



International Accounting Standards
Board (IASB)
30 Cannon Street
London EC4M 6XH
United Kingdom

20 September 2017

Dear Board Member,

Re: Post-implementation Review – IFRS 13 Fair Value Measurement

BusinessEurope is pleased to provide its comments on the post-implementation review. Our input mainly relates to financial reporting in non-financial groups applying IFRS. Thus, our comments regarding e.g. financial instruments should be read with that in mind.

BusinessEurope's main views are the following. We believe that the fair value disclosure requirements need to be reviewed, since they are often interpreted in a way by e.g. enforcers and auditors leading to preparers having to disclose information that is not material. This creates a heavy reporting burden that is unreasonable from a cost-benefit perspective. The detailed requirements regarding disclosures for financial instruments measured at fair value in many non-financial entities tend to obscure other material information regarding the core business and risks.

Further, we believe that a review is needed regarding the required information of transfers of financial instruments between different levels and the level of aggregation for disclosures.

Regarding the question about the level of inputs and unit of account for measuring investments in subsidiaries, joint ventures and associates, we believe that the relevant unit of account for quoted investments is the investment as a whole. The valuation method should thus reflect that, and therefore should be either the quoted value adjusted to reflect the degree of influence or control appropriate to the nature of the holding, or another appropriate valuation technique.

The role of management is to make use and protect the entity's resources in a way that maximises the shareholders' investment. As the concept of highest and best use is implicit, also when deploying a particular asset on the balance sheet, we question this valuation premise. Measuring an asset based on hypothetical use is not meaningful information, unless the entity actually plans to dispose of the asset.



As for judgements determining whether a market is active or not, this is a challenge for certain financial instruments. Entity-specific internal guidelines are key here. Therefore, we believe that expectations regarding comparability between entities might be too high.

Please refer to the Appendix for our detailed comments.

If you require any further information on our comments, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren
Senior Adviser
Legal Affairs Department



APPENDIX

Question 1 – Background and experience

BusinessEurope is the leading advocate for growth and competitiveness at European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for all-sized enterprises in 34 European countries whose national business federations are our direct members.

Regarding financial matters, our member federations represent mainly non-financial groups active in varying business sectors. Our answers therefore should be read in this context. In relation to IFRS financial reporting, our input comes from entities that prepares IFRS financial statements. As our member entities are active in several different sectors, the collective experience of fair value measurement is generally high for all types of items.

Question 2 – Fair value measurement disclosures

The disclosure requirements in IFRS 13 is of concern for BusinessEurope. We believe that requirements in the standard have been interpreted too strictly by enforcers and auditors, thus putting a heavy administrative burden on preparers with immaterial exposures. The amount of information related to fair value disclosures in the financial statements tends to overshadow other information related to non-financial companies' main activities, risks and core businesses.

The main problem is the way IFRS 13 is drafted, with a general objective in paragraph 91 and a minimum list of requirements needed to achieve those objectives in paragraph 93. The minimum list is understood by many, e.g. auditors and enforcers, as an absolute requirement. The experience of preparers is that they have no realistic alternative than to provide all the details required by paragraph 93. Whether this information is material or not becomes irrelevant.

We are also concerned that disclosures based on the hierarchy for fair value measurement, in particular for financial instruments, may display the operations of the company in a non-faithful way. Information of holdings, sales, purchases and transfers of financial assets that are turned over on a regular basis (for example within liquidity management which particularly involves assets in levels 1 and 2) gives the impression that the asset management is more static than it actually is. Instruments of the same type may for instance be sold and repurchased several times during a reporting period, with transfers between level 1 and 2 in between.

What level in the hierarchy a particular financial instrument is classified into will in many cases be a matter of judgement. Even if reporting entities develop internal guidelines and control systems that ensures that the criteria for when a particular item should be



allocated to each of the three levels are applied consistently over time, borderline cases will occur. However, the table displays holdings and transactions as if there is no judgement involved and as data about what category a particular instrument belongs to according to IFRS 13 is directly available from the ledger on a continuous basis.

To provide specific information of the reasons for each transfer between level 1 and 2 may also be a difficult task, in particular as each transfer shall be disclosed and discussed separately. For a company with a varying portfolio some level of aggregation of this information is unavoidable as the motives why instruments are transferred between levels tend to be unchanged over time. Therefore, also the explanations provided in the financial statements become similar with little variation between periods. Then an expectation of more varying language is not warranted. The same goes for disclosures about valuations techniques which for the most common types of items held at fair value are well known and well spread. The descriptions of these techniques and inputs have nevertheless been criticized for being too generic and boilerplate. However, if entities report similar information this may actually reflect the fact that the same techniques and inputs are used.

We believe that information on items in level 3 is important, but entities with less significant exposures should be able to apply more flexibility with regard to how the information is displayed. Quantitative information about total gains and losses recognised in profit and loss as well as OCI is relevant but a table format may not always be suitable. We can understand why aggregated qualitative information of items in level 3 can be considered difficult to comprehend and less useful. However, if each individual item is immaterial it is difficult to see how aggregation can be avoided without undue expansion of the disclosures.

Regarding the requirement to provide information if the use of non-financial assets differs from what is regarded as the highest and best use of those assets, please refer to our comments to question 4.

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

We would like to reiterate our views expressed in our Comment Letter from 16 January 2015 on IASB ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value.

We believe that the relevant unit of account for quoted investments in Subsidiaries, Joint Ventures and Associates is the investment as a whole. In our view, this means that the valuation method should be the one that is appropriate for such an investment, and therefore should be either the quoted value adjusted to reflect the degree of influence or control appropriate to the nature of the holding, or another appropriate valuation technique. We recognise that P x Q provides a simple method for arriving at a valuation, but we believe that such a valuation is less relevant than one which takes into account the specific nature of the holding.



Question 4 – Application of highest and best use for no-financial assets

The role of management is to make use and protect the entity's resources in a way that maximises the shareholders' investment. As the concept of highest and best use is implicit, also when deploying a particular asset on the balance sheet, we question this valuation premise. Measuring an asset based on hypothetical use is not meaningful information, unless the entity actually plans to dispose of the asset.

Question 5 – Applying judgements required for fair value measurements

To determine whether a market is active is challenging for certain financial instruments (mostly debt instruments). Market activity has to be monitored closely over time. Preparers typically use detailed internal guidelines to make sure that the assessments are consistent. The guidelines and practices may however differ between entities which reduces the comparability of the fair value disclosures.

The assessment of whether an input is significant or not is challenging as the significance may vary over time. The entity has to determine whether it is the potential impact of the input or the actual impact at the time of measurement (for example as a fixed proportion of the price) that shall be assessed. The significance of a particular input, such as own credit risk, may be small at the time of measurement but have a potential impact that is significant. Should this be reflected in the classification of the debt instrument? It could be argued that comparability is better served if the classification is based on an assessment of the potential impact as this will lead to less transfers between different levels 2 and 3 in the hierarchy. However, such an approach may also overstate the holdings in level 3.

Question 6 – Education

Generally, if the investments in biological assets or unquoted equity instruments are significant, either external or in house valuation experts are used to perform the valuation. In the process, underlying assumptions and assessments are discussed with management in order to make sure that the measures reflect all available information. To our knowledge, there has not been any noteworthy difficulties with these valuations that could be solved by more guidance or educational material.

Question 7 – Effects and convergence

We are not in a position to assess the usefulness of IFRS 13 for users to assess future cash flows. From a preparer perspective, the fair value measurements as such (models, inputs etc.) have not changed significantly since the implementation of IFRS 13. However, one experience shared by some of our members is that the internal valuation processes have been further formalised and transparent as a consequence of the standard.



Regarding comparability of fair value information, we refer to our comments on questions 2 and 4. We believe that comparability is most likely to have been enhanced for particular entities over time, rather than among entities.

As described under question 2, we believe that the disclosure requirements in IFRS 13 have put an administrative burden on entities which in most cases – where fair value exposures are small or insignificant – is difficult to defend. In these cases the compliance cost is too high in comparison with the added information value of the disclosures.

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