Measuring fair value – Is IFRS 13 working as intended?

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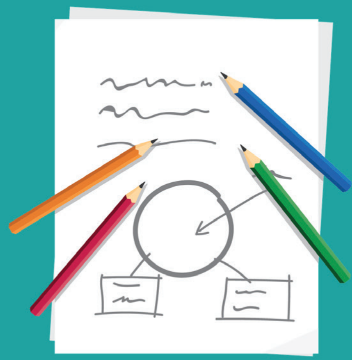

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"IFRS 13 provides appropriate principles-based guidance. However, practical guidance – e.g. factors to consider when determining the appropriate level of aggregation – and additional educational materials would help to reduce the inconsistencies in application that remain."

Wolfgang Laubach
KPMG's global IFRS valuation and impairment leader

IFRS 13 is achieving its objectives, but application challenges remain in judgemental areas

Highlights

– Assessing usefulness and challenges

– Specific application challenges remain in judgemental areas

– Next steps

Assessing usefulness and challenges

The International Accounting Standards Board (the Board) has completed its post-implementation review (PIR) of IFRS 13 *Fair Value Measurement*.

The Board concluded that IFRS 13 is achieving its objectives and that financial statement users find its disclosures useful.

Specific application challenges

Some stakeholders identified challenges when:

– exercising judgement to assess whether a market is active and whether an input is significant and observable;

– the unit of account for the fair value measurement differs from the unit of account for which Level 1 inputs are available (often called the 'PxQ issue');

– applying the concept of highest and best use; and

– determining the fair value of biological assets and unquoted equity instruments.

However, the Board decided not to develop further guidance in any of these areas for the reasons set out in the table below.

Users believe IFRS 13 disclosures provide useful information, and are most helpful when disaggregated and specific

Area of focus	Board's findings and rationale
Applying judgement in specific areas	Some respondents noted challenges when assessing whether a market is active and whether an input is significant and observable. The Board decided to take no further action, because the requirements are principles-based and standard setters are not best placed to provide guidance on detailed valuation assessments.
Prioritising Level 1 inputs (PxQ) or the unit of account – measuring quoted investments in subsidiaries, joint ventures and associates at fair value	Many stakeholders recommended that the Board clarify this aspect of the standard, but it declined on the basis that the costs would outweigh the benefits.
Applying the concept of highest and best use for non-financial assets	The Board decided to take no further action on the basis that there is insufficient evidence of inconsistent application.
Education about measuring the fair value of biological assets and unquoted equity instruments	The Board noted that detailed application questions on fair value measurement of biological assets are best addressed by the valuation profession and the International Valuation Standards Council is looking at how it can help address this issue. The Board noted that there is no evidence of inconsistent application in fair value measurement of unquoted equity instruments.
Usefulness of disclosures about fair value measurement – main focus on Level 3 disclosures	Users found the disclosures helpful in understanding: – the valuation techniques and inputs used; – the judgements applied in arriving at fair value measurements; and – the effect of those measurements on financial performance. However, users found disclosures less useful when they were aggregated and generic.

Next steps

While we understand the Board's rationale, we believe that practical guidance and educational materials would help reduce the diversity that remains in practice.

The Board will continue to monitor new developments in practice but will not conduct any other follow-up activities except to feed its findings on the usefulness of disclosures into its **Better communication in financial reporting** project.

It will also continue to liaise with the valuation profession and promote knowledge development and sharing.

So what pointers can preparers of financial statements take from the PIR? To address users' needs, preparers should consider improving disaggregation and making information more company-specific.

Preparers may also wish to consult KPMG's publication **Insights into IFRS**, 15th Edition 2018/19, which provides detailed application guidance on IFRS 13, including on the specific challenges set out above. KPMG's **guides to financial statements** are also a useful reference tool for presentation and disclosures.

Read the Board's IFRS 13 **Project report and feedback statement** for more information on its findings.

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