IASB staff reviewed Board papers and submissions to the IFRS Interpretations Committee; met with preparers, investors, auditors, valuers, regulators and national standard setters; and reviewed academic research.

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The findings from this phase are that IFRS 13 is generally working well, but that four issues merit further consideration by the IASB. These four areas are the focus of the RFI.

Request for Information

The focus of the RFI and the IASB's objectives of further assessment are set out below.

1. Disclosure effectiveness

Some preparers believe that the disclosure requirements for Level 3 fair value measurements are onerous and do not reflect the way they manage their businesses. These preparers questioned the usefulness of such disclosures for investors. Furthermore, many users think the fair value measurement disclosures are too generic and lacking in entity-specific value, and that some information is aggregated when it should be disclosed separately.

The IASB is seeking information to gain a deeper understanding of stakeholder's perspectives on the effectiveness of the fair value measurement disclosures.

2. Measuring the fair value of quoted investments in subsidiaries, joint ventures and associates

The crux of the problem lies in whether a fair value measurement should prioritise Level 1 inputs or the unit of account of the item being measured. This issue has been considered by the IASB previously in Exposure Draft *Measuring Quote Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (ED) which was issued in September 2014. Many respondents to the ED agreed with the proposal that the unit of account is the investment as a whole but disagreed with the proposed measurement basis of quoted price times quantity (P x Q). They believe that such a measurement would be inconsistent with the unit of account of the investment and thus would not faithfully represent the fair value of the investment.

In the RFI, the IASB seeks additional information to supplement the work already performed in this area.

3. Application of the highest and best use concept to a group of non-financial assets

Some stakeholders struggle with determining the fair value of a non-financial asset when the valuation premise of that asset is to use it principally in combination with other assets or liabilities, and the highest and best use of any of the assets within that group is different from its current use. These stakeholders noted that this measurement basis could lead to counter-intuitive results when using a residual valuation method. A common example is farms located near suburbs where the farmlands that could be used for residential development – the farm house and other non-financial assets that are valued together with the land are often allocated a nil value using the residual method because a significant portion, if not all, of the fair value of the property is allocated to the land.

In the RFI, the IASB seeks information to understand the challenges of applying this concept and the pervasiveness of these challenges.

4. Challenges encountered when applying judgement

Some stakeholders find it challenging to assess whether markets are active and whether unobservable inputs are significant.

In the RFI, the IASB seeks information to help it assess the challenges in applying judgements in specific circumstances and the support that may be helpful to address those challenges.

The RFI will also solicit comments on whether any educational guidance is necessary on how to determine the fair value of biological assets and unquoted equity instruments in inactive markets or when there are no markets.

Respondents are invited to comment on any other relevant matters.

Comment period

Comments to the RFI are due by 15 September 2017.



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