

## IFRS in Focus

# IASB issues Exposure Draft on Fair Value Measurement Disclosures

### The Bottom Line

- The proposals attempt to highlight the degree of subjectivity of the unobservable inputs included in the fair valuation for fair value measurements categorised within Level 3 of the fair value hierarchy.
- In that analysis, an entity would take into account the effect of correlation between unobservable inputs, where relevant, when estimating the effect on a fair value measurement of a change in more than one unobservable input.
- The comment letter period ends on 7 September 2010, with a final Fair Value Measurements standard expected to be published during the first quarter 2011.

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### The proposal

On 29th June 2010, the International Accounting Standards Board (IASB) published ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*. This limited scope Exposure Draft forms part of the wider joint project to provide guidance on measuring fair value when required or permitted by International Financial Reporting Standards (IFRSs).

The IASB issued ED/2009/5 *Fair Value Measurement* last year which proposed a three-level fair value hierarchy that would categorise observable and non-observable market data used as inputs for fair value measurements. According to that hierarchy, Level 3 inputs are 'unobservable inputs' used for the fair value measurement of assets or liabilities for which market data is not available. ED/2009/5 would require that, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, an entity should state that fact and disclose the effect and the calculation of those changes. However, it was not clear whether an entity would be required to take into account interdependencies or correlation between inputs, or whether an entity would provide an analysis of changes in observable inputs or unobservable inputs, or both.

ED/2010/7 would require, at a minimum, an entity to:

- provide a measurement uncertainty analysis disclosure for fair value measurements categorised within Level 3 of the fair value hierarchy that are fair valued in the statement of financial position;
- if changing one or more of the unobservable inputs used in a fair value measurement to a different amount that could have reasonably been used in the circumstances (ignoring remote scenarios) would result in a significantly higher or lower fair value measurement, to disclose the effect of using those different amounts and how that effect is calculated;
- take into account the effect of correlation between unobservable inputs, if such correlation is relevant, when estimating the effect on the fair value measurement of using those different amounts;
- take into account the effect of correlation for unobservable inputs only; and

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- v. describe the valuation technique(s) and the inputs used in the fair value measurement for level 3 fair value measurements.

Significance for the purposes of the assessment in (ii) is judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, with respect to total equity.

The proposal in the IASB's ED is identical to the proposed measurement uncertainty analysis disclosure in the FASB's Exposure Draft of proposed amendments to Topic 820 *Fair Value Measurements and Disclosures* in the FASB *Accounting Standards Codification*<sup>TM</sup>.

Comments are requested by 7 September 2010. The IASB's latest work plan (as of 25 June 2010) anticipates publication of a final IFRS on *Fair Value Measurements*, including any final guidance resulting from this ED/2010/7, in the first quarter of 2011.

### Observation

The proposed disclosure differs from the market risk sensitivity analysis required in IFRS 7. The proposals attempt to highlight the degree of subjectivity of the unobservable inputs included in the fair valuation; they do not attempt to illustrate how the fair valuation would have differed had the economic environment at the period end been different.

## Key contacts

### IFRS global office

*Global IFRS Leader – Clients and Markets*

Joel Osnoss

ifrglobalofficeuk@deloitte.co.uk

*Global IFRS Leader – Technical*

Veronica Poole

ifrglobalofficeuk@deloitte.co.uk

*Leader – Global IFRS Communications*

Randall Sogoloff

ifrglobalofficeuk@deloitte.co.uk

### IFRS centres of excellence

#### Americas

*United States*

*Canada*

*Argentina*

Robert Uhl

Robert Lefrancois

Fermin del Valle

iasplusamericas@deloitte.com

iasplus@deloitte.ca

iasplus-LATCO@deloitte.com

#### Asia-Pacific

*China*

*Australia*

*Japan*

Stephen Taylor

Bruce Porter

Shinya Iwasaki

iasplus@deloitte.com.hk

iasplus@deloitte.com.au

iasplus-tokyo@tohatsu.co.jp

#### Europe-Africa

*Belgium*

*Denmark*

*Germany*

*South Africa*

*United Kingdom*

*Spain*

*Russia*

*France*

*Netherlands*

Laurent Boxus

Jan Peter Larsen

Andreas Barckow

Graeme Berry

Elizabeth Chrispin

Cleber Custodio

Michael Raikhman

Laurence Rivat

Ralph ter Hoeven

BEIFRSBelgium@deloitte.com

dk\_iasplus@deloitte.dk

iasplus@deloitte.de

iasplus@deloitte.co.za

iasplus@deloitte.co.uk

iasplus@deloitte.es

iasplus@deloitte.ru

iasplus@deloitte.fr

iasplus@deloitte.nl

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