Think Ahead ACCA

Post-implementation Review – IFRS 13 *Fair value measurement*

Request for information issued by the International Accounting Standards Board in May 2017

Comments from ACCA
September 2017

ACCA is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people around the world who seek a rewarding career in accountancy, finance and management.

ACCA has 198,000 members and 486,000 students in 178 countries and works to help them to develop successful careers in accounting and business, with the skills required by employers. We work through a network of 101 offices and centres and more than 7,110 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

www.accaglobal.com

Further information about ACCA's comments on the matters discussed here can be requested from:

Richard Martin
Head of Corporate Reporting
richard.martin@accaglobal.com
+44 (0)20 70595748

GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's request for information to assist with its post-implementation review of IFRS 13 *Fair value measurement*.

This response principally reflects the views and experience with IFRS13 of the members of ACCA's Global Forum for Corporate Reporting who work in a variety of countries and sectors in the preparation, audit or analysis of financial statements. Our responses will be more general than some of the IASB's request for more sector or jurisdiction specific comments.

We have answered those questions where we have relevant information to communicate to assist in the review. If further information is needed, please get back to us.

AREAS FOR SPECIFIC COMMENT:

Question 2—Fair value measurement disclosures

ACCA recognises that the disclosures in relation to level 3 valuations are extensive but also that these valuations are the most problematic and subjective. In general we consider the disclosures proportionate in cases where the valuations are a material element in the financial statements and would not think that amendments were needed.

Question 3—Prioritising Level 1 inputs or the unit of account

We agree that for the fair value of investments whether in subsidiaries, joint ventures, associates or other equity holdings where there are level 1 prices available then the valuation should be on the PxQ basis. While not always giving a fair value in line with the principles of the definition in IFRS13, by not recognising the special pricing attached to significant holdings. However this seems the more verifiable approach and the most practical approach.

Question 4—Application of the concept of highest and best use for non-financial assets

Our experience has been that there are difficulties created by the highest and best use (HBU) concept in IFRS13. The difficulties have typically been raised in connection with land which is used in combination with other operational assets such as agricultural assets or industrial plant and equipment. The HBU value of the land may be higher in some alternative use such as residential, but accessing that value would entail a cessation of the current business.

In our view HBU should not be appropriate for all cases of non-financial assets. The values attached to other assets whether in revaluations, acquisitions or impairments may be on the basis of their current use and so may be inconsistent with the HBU value of the land. In other cases the HBU of the land may make it more difficult to value the other assets when they are inextricably linked to the land.

We consider there should be a revision of IFRS13.31 accordingly.

Question 5—Applying judgements required for fair value measurements

The problems of reaching fair values are frequently raised with us, especially for level 3 inputs. The degree of judgement required is considerable, but that is recognised and the disclosures are meant to help users in those cases. We have noted some suggestions under Q6 below for those assets, but difficulties are raised also over properties (whether investment or operational). These often lack direct comparability with properties that have been actually traded, given the uniqueness of location, condition, potential purchasers and the point in time. There are also issues where all properties are leased from the state or the state has a dominant influence over transactions.

We would support the view that the boundary between level 1 and level 2 can also give rise to problems as noted, in respect of the activity of a market and the meaning of observable prices. Liquid and active markets can come on a spectrum from those openly quoted and traded to broker-dealer or over-the-counter markets where quoted prices may not represent prices at which trades may actually be able to be concluded. Liquidity will likewise come on a range. These problems are of course heightened at times of financial uncertainty when liquidity falls and bid-ask spreads are changing. The general approach should be when in doubt to assume level 2. We are not sure that IFRS13 can be amended much to overcome these issues.

There is some diversity in practice when level 2 prices are extrapolated, as to how the bid-ask spread is accommodated within the models.

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

Educational material on how preparers are to apply Level 3 valuations would be helpful.

Agricultural assets often pose problems because the market values readily available are for items in a different location and condition than those being valued. There are costs to be adjusted but also uncertainties to be priced in.

On unquoted equities there will be significant issues of judgement to be applied. It may be desirable to link users of IFRS13 to the guidance of others such as the International Valuation Standards Council and to others from the private equity market.

As noted above the valuation of land and buildings also pose significant issues in practice, where educational material might also be helpful.

Question 8—Other matters

IFRS13 was intended to be a standard which set out how fair values should be done wherever they were asked for in other standards. There are scope exclusions for IFRS2 for example. It would be better if the text of these other standards was amended to replace the term fair value in the text, if IFRS13 is not to be applied.