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Financial Reporting Supervision

IFRS 13 *Fair Value Measurement* – information requests

Irish Auditing & Accounting Supervisory Authority

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Public trust and confidence in quality auditing and accounting

Mission

Upholding quality corporate reporting and an accountable profession

Our Values

Excellence

Striving to be the best we can be

Independence

Regulating impartially and objectively

Integrity

Being trustworthy and respectful

Contents

Page

1. Purpose of this publication

The purpose of this publication is to provide preparers, auditors, and users of financial statements with information to encourage discussion and stimulate debate as to whether or not issuers have adequately considered the requirements of IFRS 13 *Fair Value Measurement* in preparing periodic financial statements.

With the aim of achieving this purpose, IAASA is publishing a selection of the IFRS 13 information requests that it has made to issuers during previous financial statement examination cycles.

2. IFRS 13 requirements

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date [IFRS 13.9].

IFRS 13 describes how fair value is determined for financial and non-financial assets and liabilities and the application of the valuation premise for non-financial assets (including intangible assets) where assets are used alone or in combination with other assets.

IFRS 13.2 requires that fair value is a market-based measurement and is not an entity-specific measurement. IFRS 13.3 requires that when a price for an identical asset or liability is not observable, the entity measures fair value using another valuation technique.

IFRS 13.27 requires that the fair value of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. Highest and best use of a non-financial asset establishes the valuation premise used to determine the fair value of the asset.

IFRS 13.42 requires that the fair value of a liability reflects the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk.

IFRS 13.61 requires an entity to use valuation techniques that are *'… appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.'* In some cases, a single valuation technique will be appropriate while, in other cases, multiple valuation techniques will be appropriate [IFRS 13.63].

IFRS 13.91 – 99 detail the fair value disclosure requirements.

3. IAASA information requests to issuers

In undertaking examinations of periodic financial statements, IAASA has observed that the extent of compliance with IFRS 13 has been and continues to be a recurring topic. IAASA has received voluntary undertakings from certain issuers to improve their financial reporting treatments and disclosures in this area. For example:

(a) an issuer with an investment property portfolio which had elected to apply the fair value model undertook to include stabilised net rental income as a significant unobservable input and to disclose the information required by IFRS 13.93 (d) and IFRS 13.93 (h)(i) in future periodic financial statements,

(b) an issuer with private equity investments undertook to disclose in future periodic financial statements:

   (i) a quantitative analysis of the significant unobservable inputs used in the fair value measurement of financial instruments, and

   (ii) in quantitative terms the impact on the fair value measurement of changing unobservable inputs to reflect reasonably possible alternative assumptions for Level 3 financial instruments, and

(c) an issuer with properties under development undertook to disclose in future periodic financial statements the costs to complete as a key input in the residual method valuation for its properties under development asset class including quantitative information regarding the maximum and weighted average build cost per square foot.

To understand issuers' rationale for selecting fair value measurement techniques and providing or not providing fair value measurement disclosures, IAASA will seek additional information from issuers.

Set out below is a non-exhaustive list of information requests that IAASA asked of issuers:

No.	Information request
1.	Provide to IAASA a quantification of the fair value of investments which are: (a) based upon an investment manager's estimated valuation, or (b) determined without an investment manager's valuation being received. In the event that no investment manager's final valuation had been received the issuer should describe to IAASA the basis for valuation estimates.
2.	Quantify (in monetary terms) the fair value of investments at the reporting date for which investment managers' final valuations had been received by the issuer.
3.	For valuation adjustments applied by the issuer (i.e., valuation adjustments made to the valuations generated by the investment manager of the underlying investments), provide the following information to IAASA: (a) quantify the amount of fair value adjustments for unobservable inputs, and (b) describe the basis for unobservable fair value adjustments [IFRS 13.93 (d)].

No.	Information request
4.	Explain to IAASA in detail the basis for the issuer's assertion that there are no reasonably possible alternative assumptions which would change significantly the fair value of the investments.
5.	Indicate to IAASA whether or not the issuer is of the view that the disclosure requirements of IFRS 13.93(d) [quantitative information about significant unobservable inputs] and IFRS 13.93(h)(ii) [sensitivity of fair value inputs] have been met in full by the issuer and, if so, set out the basis on which they formed that view, or, if not, set out the actions they propose to take to ensure compliance in future financial statements.
6.	Provide to IAASA an analysis, in tabular format, showing the information required by IFRS 13.93(d) and IFRS 13.93(h)(i) and (ii) for each class of financial asset at fair value through profit or loss at the reporting date.
7.	Provide to IAASA a description of the changes, if any, to the valuation technique(s) from the prior year to the current year and the reason for those changes.
8.	Provide to IAASA a description of the valuation techniques and the inputs used in the fair value measurement of [a named specific] investment.
9.	Explain to IAASA the transfers that were made from Level 3 of the fair value hierarchy.
10.	Describe to IAASA the valuation processes used by the issuer for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy.
11.	Provide to IAASA a detailed breakdown of the analysis completed on the sensitivity of the fair value measurements to changes in unobservable inputs.
12.	Clarify to IAASA whether or not the issuer is of the view that the changes in unobservable inputs within the sensitivity analysis might result in significantly higher or lower fair value measurements.
13.	Provide to IAASA a more detailed description of each of the methodologies used to determine the fair values of: (a) brands, (b) customer relationships, and (c) liabilities assumed on completion of [a named specific] acquisition.
14.	Provide to IAASA a quantification of the key assumptions (distinguishing between observable and unobservable) used to determine the fair value of each class of asset and liability included in Note X to the financial statements and describe the source of the key assumptions (including whether internally or externally sourced).
15.	Provide to IAASA summary workings of the fair values for each class of asset and liability. The workings should be in sufficient detail to enable IAASA to understand the application of the assumptions to the recognised fair values.
16.	Provide to IAASA a confirmation as to whether or not the fair values of brands and customer relationships have been recognised at their 'highest and best use' as described in IFRS 13.27.

4. Conclusion

Future IAASA financial statement examinations will continue to focus on fair value measurement in issuers' periodic financial reports including, but not limited to:

(a) the measurement basis and valuation techniques used for each class of asset or liability measured at fair value,

(b) evaluation as to whether or not the valuation techniques employed in measuring fair values maximise the use of observable inputs and minimise the use of unobservable inputs,

(c) examination of fair value adjustments within the measurement period after initial measurement and the reasons for same,

(d) the consistency of the key assumptions with other elements of the financial statements (for example, discount rates in fair value measurement as compared to discount rates used elsewhere in the financial statements),

(e) the use of independent valuation experts in fair value measurements, and

(f) for Level 3 prices, issuers' disclosure of reasonably possible alternative assumptions that would change fair values significantly.

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