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18 August 2017

Kris Peach
Chair
Australian Accounting Standards Board
PO Box 204, Collins St West
Melbourne, VIC 8007
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By email: nationaldirector@aasb.gov.au

Dear Kris

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

CPA Australia welcomes the opportunity to provide comments on the above consultation. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia is highlighting below the issues that we believe are relevant to fair value measurement in the public and private not-for-profit (NFP) sectors in Australia. We also attach for your attention our submission to the IASB on their post-implementation review consultation on IFRS 13.

- There is continued support for paragraph Aus93.1, which significantly reduces disclosures that can often be generic, uninformative or both.
- AASB 13 (IFRS 13) places a heavy emphasis on the market participants view in determining fair value. This gives rise to challenges in the public sector, as many significant assets are non-financial and rarely traded. As a result, many such assets are classified as level 3 assets and current replacement cost is used as a measure for their fair value.

  We understand there has been some debate around whether the use of published cost rates/indices (e.g. Rawlinsons guides) could be considered “observable market corroborated inputs” that would allow certain non-financial assets to be classified as level 2 assets. However, there is no clarity over whether such data is derived principally from, or corroborated by, observable market data. As a result, many non-financial assets continued to be classified at level 3.
- Application of the concept of highest and best use to fair value measurements for non-financial assets can be challenging where such assets are used to achieve a specific service objective that may or may not include a financial return. Significant differences in fair value can arise when applying the concept of highest and best use to such assets.

Application of the concept of highest and best use to specialised assets can be challenging, particularly as there can be a wide interpretation of what constitutes specialised assets.

When applying the concept of highest and best use, some public sector entities are determining that current use is highest and best use, based on policy decisions. We understand that such policy decisions are considered equivalent to legislative requirements that result in a restriction in use.

If you require further information on our views expressed in this submission, please contact Ram Subramanian on (03) 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Dr Eva Tsahuridu

Manager, Accounting Policy

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Mr Hans Hoogervorst
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Via online submission: www.ifrs.org

Dear Hans

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

CPA Australia welcomes the opportunity to provide comments on the above consultation. CPA Australia represents the diverse interests of more than 160,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia continues to support accounting standard IFRS 13 as a single reference point for fair value measurement. Where ideal conditions prevail, the measurement requirements in IFRS 13 can facilitate useful, relevant and comparable information. Entities operating in developed economies with large, active markets and available valuation expertise, are best placed to present fair value information based on IFRS 13. Similarly, the infrastructure in developed economies supports the valuation techniques and fair value hierarchy envisaged by the standard.

However, a large proportion of the 126 countries that have adopted IFRS for their domestic publicly accountable entities are emerging economies. The significant diversity in markets within emerging economies can give rise to varying costs of compliance with IFRS, depending on the existing infrastructure and readiness within such economies to apply IFRS based financial reporting. We note that the World Bank has entered into a Memorandum of Understanding with the IFRS Foundation to collaborate on IFRS implementation, capacity building and enhancing engagement in standards development. Fair value could be one initiative under this recently agreed MoU.

In many emerging economies, quoted prices or other observable inputs based on active markets are not always readily available. The absence of information necessary to allow the measurement of fair value based on unobservable inputs is also a challenge. A communiqué issued by the Emerging Economies Group (EEG) in July 2011 highlighted many of these challenges. Although the IASB has responded to recommendations from the EEG by developing some guidance on fair value measurement, we believe there is significant scope for developing further guidance to support emerging economies apply the fair value measurement requirements in IFRS 13. Examples of areas where further guidance would be beneficial include:

- Criteria for identifying an “active market” as envisaged by IFRS 13
- Discount rates
- Criteria for establishing “highest and best use”

Our detailed responses to the specific questions are provided in the attached appendix. If you require further information on our views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Dr Eva Tsahuridu

Manager, Accounting Policy

Appendix

Question 1A — Your background

Question 1B — Your experience

Please see the first paragraph of our cover letter.

Question 2 — Fair value measurement disclosures

Our stakeholders have indicated that the following disclosures are useful:

- Disclosures that disaggregate items measured at fair value, by fair value hierarchy, in the statement of financial position
- The basis of determining fair value of non-financial assets when a full revaluation is performed, including information about whether it was conducted by someone suitably qualified and external to the entity.

Whilst some fair value measurement disclosures are useful, other disclosures have been identified as excessive and unnecessary. These include:

- The reconciliation required under paragraph 93(e) does not provide information that is useful to either management or external users. The cost of preparing the reconciliation can also often be high as information relating to purchases, settlements, sales etc. have to be tracked separately in order to comply with the requirements of paragraph 93(e). This feedback supports our original comments in response to Exposure Draft ED/2009/5 *Fair Value Measurement* where we commented that reconciliations are generally too detailed and confusing and do not provide useful information.

  The objective of paragraphs 93(e) could be met more cost-effectively if only sub-paragraphs 93(e)(i) (total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss where those gains or losses are recognised) and 93(e)(ii) (total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income where those gains or losses are recognised) were required. Alternatively, narrative disclosures to explain major changes since the last reporting date may be more appropriate.

- Feedback we have received from our Australian and New Zealand constituents indicates that the information required under paragraph 93(f) on unrealised gains or losses does not provide information that would be useful to either management or external users. However, in some jurisdictions that operate a "distributable profits" regime based on realised/unrealised gains and losses, this distinction may be of some value.

There is also evidence to suggest that entities do not provide adequate disclosures for level 2 and level 3 valuations. Examples of inadequate disclosures include:

- Insufficient information on observable inputs (level 2)
- Generic disclosures, including generic disclosures of sensitivity analysis of inputs
- No disclosure of unobservable inputs or sensitivity analysis of inputs used

Both Australia and New Zealand adopt a two-tiered General Purpose Financial Reporting framework with a Reduced Disclosure Requirements (RDR) framework applying to tier 2 entities. Although fair value measurement disclosures are reduced significantly under the RDR framework, anecdotal evidence indicates that users are generally satisfied with the reduced disclosures presented in financial reports under the RDR framework. The IASB may wish to consider the impact of the RDR frameworks in New Zealand and Australia, in deciding which disclosures are not considered useful or relevant.

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

In our submission to Exposure Draft ED/2014/4 we supported the proposal for the fair value of investments in listed subsidiaries, associates and joint arrangements on the basis of quoted price multiplied by the number of financial instruments held in the investment. We supported this proposal on the basis that this was the most objective and verifiable method of valuing such investments. However, we also expressed our views at that time that this measurement approach was not necessarily representative of total fair value of the unit of account being measured, i.e., the entire investment in the listed entity.

We also believe that the current approach does not align with the concept of prudence being reintroduced into the soon to be published Conceptual Framework. It is notable that many banking regulators take a similar approach to prudence, requiring prudent value adjustments for concentration risk associated with investments.

In our view, where there is objective evidence that level 1 inputs are not the most appropriate for establishing fair value, entities should be allowed to ascertain fair value based on other observable inputs (level 2).

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

Feedback we have received indicates that there are challenges when applying the “highest and best use” concept to valuation, including where a residual valuation method is used. It also indicates that there is a very broad range of interpretations of what constitute specialised assets, which could affect the fair value measurements applying the “highest and best use” concept.

Question 5 — Applying judgements required for fair value measurements

As highlighted in our cover letter, emerging economies face a number of challenges in applying the judgements required for fair value measurements. Such challenges include the assessment of what constitutes an active market and more generally, the lack of expertise and experience in applying the fair value measurement requirements.

There is limited guidance available to assist with determining whether there is sufficient frequency and volume of transactions to provide pricing information on an ongoing basis. Often in the absence of readily available external information, external expert advice may have to be sought, adding to the cost of valuations.

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

In our response to ED/2013/8 *Agriculture: Bearer Plants*, we commented that the proposed amendments to IAS 41 *Agriculture* should not be restricted to Bearer Plants, but should be extended to include Bearer Livestock as well. We continue to hold this view and we suggest the IASB reconsiders its position in this matter.

Question 6B — Education on measuring unquoted equity instruments at fair value
Question 7 — Effects and convergence
Question 8 — Other matters

We have no further comments.