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Feedback to Request for Information
Post-Implementation Review: IFRS 13 Fair Value Measurement

The Accounting Standards Board of Japan (ASBJ) welcomes the opportunity to provide feedback in response to the Request for Information (RFI) on Post Implementation Review (PIR) - IFRS 13 *Fair Value Measurement*. This comment letter intends solely to pass on the feedback that the ASBJ staff received during the outreach with Japanese stakeholders, and does not purport to represent the views of the ASBJ on the questions in the RFI.

(Overview of the outreach)

The ASBJ staff reached out to stakeholders in our jurisdiction to obtain specific feedback on their experience with IFRS 13. Specifically, the ASBJ staff held separate meetings with three financial statement users (hereinafter referred to as 'users'), four financial statement preparers (hereinafter referred to as 'preparers') and the Japanese Institute of Certified Public Accountants (JICPA; hereinafter referred to as 'auditors'), using a customised questionnaire based on the questions set out in the RFI. Additionally, the ASBJ and its Financial Instruments Technical Committee, both consisting of users, preparers, auditors, and academics, discussed the abovementioned feedback.

In selecting the interviewees for the separate meetings, the ASBJ staff decided not to limit the stakeholders to those who use, prepare and audit consolidated financial statements prepared in accordance with IFRSs but to include those who use, prepare and audit consolidated financial statements prepared in accordance with U.S. GAAP as well. This was because the requirements in the fair value measurement standards in both sets of standards are consistent (or almost identical) in many respects. In addition, for separate outreach with preparers, the outreach was conducted only with financial institutions, because the ASBJ staff thought that most information from Japan would likely be related to financial instruments.

(Main feedback received during the outreach)

The key points the ASBJ staff received as feedback during the outreach can be summarised as follows:

(1) Usefulness of Level 3 fair value measurement disclosures

All three users that the ASBJ staff reached out to stated that they used the Level 3 fair value measurement disclosures in their analysis. However, it appeared that information needs varied among users and among the items disclosed, and for certain disclosure items the usefulness of the information was limited. On the other hand, all preparers that the ASBJ staff reached out to stated that they questioned the usefulness of the Level 3 fair value measurement disclosures, because the objective of each disclosure item was unclear and because they did not use such information for management purposes.

The views for specific disclosure items included the following:

- As for the "reconciliation from the opening balances to the closing balances" of the Level 3 fair value measurements (paragraph 93(e) of IFRS 13), all users used this disclosure item in their analysis. However, some users stated that, if it were too costly for preparers to comply with this requirement, they could accept simplifying the disclosure; one user suggested presenting only in broad categories (for example, disclosing the net changes from "transactions", "transfers" and "gains and losses for the period") and another user suggested removing the details of the changes from the opening balances to the closing balances. On the other hand, all preparers questioned the usefulness of this information because they did not use such information for management purposes.
- One user stated that the usefulness of the existing disclosure regarding "changes in fair value by reflecting reasonably possible alternative assumptions on unobservable inputs" (paragraph 93 (h)(ii) of IFRS 13) was limited, because it was necessary for users to discuss the underlying assumptions with the entity and compare them with other entities to analyse such information. Some preparers questioned the usefulness of the disclosure because there could be diversity in the alternative assumptions underlying the measurement.

Please refer to paragraphs 3 to 8 of this comment letter for details.

(2) Costs to prepare fair value measurement disclosures

All preparers that the ASBJ staff reached out to shared the view that the item that was the most costly to prepare was the "reconciliation from the opening balances to the closing balances". They raised the following reasons:

- Because the level within fair value hierarchy is not evident at the beginning of the period but is determined at the end of the period, it is difficult to spread the related workload over the period.
- This information cannot be used for other purposes (such as risk management purposes) and, accordingly, the benefits compared to the costs are low.
- Because the information required to prepare the "reconciliation from the opening balances to the closing balances" is collected from multiple information systems and requires manual adjustments, it is difficult to automate the process.

In addition, auditors noted that disclosures about fair value in interim financial reporting (paragraph 16A (j) of IAS 34 *Interim Financial Reporting*) seemed to be the most costly for preparers.

Furthermore, one user commented that, because preparation costs are ultimately borne by the investors of the entity, it would be difficult for users to support disclosures whose benefits to users are unclear but are costly to prepare.

Please refer to paragraphs 11 to 13 of this comment letter for details.

The ASBJ hopes that this feedback is helpful for the IASB to assess whether the fair value measurement standards have been implemented effectively and efficiently, and what changes could be helpful to improve the quality of financial information prepared in accordance with IFRSs. If you have any questions, please feel free to contact us.

During the outreach, the ASBJ staff heard views on the scope of fair value measurements prescribed by IFRSs other than IFRS 13. Although the ASBJ understands that such views are not in the scope of this RFI, we will report those views in this comment letter for your information (please refer to paragraphs 25 and 26 of this comment letter).

Yours sincerely,

Yukio Ono

Chairman of the Accounting Standards Board of Japan

Comments on Specific Questions in the RFI

1. Your background and experience

Question 1A: Your background

Please tell us:

(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)?

(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?

1. Our responses to the above questions are as follows:

(a): Accounting standard setter (As stated in the covering letter, it should be noted that this comment letter is not intended to represent the views of the ASBJ on the questions, but simply to pass on the comments the ASBJ staff received during the outreach with stakeholders in our jurisdiction.)

(b): Japan

In our jurisdiction, listed companies are required to prepare consolidated financial statements in accordance with one of the following four sets of accounting standards:

(i) Japanese GAAP;

(ii) Japan's Modified International Standards (JMIS)[1];

(iii) IFRSs; or

(iv) U.S. GAAP[2].

The following table represents the outreach activities conducted by the ASBJ staff in

[1] Accounting Standards comprising IFRSs and the ASBJ Modifications. Currently, there are two ASBJ Modification Standards:
· ASBJ Modification Standard No. 1 *Accounting for Goodwill*; and
· ASBJ Modification Standard No. 2 *Accounting for Other Comprehensive Income*.

[2] Use of U.S. GAAP is permitted for a limited number of companies, including those having registered with the U.S. SEC.

preparing this comment letter.

Interviewees	IFRSs	U.S. GAAP
Users	3	
Preparers	1	3
Auditors	1	

- The three users worked for an investment bank (a sell-side analyst), an asset management firm (a buy-side analyst) and a credit rating agency (a credit rating analyst), respectively, specialising in the financial industry. All of these users used financial statements prepared in accordance with IFRSs and U.S. GAAP for their analyses.
- All of the four preparers were large international financial institutions. In addition to these preparers, several views from a non-financial institution perspective were provided at the ASBJ Board meetings and the Financial Instruments Technical Committee meetings.
- Auditors were members of the Japanese Institute of Certified Public Accountants (JICPA), which is an organisation for Certified Public Accountants in Japan.

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. : N/A.

2. Fair value measurement disclosures

Question 2:

(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:

(i) how do aggregation and generic disclosure affect the usefulness of the resulting information? Please provide examples to illustrate your response.

(ii) 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.

(iii) 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.

(a) Usefulness of Level 3 fair value measurement disclosures

General comments regarding usefulness

3. Users provided the following comments regarding the usefulness of Level 3 fair value measurement disclosures and their expectations for other fair value measurement disclosures:

(1) One user stated that the fair value measurement disclosures is important because the disclosures would indicate whether the entity had appropriately identified and managed its investment risks. This user also noted that some entities had a large portion of investments in financial instruments whose valuations could change significantly depending on the underlying assumptions (such as securitised products) and that the details of the Level 3 fair value measurement disclosures are useful in identifying risks of such investments.

(2) Another user stated that he continued to follow the changes in the balances of the Level 3 assets and liabilities, though he did not necessarily follow the details in the disclosures because the balances of Level 3 assets and liabilities and their relative importance have decreased compared to those under the Lehman shock environment.

(3) Yet another user stated that he was most interested in the opening and closing balances of the Level 3 assets and liabilities and in their details such as information about individual investees, contract terms and related risks. He would not ask for detailed disclosure if they could be obtained through other sources (such as through interviews with entities).

(4) Acknowledging that it would not form part of Level 3 fair value measurement disclosures, one user stated that the fair value of the shares of consolidated subsidiaries or associates to which the equity method is applied is useful in forecasting future profits, because the sales of such shares would have a significant impact on profit or loss.

4. Preparers provided the following comments questioning the usefulness of Level 3 fair value measurement disclosures:

(1) Some preparers questioned whether Level 3 fair value measurement disclosures were, as a whole, useful and whether there were user needs for such disclosures because the objective for each disclosure item was unclear.

(2) Some preparers also noted that the usefulness of Level 3 fair value measurement disclosures was limited from the management's perspective because the information was not used for management purposes. These preparers questioned whether the large cost for preparing such information can be justified.

Comments on specific disclosure items

<u>"Reconciliation from the opening balances to the closing balances" of Level 3 fair value measurements (paragraph 93(e) of IFRS 13)</u>

5. All users that the ASBJ staff reached out to stated that they used the "reconciliation from the opening balances to the closing balances" of Level 3 fair value measurements (paragraph 93(e) of IFRS 13) in their analyses. However, these users did not seem to insist on detailed disclosures but were interested in disclosures of the totals and the amounts presented in broad categories, partly because they had direct access to entities. In addition, the information users found useful varied among users:

(1) One user stated that, with the changes in fair value measurements disclosed in the "reconciliation from the opening balances to the closing balances", users could confirm whether the entity has followed its commitment.

(2) Another user mentioned that he continued to follow changes in the balances of the Level 3 assets and liabilities and, if the change was significant, he would look into the "reconciliation from the opening balances to the closing balances" and conduct an interview with the entity. This user added that, if it were too costly to present the details of the changes, it would still be useful to see the net changes from "transactions", "transfers" and "gains and losses for the period".

(3) Yet another user stated that because he was most interested in the opening and closing balances of the Level 3 assets and liabilities, he would not ask for detailed disclosure regarding the changes during the period, if the preparation costs were an issue.

6. Preparers also pointed out that the "reconciliation from the opening balances to the closing balances" was one of the disclosure items they questioned whether it was useful. As described earlier in this comment letter, some preparers noted that they did not use this information for management purposes. One preparer questioned the usefulness of this disclosure to users because, although detailed disclosures are required by the standard, the majority of the changes during the period is accounted for by purchases, sales, issues and settlements.

Other disclosure items

7. One user stated that the "description of the valuation technique(s) and the inputs" (paragraph 93(d) of IFRS 13) and "a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs" (paragraph 93(h)(i) of IFRS 13) are particularly useful to initiate discussions with the entity and could provide insights to the potential impact on the entity's financial conditions under stress.

   Regarding the "description of the valuation technique(s) and the inputs", one preparer suggested that this disclosure item may promote consensus-building regarding fair value measurement methodologies among financial institutions.

8. One user and some preparers provided the following comments regarding the "changes in fair value by reflecting reasonably possible alternative assumptions on unobservable inputs" (paragraph 93 (h)(ii) of IFRS 13):

(1) One user stated that, although the user may consider the information under a

financial crisis, the existing disclosures did not meet the expectations of users because it was necessary for users to discuss the underlying assumptions with the entity and compare them with other entities in order to analyse such changes.

(2) Some preparers questioned whether this disclosure item was useful to users because it was not required to be disclosed under U.S. GAAP and because there could be diversity in the alternative assumptions underlying the measurement.

(b) Experience with Level 3 fair value measurements

9. As for "quantitative information about the significant unobservable inputs used in the fair value measurement" (paragraph 93 (d) of IFRS 13), some preparers questioned whether such information can be used effectively, because the information was typically summarised into ranges and/or weighted averages by product type. Another preparer stated that he thought Level 3 fair value measurement disclosures were not sufficiently useful because products with various characteristics were aggregated into a single line item and the descriptions regarding the fair value measurement methodology were too generic, such as the DCF model or the option-pricing model.

10. Another preparer mentioned that the preparer's subjectivity may also influence the usefulness of information. This preparer asked for more guidance on the judgements involved in the classification within the fair value hierarchy to reduce subjectivity and enhance comparability. In this context, some banks noted that the classification between Level 2 and Level 3 is very critical because Level 3 fair value measurement would be used as an input in the Basel capital regulation[3].

(c) Disclosures with high costs of preparation

11. All preparers that the ASBJ staff reached out to shared the view that the item that was the most costly to prepare was the "reconciliation from the opening balances to the closing balances". Some preparers noted that, because the level within the fair value hierarchy was not evident at the beginning of the period but was determined at the end of the period, it was difficult to spread the related workload over the period. These preparers also noted that this information cannot be used for other purposes (such as risk management purposes) and, accordingly, the benefits compared to the costs were low. Another preparer noted that, because the information required to prepare the

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[3] The amount of the Level 3 assets is one of the indicators of the complexity of a bank when selecting Global Systemically Important Banks (G-SIBs) and classifying G-SIBs into one of the five buckets. Results of these selection and allocation are published by the Financial Stability Board (FSB). The capital regulation of the Basel Committee of Banking Supervision requires additional capital to G-SIBs depending on the bucket the G-SIB is classified in.

"reconciliation from the opening balances to the closing balances" is collected from multiple information systems and requires manual adjustments, it was difficult to automate the process.

12. Auditors noted that, based on their experiences as auditors, the following items seemed to be the most costly for preparers:

    (1) "changes in fair value by reflecting reasonably possible alternative assumptions on unobservable inputs";

    (2) disclosures about fair value in interim financial reporting (paragraph 16A (j) of IAS 34).

13. One user commented that, because the preparation costs are ultimately borne by the investors of the entity, it would be difficult for users to support disclosures whose benefits to users are unclear but are costly to prepare. This user added that it would be desirable to supplement rigid disclosures required by laws and regulations with flexible voluntary disclosures, because information needs would depend on the situation; for example, in normal times, disclosures designed for financial crises would be too demanding, whereas in a financial crisis more information would often be required than what is currently required by laws and regulations.

(d) Useful information that is currently not required to be disclosed

14. One preparer suggested that the disclosure of the following items may be useful:

    (1) How to determine whether a market is active or not;

    (2) The policy to determine whether a valuation input is observable or not;

    (3) Procedures and assumptions related to valuation adjustments (including CVA and DVA) that are included in the fair value measurement.

3. Prioritising Level 1 inputs or the unit of account

Question 3:

(a) Please share your experience to help us assess:

(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.

Please note whether your experience is specific to a jurisdiction, a region or a type of investment.

(b) 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?

(a) Experience with fair value measurement

15. Auditors noted that, in Japan, it was not common for quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units to be measured at fair value.

(b) Issues to consider

16. One preparer noted that the validity of the fair value measurements based on P×Q became an issue at initial recognition of a minority investment with an interest of less than 20 per cent. Specifically, when an entity considered the opportunity to initially obtain a 5 to 10 per cent interest in a foreign entity with the intention of increasing its share in the future, the entity considered acquiring the shares from the foreign entity's founders off the market with a premium because it was likely that it would take a long time to acquire the shares from the market.

If this investment were to be measured based on P×Q, as a Level 1 fair value measurement, the difference between the transaction price and the fair value would be recognised as a loss at initial recognition in accordance with paragraph B5.1.2A of IFRS 9 *Financial Instruments*. In this case, the amount would have been significant. This preparer questioned whether such accounting treatment would reflect the substance of the investment.

This preparer maintained that, because the fair value measurement based on P×Q would not always reflect the appropriate fair value, entities should be permitted to use the transaction price as the fair value at initial recognition of quoted shares, if they are acquired off the market or as part of a private equity offering.

This preparer further suggested that the IASB consider whether the difference between the transaction price and the fair value based on paragraph B5.1.2A of IFRS 9 should be recognised in other comprehensive income (OCI) when an entity elects the so-called OCI option (paragraph 5.7.5 of IFRS 9).

17. Auditors noted that, based on the IASB's redeliberations of the Exposure Draft of the revised *Conceptual Framework* at its Board meeting in October 2016 confirming that the unit of account for recognition could be different from that for measurement, the IASB should consider whether the unit of account for recognition and measurement should be the same or not in the context of the issue raised in Question 3 of this RFI.

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

Question 4:

Please share your experience to help us assess:

(a) whether the assessment of an asset's highest and best use is challenging, and why. Please provide examples to illustrate your response.

(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.

(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.

(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.

Please note whether your experience is specific to a jurisdiction, a region or a type of asset.

18. The ASBJ staff received no specific feedback on this question.

5. Applying judgements required for fair value measurements

Question 5:

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.

(a) Assessing whether the market is active

19. Some preparers observed that it was burdensome to assess whether a market was active. One preparer noted that it was generally more difficult to obtain information related to bonds compared to stocks, and that it was difficult to obtain information necessary to assess whether the market was active for certain corporate bonds and foreign government bonds. Another preparer noted that it was difficult to assess whether the market was active for financial instruments traded in emerging markets. These preparers stated that additional guidance is necessary to ensure the comparability of disclosures. In this regard, another preparer noted that he used information regarding whether it was difficult to obtain necessary information as one of indicators to assess the level of activity, because he assumed that such difficulty indirectly indicated that the market was inactive.

20. In addition, in relation to the example described in paragraph 16 of this comment letter, one preparer stated that the criteria for assessing whether the market was active was unclear for listed stocks with insufficient trading volume. In that specific case, he considered acquiring shares from the founders of the foreign entity because it was likely that it would take several years to acquire the targeted number of shares through market transactions.

    In this case, only 10% of shares outstanding was floating in the market, and the daily average trading volume during the most recent month was only 0.01% of shares outstanding. Nevertheless, the auditor of the entity expressed the view that the share price of the foreign entity may be categorised as a Level 1 input.

    Based on this experience above, he expressed a need for more explicit criteria to assess whether the market is active, especially in the case of insufficient trading volume in the stock market.

21. Auditors emphasised that the situation in normal times assumed in paragraphs 19 and 20 of this comment letter and the situation during a financial crisis would be different. They noted that, during a financial crisis, the market environment would change rapidly and the liquidity may be lost suddenly, and thus the assessment of whether the market is active may become difficult. In addition, as a result of transfers to Level 3 from other levels, they also anticipated that the amount of disclosure may become enormous.

(b) Assessing the significance of an unobservable input

22. One preparer stated that assessing the significance of an unobservable input was not difficult because they had set out specific criteria to make the assessment. This preparer noted that the significance of the unobservable inputs was automatically assessed using information systems, using the ratio of the risk measure of the unobservable input to the present value of the instrument.

23. Auditors noted that assessing significance would be more difficult during a financial crisis.

6. Education

> **Question 6A: Education on measuring biological assets at fair value**
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> 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?

(a) Difficulties in measurement

24. One preparer stated that it was difficult to estimate the fair value of immature fish in the fish farming business. This preparer noted that, because it required several years to grow fish harvestable in their aquaculture business, they could not precisely estimate the inputs for fair value measurement of the immature fish, such as the market value of mature fish at the time of shipment in the future, and the survival rate throughout the farming period. This preparer noted that, as a result, there were differences between the estimated fair value and the actual income earned at the time of shipment.

(b) Additional support

25. The preparer mentioned in the preceding paragraph of this comment letter expressed

the need for additional guidance regarding when "alternative fair value measurements are determined to be clearly unreliable", as stated in paragraph 30 of IAS 41 *Agriculture*, to clarify the scope of assets to be measured at fair value through profit or loss (FVPL).

(c) Others

26. The preparer mentioned in paragraphs 24 and 25 was concerned that the application of FVPL to immature fish in the fish farming business gives rise to a difference between fair value and the actual income earned at the time of shipment as mentioned in paragraph 24, and impairs the reliability of financial reporting. This preparer asserted that immature fish was better measured at cost basis or at fair value through other comprehensive income (FVOCI).

> **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.

(a) Experience with the education material

27. Auditors stated that they have used the educational material through the voluntary application of IFRS 9.

(b) Additional help

28. One preparer stated that they did not expect additional support because it might not be cost-effective to illustrate issues in detail on a wider range of products in the educational material.

29. Similarly, auditors stated that they were not aware of any items that should be added.

7. Effects and convergence

Question 7:

(a) Please share your experience of the overall effect of IFRS 13:

(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.

(a) Overall effect

30. The ASBJ staff received no specific feedback on this question.

(b) Convergence

31. One preparer stated that convergence is beneficial for entities operating globally, because there would be no need to adjust GAAP differences at the group level.

32. Auditors stated that convergence between IFRS 13 and FASB ASC Topic 820 had provided more examples to preparers, especially to entities that are considering the adoption of IFRSs, and that convergence has provided information comparable among entities to users of financial statements, which has contributed to the sound operation of the financial reporting system in financial markets.

33. Auditors suggested that, in addition to convergence of the standards, it is necessary to analyse during the PIR whether preparers (including those applying IFRSs as well as U.S. GAAP) have a common understanding of the requirements and are applying the same requirements consistently. These auditors stated that if diversity in application is observed as a result of the PIR, appropriate measures for improvement should be taken.

8. Other matters

Question 8:

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.

34. Some preparers questioned the framework adopted for the fair value hierarchy in IFRS 13. These preparers questioned the classification of an item within the fair value hierarchy that was determined solely based on the level of inputs. One preparer noted that, considering that fair value was measured using a combination of valuation techniques and inputs, the classification within the fair value hierarchy should be determined based not only on whether the inputs are observable but also on how mature the corresponding valuation techniques were because specific measurement techniques may not be established as market practice. Another preparer was concerned that entities may be discouraged to refine their fair value measurements, because the level within fair value measurement hierarchy might be lowered by using additional inputs to refine their fair value measurements and, accordingly, entities may have more workload to prepare the detailed disclosures that are required for items classified within the Level 3.

35. One preparer noted that it was burdensome for preparers to deal with products that had multiple inputs and that could transfer among the levels within the fair value hierarchy frequently. Such transfers would occur based on the quantitative assessment regarding the importance of an unobservable input comparing the impact of the change of the input to that of all inputs.