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IFRS[®] Standards
Request for Information

Post-implementation Review— IFRS 13 *Fair Value Measurement*

Submissions to be received by 22 September 2017

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Request for Information

Post-implementation Review
IFRS 13 *Fair Value Measurement*

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Request for Information *Post-implementation Review IFRS 13 Fair Value Measurement* is published by the International Accounting Standards Board (the Board).

Submissions need to be received by 22 September 2017 and should be submitted in writing to the address below, by email to commentletters@ifrs.org or using our 'Open for comment' page at: go.ifrs.org/comment.

All responses will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason; for example, commercial confidence. Please see our website for details on this and how we use your personal data.

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CONTENTS

| | <i>from page</i> |
|---|------------------|
| INTRODUCTION | 4 |
| Background to the Post-implementation Review | 4 |
| The work done so far | 5 |
| Findings from the work done so far | 5 |
| The focus of this Request for Information (RFI) | 6 |
| This consultation and next steps | 7 |
| REQUEST FOR INFORMATION | 8 |
| 1. Your background and experience | 8 |
| 2. Fair value measurement disclosures | 9 |
| 3. Prioritising Level 1 inputs or the unit of account | 11 |
| 4. Application of highest and best use for non-financial assets | 12 |
| 5. Applying judgements required for fair value measurements | 13 |
| 6. Education | 14 |
| 7. Effects and convergence | 15 |
| 8. Other matters | 16 |
| RESPONDING TO THE RFI | 17 |
| APPENDICES | 18 |
| Appendix 1—Background on IFRS 13 <i>Fair Value Measurement</i> and main changes arising from the Standard | 18 |
| Appendix 2—Feedback received during phase 1 of the PIR on information IFRS 13 requires entities to disclose | 23 |
| Appendix 3—Previous work carried out by the Board in relation to prioritising Level 1 inputs or the unit of account | 26 |
| Appendix 4—Previous work carried out by the Board and the IFRS Interpretations Committee in relation to the application of highest and best use for non-financial assets | 31 |
| Appendix 5— Feedback received during phase 1 of the PIR on assessing whether a market is active and whether unobservable inputs are significant | 32 |
| Appendix 6—Feedback received during phase 1 of the PIR on the fair value measurement of biological assets and unquoted equity instruments | 33 |

Introduction

Background to the Post-implementation Review

The International Accounting Standards Board (the Board) is conducting a Post-implementation Review (PIR) of IFRS 13 *Fair Value Measurement* to assess the effect of the Standard on financial reporting. The purpose of a PIR, as set out in the IFRS Foundation's due process, is to evaluate if the Standard is working as the Board intended.¹ In particular, the Board aims to assess whether:

- the information required by IFRS 13 is useful to users of financial statements;
- areas of IFRS 13 present implementation challenges and might result in inconsistent application of the requirements; and
- unexpected costs have arisen when preparing, auditing or enforcing the requirements of IFRS 13 or when using the information that the Standard requires entities to provide.

IFRS 13 defines fair value, sets out in a single IFRS Standard a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS Standard requires or permits an item to be measured at fair value.² The focus of this PIR is on assessing the effect of IFRS 13 and not on assessing the effect of any other IFRS Standards that require or permit fair value measurement.

IFRS 13 is the result of a convergence project with the US standard-setter, the Financial Accounting Standards Board (the FASB). IFRS 13 is largely converged with Topic 820 *Fair Value Measurement* in US generally accepted accounting principles (US GAAP). The US Financial Accounting Foundation (FAF) is responsible for PIRs of US GAAP. The FAF has already completed its PIR of Topic 820 and concluded that Topic 820 met its objectives and had no unanticipated consequences.³ The FASB is currently considering changes to requirements for disclosure about fair value measurement as a part of its Disclosure Framework project.⁴

1 The IFRS Foundation's due process is set out in the *IASB and IFRS Interpretations Committee Due Process Handbook* and can be found at:

<http://www.ifrs.org/DPOC/Due-Process-Handbook/Documents/Due-Process-Handbook-June-2016.pdf>.

2 Appendix 1 includes an overview of the IFRS Standards that require or permit fair value measurement.

3 The FAF PIR Report on Topic 820 can be found at:

http://www.accountingfoundation.org/cs/ContentServer?c=Document_C&Document=Foundation%2FDocument_C%2FFAFDocumentPage&cid=1176163848391&utm_source=page&utm_medium=/financial-reporting-network/insights/2014/faf-post-implement-report-address-fair-value-measure.aspx&utm_campaign=download.

4 The FASB's proposed Accounting Standards Update can be found at:

http://www.fasb.org/jsp/FASB/Document_C/DocumentPage?cid=1176167664088&acceptedDisclaimer=true.

The work done so far

The Board conducts PIRs in two phases. Phase 1 consists of an initial assessment to establish the scope of the PIR. For phase 1 of the PIR on IFRS 13, the Board:

- reviewed Board and third-party materials to identify potentially challenging areas of application; for example, the project summary and feedback statement published when the Standard was issued, submissions to the IFRS Interpretations Committee (the Interpretations Committee) and subsequent research and education materials that have been developed.
- held meetings with both users and preparers of financial statements, audit firms, valuation specialists, regulators, national standard-setters, and IFRS advisory groups. In the meetings, we asked stakeholders to share their overall experience of applying IFRS 13 and to identify matters they think need to be considered further.
- carried out a scoping review of existing academic research and other literature.⁵
- compiled a list of matters that stakeholders raised as potential areas for further research.⁶

Findings from the work done so far

Overall, many stakeholders reported that IFRS 13 has worked well and brought significant improvements to financial reporting. In sharing their experience of IFRS 13, stakeholders also mentioned matters that they thought warrant consideration during the PIR. Most of those matters are grouped in three categories:

New matter identified

Nearly all the stakeholders we spoke with during phase 1 of the PIR mentioned disclosure usefulness. Many users of financial statements said that disclosures about fair values were important although they found many of the disclosures provided in financial statements generic, reducing the usefulness of the information. Most preparers said that some disclosure requirements for Level 3 fair value measurements are burdensome and fail to reflect entities' business management. These preparers questioned whether the disclosures are useful to investors. In particular, many preparers questioned whether disclosures are useful when they are aggregated and cover multiple assets or liabilities.

⁵ Agenda Paper 7D presented to the Board in its January 2017 meeting discusses the scoping of academic research and can be found on the meeting page at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx>.

⁶ Agenda Paper 7C presented to the Board in its January 2017 meeting summarises the main matters identified during outreach in phase 1 of the PIR. That Agenda Paper can be found on the meeting page at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx>.

Matters on which the Board has done work in the past

Many stakeholders referred to the measurement proposals in the Board's 2014 Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value*. Those proposals relate to an issue commonly referred to as the 'P×Q' issue. Many stakeholders suggested that the Board further considers this topic, because, in their view, IFRS 13 sets out no clear guidance on whether entities should prioritise Level 1 inputs or the unit of account in determining fair value for investments in joint ventures and associates and cash-generating units.

Several stakeholders, in particular preparers and national accounting standard-setters in Asia and Oceania, suggested that the Board should further consider the application of the concept of 'highest and best use' when entities are measuring the fair value of non-financial assets. Those stakeholders were concerned about the implications of applying highest and best use in the measurement of groups of operating assets. In these stakeholders' experience, applying highest and best use might result in assets being measured at a low amount or at nil when using a residual valuation method. The Interpretations Committee and the Board discussed a similar concern in 2012 and 2013 when addressing a stakeholder's question on how IAS 41 *Agriculture* relates to IFRS 13 when valuing biological assets using the residual valuation method.⁷

Other matters raised

Several stakeholders stated that the Board should further consider how entities apply some of the judgements required by IFRS 13. These stakeholders reported that when entities apply IFRS 13, they may encounter challenges determining when a market is 'active' and establishing when unobservable inputs are 'significant'.

Several stakeholders, particularly from emerging markets, stated that fair value is difficult to determine when markets are inactive or when there are no markets. Frequently mentioned examples included the fair value measurement of biological assets (in particular produce growing on bearer plants) and the fair value measurement of unquoted equity instruments.

⁷ The IASB *Update* from this discussion can be found at:
<http://media.ifrs.org/2013/IASB/May/IASB-Update-May-2013.html>.

The focus of this Request for Information (RFI)

The Board has decided to focus the next phase of the PIR on areas that stakeholders identified during phase 1 as requiring further investigation. The areas of focus and objectives of further assessment for each are shown in the table below.

| Area to assess further during phase 2 of the IFRS 13 PIR | Objective of further assessment |
|---|---|
| Disclosures about fair value measurements. | To gain a deeper understanding of both users' and preparers' perspectives on the usefulness of fair value measurement disclosures. |
| Prioritising Level 1 inputs or the unit of account. | To further assess the extent and effect of the issue as well as current practice. |
| Application of the concept of the highest and best use when measuring the fair value of non-financial assets. | To better understand the challenges when applying this concept, and to assess how pervasive it is and whether further support could be helpful. |
| Application of judgement in specific areas. | To assess the challenges in applying judgements in specific areas and whether further support could be helpful. |

In addition, this RFI also explores whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments.

This consultation and next steps

This consultation initiates phase 2 of the PIR. This RFI includes questions in each area of focus as well as a general question on the effect of IFRS 13. As is the case for other consultative activities of the IFRS Foundation, the process is open—all submissions received will be published on the Board's website.

During phase 2, we will consider submissions received along with information gathered through other activities (for example, information from outreach and from a review of academic literature on the effect of applying IFRS 13 on financial reporting).

We will present our findings in a Report and Feedback Statement. That statement will set out the steps, if any, that the Board plans to take as a result of the review.

Depending on the nature of the findings, the Board may decide to:

- take no further steps;
- continue monitoring the implementation of IFRS 13; for example, if the results of the PIR are inconclusive;
- develop, or facilitate development of, further guidance, such as education material, on one or more specific aspects of the application of IFRS 13; or

- revise IFRS 13 to address problems identified by the PIR. The Board would discuss any standard-setting response—from an annual improvement or narrow-scope amendment to a proposal for a standards-level project to change the accounting or disclosure requirements—as part of the agenda-setting process, applying the Board’s normal due process.

Request for Information

The International Accounting Standards Board (the Board) requests information on your experience of the use of IFRS 13 *Fair Value Measurement*.

Information is most helpful to us if it is supported by examples from financial statements or other evidence.

You can answer as many or as few questions as are relevant to your experience and you can provide information on any additional matters that you consider relevant to our review of IFRS 13.

All submissions received by **22 September 2017** will be considered. We will make our assessment of the responses received on the information and evidence provided and not on the number of respondents providing the information.

1. Your background and experience

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.

If you work in an environment in which IFRS Standards have not been adopted or allowed your input is still useful to us—but we would like to know which accounting principles you have experience with so that we can assess your information within that context.

| Question 1A—Your background |
|--|
| <p>Please tell us:</p> <p>(a) your principal role in relation to fair value measurement. For example, are you a preparer of financial statements, an auditor, a valuation specialist, a user of financial statements, a regulator, a standard-setter, an academic, or a professional accounting body? If you are a user of financial statements, what kind of user are you (for example, buy-side analyst, sell-side analyst, credit rating analyst, creditor/lender, asset or portfolio manager)?</p> <p>(b) your principal jurisdiction and industry. If you are a user of financial statements, which geographical regions and industries do you follow or invest in?</p> |

| Question 1B—Your experience | | | |
|---|---|-------------|-------------|
| How extensive is your experience in relation to the measurement of the following items at fair value (including the measurement of their recoverable amount on the basis of fair value less costs of disposal)? | | | |
| Type of item | The extent of your experience with fair value measurements | | |
| | Little | Some | Much |
| Property, plant and equipment | | | |
| Intangible assets including goodwill | | | |
| Investment properties | | | |
| Biological assets | | | |
| Investments in subsidiaries, joint ventures or associates | | | |
| Financial instruments | | | |
| Other (please specify which) | | | |

2. Fair value measurement disclosures

One of the Board's aims in developing IFRS 13 was to enhance and harmonise disclosures about fair value measurements. The objective of the disclosure requirements in IFRS 13 is to provide users of financial statements with information about the valuation techniques and inputs used to develop fair value measurements and about how fair value measurements using significant unobservable inputs affected profit or loss or other comprehensive income for a given period.⁸

IFRS 13 requires entities to categorise fair value measurements in one of three levels of a fair value measurement hierarchy, according to the type of inputs used in the measurement.⁹ During the development of the Standard, users asked the Board to require preparers to provide more information about Level 3 fair value measurements than is required for Level 1 and Level 2.¹⁰ The following is the main information required to be disclosed for Level 3 fair value measurements:¹¹

- 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

⁸ See paragraph BC185 of the Basis for Conclusions on IFRS 13.

⁹ The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to significant unobservable inputs (Level 3 inputs).

¹⁰ See paragraph BC187 of IFRS 13.

¹¹ IFRS 13 requires information to be disclosed by classes of assets and liabilities, with guidance provided on how to determine appropriate classes.

- 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.

Appendix 1—Background on IFRS 13 *Fair Value Measurement* and main changes arising from the Standard—provides an overview of all information required to be disclosed by IFRS 13.

During phase 1 of the PIR, users confirmed that information about Level 3 fair value measurements is important. Nevertheless, they and other stakeholders questioned the usefulness of information disclosed to comply with requirements in IFRS 13 for disclosure relating to Level 3 fair value measurements. Stakeholders suggested that the following factors impaired the usefulness of such disclosures:

- the aggregation of disclosures for diverse underlying instruments; and
- the disclosure of generic information.

Appendix 2—Summary of feedback received during phase 1 of the PIR on the information IFRS 13 requires entities to disclose—provides further details on the feedback received on these disclosure requirements.

In this RFI, the Board seeks information to help it gain a deeper understanding of stakeholders' perspectives on the usefulness of fair value measurement disclosures, in particular for Level 3 assets and liabilities.

Question 2—Fair value measurement disclosures

- (a) How useful do you find the information provided about Level 3 fair value measurements? Please comment on what specific information is useful, and why.
- (b) In your experience of Level 3 fair value measurements:
- how do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.
 - are you aware of any other factors (either within or outside IFRS requirements) affecting the usefulness of the information? Please provide examples to illustrate your response.
 - do you have suggestions on how to prevent such factors from reducing the usefulness of the information provided?
- (c) Which Level 3 fair value measurement disclosures are the most costly to prepare? Please explain.
- (d) Is there information about fair value measurements that you think would be useful and that IFRS 13 does not require entities to disclose? If yes, please explain what that information is and why you think it would be useful. Please provide any examples of disclosure of such information.

3. Prioritising Level 1 inputs or the unit of account

IFRS 13 requires that:

- (a) the fair value measurement of an asset or a liability, or of a group of assets and/or liabilities, takes into consideration the unit of account for the item being measured (for example, a financial instrument or a cash-generating unit or a business). The unit of account itself is determined applying other IFRS Standards.¹²
- (b) an entity selects inputs that are consistent with the asset or liability characteristics that market participants would take into account in a transaction for the asset or liability.¹³
- (c) Level 1 inputs should be used without adjustment to measure fair value whenever those inputs are available.¹⁴

After IFRS 13 came into effect, some stakeholders raised questions about how to measure fair value when Level 1 inputs exist but do not correspond to the unit of account. Those stakeholders asked if the use of Level 1 inputs or the unit of account should be prioritised in arriving at the measurement.

The Board has sought to clarify which of these requirements is to be prioritised. In September 2014, the Board proposed in the Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (the 2014 Exposure Draft) that the unit of account for investments in subsidiaries, joint ventures and associates is the investment as a whole.¹⁵ In that 2014 Exposure Draft, the Board also proposed that the product of the quoted price (P) for the individual financial instruments that make up the entity's investments and the quantity of financial instruments (Q), or P×Q, be used, without adjustment, to measure:

- (a) the fair value of an investment in a subsidiary, joint venture or associate when the investment is quoted in an active market; and
- (b) the recoverable amount of a cash-generating unit on the basis of fair value less costs of disposal when the cash-generating unit corresponds to entities that are quoted in an active market.

Many respondents to the 2014 Exposure Draft agreed with the proposal that the unit of account is the investment as a whole but disagreed with the proposed measurement on the basis of P×Q, because, in their opinion, it resulted in an irrelevant measurement. In contrast, many users of financial statements who responded to the 2014 Exposure Draft preferred measurement on the basis of P×Q because, in their opinion, such measurement is objective and verifiable.

Appendix 3—Previous work carried out by the Board in relation to prioritising Level 1 inputs or the unit of account—describes the Board's work in this area and provides a summary of the feedback received. Feedback received during phase 1 of the PIR is consistent with the comments received during previous work on this topic.

¹² See paragraphs 13 and 14 of IFRS 13.

¹³ See paragraph 69 of IFRS 13.

¹⁴ See paragraphs 77 and 80 of IFRS 13.

¹⁵ The Exposure Draft can be found at: <http://www.ifrs.org/Current-Projects/IASB-Projects/FVM-unit-of-account/Exposure-Draft-September-2014/Documents/Exposure-Draft-Measuring-Quoted-Investments-September-2014.pdf>.

The Board seeks additional information through this RFI to supplement the work already performed in this area.

| Question 3—Prioritising Level 1 inputs or the unit of account | |
|--|--|
| (a) | <p>Please share your experience to help us assess:</p> <ul style="list-style-type: none"> (i) how common it is for quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units to be measured at fair value (please support your comments with examples). (ii) whether there are material differences between fair value amounts measured on the basis of P×Q alone (when P is the quoted price for an individual instrument and Q is the quantity of financial instruments held) and fair value amounts measured using other valuation techniques. Please provide any examples, including quantitative information about the differences and reasons for the differences. (iii) if there are material differences between different measurements, which techniques are used in practice and why. <p>Please note whether your experience is specific to a jurisdiction, a region or a type of investment.</p> |
| (b) | <p>The Board has undertaken work in this area in the past (see Appendix 3). Is there anything else relating to this area that you think the Board should consider?</p> |

4. Application of highest and best use for non-financial assets

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.¹⁶ The highest and best use of a non-financial asset must be physically possible, legally permissible and financially feasible. The Standard presumes that an entity's current use of a non-financial asset is its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.¹⁷

Appendix 4—Previous work carried out by the Board and the IFRS Interpretations Committee in relation to the application of highest and best use for non-financial assets—describes the Board's and the IFRS Interpretations Committee's work on the application of highest and best use since the Board issued IFRS 13.

During phase 1 of the PIR, some stakeholders raised concerns about applying the highest and best use concept to groups of assets. This concern arises when the valuation premise is that a non-financial asset will be used principally in combination with other assets or liabilities and the highest and best use of any asset within that group is not its current use. Those stakeholders stated that it is not always clear how to measure the fair value of the

¹⁶ IFRS 13 defines highest and best use as 'the use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used'. The Board decided in developing IFRS 13 that this concept does not apply to financial assets because they do not have alternative uses.

¹⁷ When such market or other factors are not present, IFRS 13 does not require an entity to perform an exhaustive search for other potential uses of a non-financial asset.

assets in the group. In addition, according to these stakeholders, the outcome of such measurement may be counter-intuitive when using a residual valuation method (for example, the outcome may be that the fair value of a non-financial asset in the group is nil). The most common examples given by stakeholders were of farms or factories on land near suburbs when that land could be used for residential development.

In addition, some reported that challenges arise when applying the highest and best use concept to measure the fair value of specialised assets (such as schools or government properties) or assets acquired in business combinations.

The Board seeks information through this RFI that will help it to understand better the challenges of applying the highest and best use concept, the pervasiveness of these challenges and the support that might be helpful to address those challenges.

| |
|---|
| <p>Question 4—Application of the concept of highest and best use for non-financial assets</p> <p>Please share your experience to help us assess:</p> <p>(a) whether the assessment of an asset’s highest and best use is challenging, and why. Please provide examples to illustrate your response.</p> <p>(b) whether the current uses of many assets are different from their highest and best use, and in which specific circumstances the two uses vary.</p> <p>(c) whether, when applying highest and best use to a group of assets and using the residual valuation method, the resulting measurement of individual assets in the group may be counter-intuitive. If so, please explain how this happens, and in which circumstances.</p> <p>(d) whether there is diversity in practice relating to the application of the concept of highest and best use, and when and why this arises.</p> <p>Please note whether your experience is specific to a jurisdiction, a region or a type of asset.</p> |
|---|

5. Applying judgements required for fair value measurements

IFRS 13 requires the use of judgement when measuring the fair value of an asset or a liability.

During phase 1 of the PIR, some stakeholders stated that making these judgements is challenging. The areas in which applying judgement is considered most challenging were assessing whether a market is active and assessing whether an input is a significant unobservable input.

Appendix 5—Feedback received during phase 1 of the PIR on assessing whether a market is active and whether unobservable inputs are significant—provides some background information about these items as well as the feedback received during phase 1 of the PIR.

The Board seeks information through this RFI that will help it to assess the challenges in applying judgements in specific circumstances and the support that might be helpful to address those challenges.

Question 5—Applying judgements required for fair value measurements

Please share your experience to help us assess the challenges in applying judgements when measuring fair value:

- (a) is it challenging to assess whether a market for an asset or a liability is active? Why, or why not?
- (b) is it challenging to assess whether an input is unobservable and significant to the entire measurement? Why, or why not?

Please provide specific examples to illustrate your response and note whether your experience is specific to a jurisdiction or a region or a type of asset or liability.

6. Education

During phase 1 of the PIR, some stakeholders said 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. Some of those stakeholders also said that additional guidance (such as education material) could help entities measure such items at fair value. Appendix 6—Feedback received during phase 1 of the PIR on the fair value measurement of biological assets and unquoted equity instruments—provides background information about these items as well as a summary of the feedback received on this topic.

With this RFI, the Board aims to explore whether there is a need for further guidance, such as education material, on measuring the fair value of biological assets and unquoted equity instruments.

Question 6A—Education on measuring biological assets at fair value

Please describe your experience of measuring the fair value of biological assets:

- (a) are any aspects of the measurement challenging? Why, or why not? Please provide examples to illustrate your response.
- (b) what, if any, additional help would be useful in applying IFRS 13? In which areas?

Question 6B—Education on measuring unquoted equity instruments at fair value

Please describe your experience of measuring the fair value of unquoted equity instruments:

- (a) in 2012, the IFRS Foundation Education Initiative published *Unquoted equity instruments within the scope of IFRS 9 Financial Instruments*. Have you used this education material? If so, how did this material help you to measure the fair value of unquoted equity instruments?
- (b) do you have questions not covered in *Unquoted equity instruments within the scope of IFRS 9 Financial Instruments*? Do you think that additional help would be useful in applying the requirements? Why, or why not? Please provide examples to illustrate your response.

7. Effects and convergence

The Board issued IFRS 13 in 2011 so that a centralised framework, requirements for fair value measurement and disclosures in a single Standard would 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).¹⁸ The Board 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.

| Question 7—Effects and convergence | |
|---|---|
| (a) | Please share your experience of the overall effect of IFRS 13: <ul style="list-style-type: none"> (i) what effect did IFRS 13 have on users' ability to assess future cash flows? If you are a user of financial statements, please provide us with examples of how you use information provided by entities about their fair value measurements and any adjustments you make to the measurements. (ii) what effect did IFRS 13 have on comparability of fair value measurements between different reporting periods for an individual entity and between different entities in the same reporting period? (iii) what effect did IFRS 13 have on compliance costs; specifically, has the application of any area of IFRS 13 caused considerable costs to stakeholders and why? |
| (b) | Please comment on how you are affected by the fact that the requirements for fair value measurement in IFRS 13 are converged with US GAAP; and please comment on how important it is to maintain that convergence. |

8. Other matters

The Board would also like to hear about matters that respondents find relevant and that have not been covered by any other question in this RFI.

| Question 8—Other matters |
|---|
| Should the Board be aware of any other matters as it performs the PIR of IFRS 13? If so, please explain why and provide examples to illustrate your response. |

¹⁸ Agenda Paper 7B on convergence in fair value guidance discussed at the Board's meeting in January 2017 can be found at the January meeting page: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx>.

Responding to the RFI

The Board invites responses to this RFI until **22 September 2017**.

You can send a response, preferably via the Internet using our 'Open for comment' page at: go.ifrs.org/comment.

Alternatively, you can write to our postal address (IFRS Foundation, 30 Cannon Street, London EC4M 6XH, United Kingdom) or send an email to commentletters@ifrs.org.

All responses will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason; for example, commercial confidence. Please see our website for details on this and how we use your personal data.

Stay informed

Our project page will include updates about the PIR, please visit it at: go.ifrs.org/PIR-IFRS-13.

Appendices

Appendix 1—Background on IFRS 13 *Fair Value Measurement* and main changes arising from the Standard

Project history and objectives

The Fair Value Measurement project (the project) was added to the agenda of the International Accounting Standards Board (the Board) in September 2005 because fair value measurement was identified as an area for which IFRS Standards provided inconsistent guidance. That inconsistency contributed to diversity in practice and reduced the comparability of financial statements. The objective of the project was to define fair value, establish a framework for measuring fair value and require disclosures about fair value measurements.

The US national standard-setter, the Financial Accounting Standards Board (the FASB), started a project on fair value measurement in June 2003. In September 2006, the FASB issued SFAS 157 *Fair Value Measurement* (now incorporated in Topic 820 *Fair Value Measurement*).

In May 2009, the Board published an Exposure Draft, *Fair Value Measurement*. The most common comments received were that the Board and the FASB should work together to develop converged fair value measurement and disclosure requirements. The Board and the FASB (the boards) agreed to work together in October 2009 under a Memorandum of Understanding.

As a result of the joint deliberations in June 2010:

- (a) the FASB issued a proposed Accounting Standards Update *Fair Value Measurement and Disclosures (Topic 820): Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*; and
- (b) the Board issued an Exposure Draft *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*.

The Board's Exposure Draft in June 2010 proposed disclosure of a measurement uncertainty analysis (ie a range of exit prices that could have been reasonable estimates at the measurement date). In response to the feedback received on the Exposure Draft, the Board decided that it would need to perform additional analysis before requiring disclosure of a quantitative measurement uncertainty analysis. Therefore this requirement was not included in the final Standard. The Board has not performed any additional analysis on this topic since the Standard was issued.

In May 2011, the boards issued converged Standards—IFRS 13 and amended Topic 820. IFRS 13 became effective on 1 January 2013.¹⁹

¹⁹ The amendments in Topic 820 were effective for interim and annual periods beginning after 15 December 2011 for public companies and for annual periods beginning after 15 December 2011 for non-public entities.

Since the issuance of the Standards the boards have issued minor amendments to enhance or clarify the original requirements but have not modified the requirements substantially. Thus, the work of the boards since the issuance of the Standards has had an insignificant impact on the level of convergence achieved in 2011.²⁰

Changes arising from IFRS 13

IFRS 13 introduced:

- (a) a revised definition of fair value that:
 - (i) provides clarification on fair value as an exit price;
 - (ii) conveys more clearly that fair value is a market-based measurement and not an entity-specific measurement; and
 - (iii) states explicitly that the fair value is measured at the measurement date.
- (b) a definition of the key concepts in the fair value framework. This framework assumes that a hypothetical and orderly transaction takes place. Some concepts within that framework are market participants, orderly transaction, principal and most advantageous markets.
- (c) the application of the concept of highest and best use in the fair value measurement of non-financial assets.
- (d) the requirement that the fair value of a liability reflects the effect of non-performance risk.
- (e) a fair value hierarchy (ie Level 1, Level 2 and Level 3 inputs).
- (f) guidance on valuation technique(s) to be used for measuring fair value.
- (g) a portfolio exception. IFRS 13 provides explicit requirements for entities to consider the effects of offsetting positions in market or counterparty credit risks.
- (h) guidance on measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased.
- (i) enhancement and harmonisation of the requirements to disclose information about fair value measurements.

²⁰ Agenda Paper 7B discussed at the Board's meeting in January 2017 provides more details about the convergence with US GAAP and can be found on the January meeting page at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2017.aspx>.

| The use of IFRS 13 measurement and disclosure requirements in IFRS Standards | | | |
|--|---|------------------------------|----------------------------|
| IFRS Standard | How is fair value used? | IFRS 13 measurement applies? | IFRS 13 disclosures apply? |
| IFRS 3 <i>Business Combinations</i> | Required , with some exceptions | Yes | No |
| IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> | Threshold , required if fair value less costs to sell is lower than the carrying amount | Yes | Yes |
| IFRS 9 <i>Financial Instruments</i> | Required , depending on the business model and the instrument | Yes | Yes ^(a) |
| IAS 16 <i>Property, Plant and Equipment</i> | Optional , accounting policy choice | Yes | Yes |
| IAS 19 <i>Employee Benefits</i> | Required , for pension plan assets only | Yes | No |
| IAS 36 <i>Impairment of Assets</i> | Threshold , required if fair value less costs of disposal is lower than the carrying amount and higher than value in use | Yes | No |
| IAS 38 <i>Intangible Assets</i> | Optional , accounting policy choice | Yes ^(b) | Yes |
| IAS 40 <i>Investment Property</i> | Optional , accounting policy choice | Yes | Yes ^(a) |
| IAS 41 <i>Agriculture</i> | Required , fair value less costs to sell for most biological assets | Yes | Yes |

(a) Fair value measurement disclosures are required even when the measurement basis is amortised cost (IFRS 9) or cost (IAS 40).
(b) If intangible assets are carried at fair value, IAS 38 requires that their fair value is determined by reference to an active market.

| Information IFRS 13 requires entities to disclose | | | | | | | | | | | | |
|--|------------------------------|----|----|------------------------------|----|----|--|----|----|----|----|----|
| Information | Items measured at fair value | | | | | | Items not measured at fair value, fair value disclosed | | | | | |
| | Recurring ^(a) | | | Non-recurring ^(b) | | | L1 | L2 | L3 | L1 | L2 | L3 |
| | L1 | L2 | L3 | L1 | L2 | L3 | | | | | | |
| Fair value at the end of the reporting period | X | X | X | X | X | X | | | | X | X | X |
| Reasons for the measurement | | | | X | X | X | | | | | | |
| Level within the fair value hierarchy | X | X | X | X | X | X | | | X | X | X | X |
| Transfers between the levels in the hierarchy | X | X | X | X | X | X | | | | | | |
| Policy for determining when transfers between the hierarchy levels have occurred | X | X | X | X | X | X | | | | | | |
| Description of valuation technique(s) and inputs used | | X | X | X | X | X | | | X | X | X | X |
| Changes to valuation technique and reason(s) | | X | X | X | X | X | | | X | X | X | X |
| Quantitative information about significant unobservable inputs | | | | | | | | | | | | |
| Reconciliation from opening to closing balances (including information on transfers in or out) | | | | | | | | | X | | | |
| Unrealised gains/losses recognised in profit or loss | | | | | | | | | X | | | |
| Description of valuation processes and policies | | | | | | | | | X | | | |
| Sensitivity to changes in unobservable inputs (narrative description) | | | | | | | | | X | | | |

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| Information IFRS 13 requires entities to disclose | | | | | | | | | |
|--|------------------------------|----|----|------------------------------|----|----|--|----|----|
| Information | Items measured at fair value | | | | | | Items not measured at fair value, fair value disclosed | | |
| | Recurring ^(a) | | | Non-recurring ^(b) | | | L1 | L2 | L3 |
| | L1 | L2 | L3 | L1 | L2 | L3 | | | |
| Sensitivity to reasonably possible changes in assumptions (quantitative, financial instruments only) | | | X | | | | | | |
| If highest and best use differs from current use, reasons why (non-financial assets only) | X | X | X | X | X | X | X | X | X |
| If the portfolio exception in paragraph 48 of IFRS 13 is applied (financial instruments only) | X | X | X | | | | | | |

(a) Recurring items—IFRS Standards require or permit fair value measurement in the statement of financial position at the end of each reporting period.
 (b) Non-recurring items—IFRS Standards require or permit fair value measurement in the statement of financial position in particular circumstances.

Appendix 2—Summary of feedback received during phase 1 of the PIR on the information IFRS 13 requires entities to disclose

The feedback received during phase 1 of the Post-implementation Review (PIR) on the information required to be disclosed by IFRS 13 focused on fair value measurements categorised within Level 3 of the fair value hierarchy. The table below provides a summary of the feedback received relating to these fair value measurements.

| Level 3 measurements | Explanation | Feedback during phase 1 of the PIR |
|---|---|--|
| <p>For recurring measurements, a narrative description of the sensitivity of measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity is required to provide a description of those interrelationships (paragraph 93(h)(i)).</p> <p>For recurring measurements of financial instruments, a quantitative sensitivity analysis reflecting reasonably possible alternative assumptions (paragraph 93(h)(ii)).</p> | <p>This requirement is intended to provide users with information about the directional effect of a change in a significant unobservable input on a fair value measurement (paragraph BC207 of the Basis for Conclusions on IFRS 13).</p> | <p>Some stakeholders questioned the appropriateness of the range of reasonably possible alternative assumptions identified in practice, noting their view that the information provided was often not useful. Some preparers stated that this disclosure requirement is burdensome to prepare and does not reflect the way in which they manage their business and questioned the relevance of the resulting information.</p> <p>Several users stated that they would like this disclosure to go further by showing the range of possible values and reflecting interdependencies of assumptions. A similar proposal was considered by the Board during the development of IFRS 13. See Appendix 1 and paragraphs BC205-BC208 of the Basis for Conclusions on IFRS 13.</p> |

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| Level 3 measurements | Explanation | Feedback during phase 1 of the PIR |
|--|---|--|
| <p>For all measurements, quantitative information about the significant unobservable inputs used in the measurement (paragraph 93(d)).</p> | <p>This requirement is intended to enable users to assess whether the entity's views about the individual inputs differ from their own and, if so, to decide how to incorporate the entity's measurement in their decisions. This disclosure should also facilitate comparison of the inputs used over time and between entities with similar Level 3 assets and liabilities.</p> | <p>Feedback received reflected difficulties of providing meaningful information in aggregate.</p> |
| <p>For recurring measurements, a reconciliation from the opening balances to the closing balances, disclosing separately, among other things, changes during the period attributable to unrealised gains or losses recognised in profit or loss (paragraph 93(e)).</p> | <p>The requirement is intended to enhance the ability of users to assess the quality of an entity's reported earnings.</p> <p>Previously, many IFRS Standards included this requirement in some way. However, when IFRS 13 was being developed, the Board decided to use the terms 'realised' and 'unrealised' in the reconciliation disclosure to align terminology with Topic 820 in US generally accepted accounting principles. The Board considered unrealised to be equivalent to <i>gains or losses attributable to assets and liabilities held at the end of the reporting period</i>. See paragraph BC198 of the Basis for Conclusions on IFRS 13.</p> | <p>Some preparers have stated that preparing the reconciliation is an onerous, manual task. In addition, they do not use the resulting information internally for managing the business(es) or risk(s). Those stakeholders questioned the usefulness of the reconciliation to users of financial statements.</p> <p>Some stakeholders questioned the meaning of realised and unrealised gains or losses. Some others wondered whether unrealised gains or losses should be disclosed for all levels in the hierarchy, noting that in some jurisdictions the term has legal implications relating to distributable dividends.</p> |

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| Level 3 measurements | Explanation | Feedback during phase 1 of the PIR |
|----------------------|-------------|---|
| | | Some stakeholders questioned the relevance of information about realisation, especially in the context of financial instruments (they saw an instrument's liquidity as more important than whether it was actually sold or realised). |

In addition to the items in the table, during phase 1 of this PIR, some stakeholders commented on the quality of the disclosures provided about fair value for some assets and liabilities not measured at fair value in the statement of financial position (paragraph 97 of IFRS 13). Those stakeholders stated that the quality of the fair value measurements disclosed is perceived to be lower than the quality of the fair value measurements that are recognised in the statement of financial position. This concern raises questions about how to improve the quality and therefore the usefulness of the information provided.

Appendix 3—Previous work carried out by the Board in relation to prioritising Level 1 inputs or the unit of account

In September 2014, the Board published the Exposure Draft *Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value* (the 2014 Exposure Draft). The table below shows the main proposals in that Exposure Draft and a summary of the feedback:²¹

| Proposal in the 2014 Exposure Draft | Summary of feedback |
|--|--|
| For investments in subsidiaries, joint ventures and associates, the unit of account is the investment as a whole rather than the individual financial instruments included within these investments. | Many respondents supported the view that the unit of account for these investments should be the investment as a whole rather than the individual financial instruments included within these investments. |

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²¹ The Board discussed comment letters received on the 2014 Exposure Draft at its meeting in March 2015. The Agenda Paper discussed at that meeting can be found on the meeting page at: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-March-2015.aspx>.

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| Proposal in the 2014 Exposure Draft | Summary of feedback |
|--|---|
| <p>The fair value measurement of investments in subsidiaries, joint ventures and associates when quoted in an active market should be the product of the quoted price (P) multiplied by the quantity of financial instruments held (Q), or P×Q, without adjustments.</p> | <p>Many respondents disagreed with the proposals, citing views that:</p> <ul style="list-style-type: none"> (a) there is a lack of alignment between the proposed measurement and the unit of account being the investment as a whole (in their view there is no Level 1 input for that unit of account); (b) the proposed measurement may not provide relevant information because it may not reflect the features of the investment (for example the ability to exercise significant influence); (c) the measurement proposals would lead to inconsistencies between the measurement of quoted and unquoted investments at fair value; and (d) the measurement proposals result in day one gains or losses when the acquisition price includes a premium or discount. <p>However, many of the users of financial statements who provided feedback agreed with the proposals, noting that the measurement should provide information that is objective and verifiable. They thought P×Q met these objectives better than measurement based on a different valuation technique.</p> |

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| Proposal in the 2014 Exposure Draft | Summary of feedback |
|--|--|
| <p>For impairment testing, in some cases, the recoverable amount of a cash-generating unit (CGU) is based on fair value less costs of disposal and the CGU is quoted in an active market. The 2014 Exposure Draft proposed that for a quoted CGU, its fair value less costs of disposal should be measured on the basis of P×Q, without adjustments.</p> | <p>Many respondents suggested that the fair value measurement of a quoted CGU should be aligned with the fair value measurement of a quoted investment but did not think that P×Q resulted in the most appropriate measurement because:</p> <ul style="list-style-type: none"> (a) CGUs do not correspond exactly to, or are rarely identical to, a quoted entity; (b) the proposed measurement would not be aligned with the unit of account (ie the CGU); (c) they believed that it would not be appropriate to recognise an impairment loss based on the value of an individual financial instrument that is qualitatively different from the collective assets of the CGU being assessed for impairment; (d) they believed that the measurement proposals could lead to inconsistencies between quoted and unquoted CGUs when measuring the recoverable amount on the basis of fair value less costs of disposal; and (e) the measurement proposals are inconsistent with ASC 350—<i>Intangibles, Goodwill and Other</i> (section 350-20-35) under US generally accepted accounting principles. |

At its meeting in July 2015 the Board decided to research this topic further. The paragraphs below list the main activities and a summary of the feedback received during the research work:²²

Research after the 2014 Exposure Draft

Assessment of the population of entities holding quoted investments measured at fair value

The assessment focused on:

- (a) investment entities with investments in quoted subsidiaries. These investments are required to be measured at fair value.

²² The Board discussed the research work at its meetings in November 2015 and January 2016. The corresponding Agenda Papers can be found at the meeting pages: <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-November-2015.aspx> and <http://www.ifrs.org/Meetings/Pages/IASB-Meeting-January-2016.aspx>.

- (b) venture capital organisations, mutual funds, unit trusts and similar entities with investments in quoted joint ventures or associates. These investments are permitted to be measured at fair value.
- (c) non-investment entities with investments in quoted subsidiaries, joint ventures and associates. These investments are permitted to be measured at fair value in the non-investment entities' separate financial statements.

The conclusion of the assessment was that the requirements proposed in the 2014 Exposure Draft would affect only a limited number of entities, and primarily investment entities.

That assessment did not consider:

- (a) previously held quoted equity investments in business combinations achieved in stages and quoted non-controlling interests measured in accordance with IFRS 3 *Business Combinations*;
- (b) quoted investments within the scope of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*;
- (c) quoted investments retained after loss of control and accounted for in accordance with IFRS 10 *Consolidated Financial Statements*; and
- (d) quoted CGUs for which the recoverable amount is measured on the basis of fair value less costs of disposal.

Outreach

Many stakeholders reiterated the feedback made in response to the 2014 Exposure Draft. The Board also learned:

- (a) valuation specialists typically use P×Q as a reasonableness check when measuring the fair value of quoted investments or the recoverable amount of a quoted CGU on the basis of fair value less costs of disposal. P×Q is not necessarily used as the primary or sole measurement.
- (b) many users of financial statements generally preferred the measurements applying P×Q in respect of quoted investments and quoted CGUs because they considered this measurement to be more verifiable and objective, and not because they considered it more relevant. For these users the P×Q measurement was an objective and verifiable starting point from which to derive their conclusions on the fundamental value of the investments.

Literature review

The review identified factors to consider when measuring the fair value of a controlling interest on the basis of a listed share price, including whether (the list is not exhaustive):

- (a) the listed price includes a premium for a transfer of control;
- (b) the fair value measurement of such controlling interest should reflect any marketability constraints not captured in the listed price of the shares; and
- (c) the price that market participants would pay in the mergers and acquisitions market would differ from the listed share price.

In relation to CGUs, the research suggested that the market capitalisation of a quoted CGU is typically considered to be an external indication of fair value that should be contrasted and reconciled with the fair value measurements obtained (via another valuation technique). Research findings questioned whether the market capitalisation of a quoted CGU should be presented as the conclusive fair value measurement.

Board conclusion

In January 2016 the Board decided to consider the findings from the 2014 Exposure Draft and subsequent research during the PIR of IFRS 13 *Fair Value Measurement*.

Appendix 4—Previous work carried out by the Board and the IFRS Interpretations Committee in relation to the application of highest and best use for non-financial assets

In May 2012, the IFRS Interpretations Committee (the Interpretations Committee) discussed a request seeking clarification on the application of paragraph 25 of IAS 41 *Agriculture*. This paragraph deals with the residual valuation method as a possible valuation technique to measure the fair value of biological assets physically attached to land if the biological assets have no separate market but an active market does exist for the combined assets as a group.

The Interpretations Committee decided not to take the issue onto its agenda and recommended that it be addressed by the Board. In May 2013, the Board noted that the result of the outreach indicated that this issue was not widespread and decided that, depending on how practice developed in this area, this matter could be considered for review in the PIR of IFRS 13 *Fair Value Measurement*.²³

²³ The IASB *Update* can be found at: <http://media.ifrs.org/2013/IASB/May/IASB-Update-May-2013.html>

Appendix 5— Feedback received during phase 1 of the PIR on assessing whether a market is active and whether unobservable inputs are significant

| Judgement area | Requirements | Feedback during phase 1 of the PIR |
|---------------------------------|---|---|
| Active market | IFRS 13 defines ‘active market’ and requires that entities use quoted prices when markets are active. Conversely, it allows adjustments to quoted market prices when markets are inactive. | <p>Some stakeholders found assessing whether a market is active challenging in some circumstances and they asked for more guidance. An example of guidance sought was how to consider factors such as the volume or the frequency of the trades in the assessment.</p> <p>Several stakeholders stated that the issue relating to ‘P×Q’ (question 3 in this Request for Information) adds to the pressure on the assessment of whether a market is active.</p> |
| Significant unobservable inputs | IFRS 13 requires that the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. In other words, the existence of a significant unobservable input to a fair value measurement would result in the measurement being classified at Level 3 of the fair value measurement hierarchy. | <p>Many stakeholders raised concerns with the implementation and general understanding of the categorisation of measurements within the fair value hierarchy. Some stakeholders stated that assessing both the <i>observability</i> and the <i>significance</i> of the inputs can be challenging. Those stakeholders noted that the existence of additional disclosure requirements for Level 3 measurements adds further pressure to the assessment.</p> |

Appendix 6—Feedback received during phase 1 of the PIR on the fair value measurement of biological assets and unquoted equity instruments

To assist entities with measuring fair value when limited information is available, in 2012, the IFRS Foundation Education Initiative published *Illustrative Examples to accompany IFRS 13 Unquoted equity instruments within the scope of IFRS 9 Financial Instruments*. The education material describes the thought process, as well as a range of the most commonly used valuation techniques for measuring the fair value of unquoted equity instruments within the scope of IFRS 9. The material also includes examples that illustrate how the fair value of an unquoted equity instrument could be measured, even with limited information. The education material can be found at: <http://www.ifrs.org/Use-around-the-world/Education/FVM/Documents/Education-guidance-FVM.pdf>

The feedback received during phase 1 of the PIR suggests that fair value remains difficult to determine when markets are inactive or when there are no markets; that feedback is summarised in the following table.

| Item measured | Requirements | Feedback during phase 1 of the PIR |
|-------------------|--|---|
| Biological assets | <p>IAS 41 <i>Agriculture</i>—Biological assets, except for bearer plants, are required to be measured at their fair value less costs to sell, except when fair value cannot be measured reliably. That requirement applies both on initial recognition and at the end of each reporting period.</p> <p>Produce growing on bearer plants is within the scope of this requirement.</p> | <p>Some stakeholders stated that measuring the fair value of biological assets is particularly challenging when biological assets are at an immature stage for which there are no markets. In addition, there are inputs, such as the estimated outcome or yield, that are difficult to determine as they rely on factors that are beyond management control, such as weather conditions.</p> |

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| Item measured | Requirements | Feedback during phase 1 of the PIR |
|-----------------------------|--|---|
| Unquoted equity instruments | <p>Investments in unquoted equity instruments are accounted for in accordance with the following IFRS Standards:</p> <p>(a) IFRS 9 <i>Financial Instruments</i>—measured at fair value;</p> <p>(b) IFRS 10 <i>Consolidated Financial Statements</i>—investment entities are required to measure investments in subsidiaries at fair value through profit or loss (FVTPL) in accordance with IFRS 9;</p> <p>(c) IAS 28 <i>Investments in Associates and Joint Ventures</i>—venture capital organisations, mutual funds, unit trusts and similar entities are permitted to measure investments in associates and joint ventures at FVTPL in accordance with IFRS 9; and</p> <p>(d) IAS 27 <i>Separate Financial Statements</i>—investments in subsidiaries, joint ventures and associates are permitted to be accounted for in accordance with IFRS 9.</p> | <p>Some stakeholders have stated that measuring the fair value of unquoted equity instruments is challenging because:</p> <p>(a) the values are not readily available; and</p> <p>(b) a range of valuation techniques is available to use, and there is perceived to be high subjectivity surrounding some of the assumptions and inputs used. These factors make the resulting measurements contentious.</p> |