30 October 2017

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Hans

AOSSG comments on the IFRS Request for Information: Post-Implementation Review-IFRS 13 Fair Value Measurement published in May 2017

The Asian-Oceanian Standard-Setters Group (AOSSG) is pleased to provide comments on the IFRS Request for Information: Post-Implementation Review-IFRS 13 Fair Value Measurement published in May 2017.

The AOSSG currently has 26 member standard-setters from the Asian-Oceanian region: Australia, Brunei, Cambodia, China, Dubai, Hong Kong, India, Indonesia, Iraq, Japan, Kazakhstan, Korea, Macao, Malaysia, Mongolia, Nepal, New Zealand, Pakistan, Philippines, Saudi Arabia, Singapore, Sri Lanka, Syria, Thailand, Uzbekistan, and Vietnam.

To the extent feasible, this submission to the IASB reflects in broad terms the collective views of AOSSG members. Each member standard-setter may also choose to make a separate submission that is consistent or otherwise with aspects of this submission. The intention of the AOSSG is to enhance the input to the IASB from the Asian-Oceanian region and not to prevent the IASB from receiving the variety of views that individual member standard-setters may wish to submit. The AOSSG Cross Cutting Topics Working Group has collected its members' comments on IASB Request for Information: PIR-IFRS 13, and received the feedback of Korea, Hong Kong and China.

The members all believe that IFRS 13 has worked well overall and brought significant improvements to financial reporting. Please refer to the Appendix for our detailed comments on the questions raised.

Yours sincerely,

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Yu Chen

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Appendix

Detailed comments on IASB PIR-IFRS 13: Fair Value Measurement

Responses to questions in the request for information

Question 2—Fair value measurement disclosures

(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.

[Korea]

(a) Regarding information provided about Level 3 fair value measurement, most respondents answered it is less useful.

The survey responses show that only 34.2% of the users have experience of using fair value measurement disclosures in their decision making whilst 65.8% of them have not used the disclosures.

In the focus group interviews, respondents who have used fair value measurement disclosures answered that the level of the fair value hierarchy and level 1 and level 2 fair value information were useful but level 3 fair value measurement disclosures were rarely used in their decision making.

A small number of respondents found the description of the valuation processes, valuation techniques, and inputs useful because they were necessary in understanding the valuation logic. They also found the reconciliation according to paragraph 93(e) useful.

(b) In relation to the factors affecting the usefulness of the information provided about fair value measurements, feedback from users are as follows:

- It is difficult to get information about the fair value of each individual asset due to aggregation disclosures of valuation techniques or sensitivity to changes in unobservable inputs of several different assets.
- Level 3 fair value measurement disclosures are too complex and difficult to understand.
- It is difficult to assess whether the valuation technique used is appropriate.
- The comparability is compromised due to the difference in disclosure faithfulness, and as a result, the usefulness of disclosure information decreased.

Preparers gave opinions that there were lack of detailed guidance, difficulty in obtaining fair value information, lack of skilled experts, and excessive information to disclose.

In order to improve usefulness of fair value measurement disclosures, it is necessary to educate on the background, significance, and the effects of the disclosures.

(C) Regarding level 3 disclosures which are costly to prepare, we received feedback that the disclosures of a reconciliation from the opening balances to the closing balances and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs are time-consuming and difficult to verify. In addition, the valuation service fee is incurred because it is necessary to prepare the disclosure items by receiving information from the external valuation agency.

[Hong Kong]

Usefulness of Level 3 fair value information and aggregation disclosure:

Stakeholders' views

All stakeholders who responded consider that information provided about Level 3 fair value measurement is useful. However, most stakeholders agree that aggregation has affected the usefulness of Level 3 fair value information. They recommend to require disclosures on "material" assets/liabilities only.

Some investors found the reconciliation of Level 3 assets/liabilities useful as it explains the movements between two financial periods. Some preparers questioned the benefits of providing such a reconciliation.

Investors and a preparer from the insurance industry recommended that entities be required to disclose valuation assumptions of "material" investments only, for example, investments that constitute more than 10%-15% of that class of investment. This would enhance the usefulness and understanding of the fair value information.

HKICPA's analysis and recommendation

The HKICPA considers that the Level 3 fair value information is useful as it provides an understanding of the valuation approach, significant unobservable inputs and the 'sensitivity to change'. The HKICPA also considers that there needs to be a good balance of aggregation and disaggregation – it may be unreasonable to expect excessive disaggregation for businesses that have high volumes of transactions that involve Level 3 fair value measurements.

The HKICPA is aware that, in practice, preparers are providing the required information for all Level 3 assets/liabilities. However, the HKICPA thinks that the usefulness of the fair value information could be influenced by the format of presentation. The HKICPA also thinks that IFRS 1 already permits an entity not to disclose all 'required' information if the information is not material.

The HKICPA therefore thinks that a possible issue here is preparers need further education or guidance from the IASB on how to apply the aggregation disclosure requirements appropriately.

Following the concept of principle-based standards, the HKICPA supports our stakeholders' feedback about disclosing material assumptions or Level 3 fair value measurement so that such information is more meaningful. However, we do not support adding bright-line materiality threshold to IFRS.

Suggestions to increase the usefulness of fair value information and suggested disclosure:

Stakeholders' views

Investors commented that disclosing an aggregated range of unobservable inputs (e.g. discount rate from 10%-30%) is not useful. An average or mean of inputs would provide more meaningful information to analysts.

Valuation experts and auditors recommended that the IASB provide:

- guidance/examples, in addition to those in paragraph 92 of IFRS 13, on determining which types of investments can be aggregated for disclosure;
- examples of key assumptions/inputs that should be disclosed for common types of investments. Currently, limited examples are provided in paragraph B36 of IFRS 13.

The following are information that our stakeholders think would be useful and that IFRS 13 does not currently require.

- Name, company and accreditation details of a company's valuation expert.
- Reason(s) for specific valuation technique chosen and rationale for the inputs where judgement may be required.
- Basis of assumption (e.g. why a specific discount rate, and not another discount rate, is used).
- Reason(s) for change in assumptions between financial years.
- Significant assumption(s) such as risk factors (e.g. possibility of renewing an operating license), default rate for financial instruments, volatility of financial instruments and growth rate for unlisted investments.
- Similar information required under paragraph 93 of IFRS 13 when non-monetary assets are initially recognised at fair value. This would include the information on initial recognition of assets and liabilities as part of acquisition accounting and non-monetary exchange of assets (e.g. disposal of assets/business in exchanges of shares and/or other items).
- Separate line items of unrealised gains/losses arising from Level 3 valuations, when they are material.

HKICPA's analysis and recommendation

The HKICPA supports the above suggestions made by our stakeholders. We strongly recommend that the IASB considers them.

Most costly Level 3 disclosure:

Stakeholders' views

Other than providing Level 3 information for all assets/liabilities, valuation experts and auditors also find the following to be most costly.

- The quantitative sensitivity analysis on significant unobservable inputs if it involves very complicated financial modelling. In Hong Kong, it is observed that valuers impose additional charge for such a sensitivity analysis.
- Time and cost in determining what are the key assumptions for disclosure and in discussing the classification of an input as Level 2 or Level 3. Preparers tend to avoid classifying an input as Level 3.

HKICPA's analysis and recommendation

The HKICPA does not have any comments.

[China]

We find the Level 3 disclosure rather useful, especially for the information on valuation techniques and significant unobservable inputs. Level 3 fair value measurement is always regarded as being more subjective, and different valuation techniques may result in very different fair value measurements. The information on valuation techniques and unobservable inputs will help the financial users to make judgment on the reliability of fair value measurement.

Though the Level 3 disclosure is useful for users to understand how Level 3 fair value measurement is done, we note that preparers usually find Level 3 disclosures difficult and hence affect the comparability of the information between different companies, e.g.,

- The difficulty of application of professional judgment with regard to what constitutes an ‘observable’ input and what constitutes a ‘significant’ input. Due to difficulty and difference in application of professional judgment, the disclosures are sometimes not comparable between entities even in the same industry. Therefore, more application guidance, illustrative examples or educational material to assist such judgment would help entities achieve better comparability.
- The aggregation of disclosures for diverse underlying items reduces the usefulness of the disclosure. Entities (especially non-financial institutions) normally don’t follow the detailed disclosure requirements in IFRS 13 IE60, and only disclose based on the 4 classifications of FV through P/L, FV through OCI, AFS and Loans & Receivables.

We find the reconciliation from the opening balances to the closing balances for recurring fair value measurements categorised within Level 3 of the fair value hierarchy most costly. Information about the reconciliation will not help users of financial statements understand better the reliability of fair value measurement. Entities normally provide aggregated information to reduce costs for preparing financial statements, but the aggregated information also reduces the usefulness of this information.

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

(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?

[Korea]

(a) (i) In Korea, it is not common for quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units to be measured at fair value in practice. The investments are measured at cost in separate financial statements in most cases, and when carrying out the impairment test, there are few cases in which the investments are actually measured at fair value because the value in use is often greater than the fair value less disposal costs.

(ii) In some cases, fair value is measured through valuation techniques to reflect the control premium. In such cases, there is a difference from the P×Q amount.

(iii) In practice, discounted cash flow method and multiple method are usually used when measuring fair value through a valuation technique other than quoted prices.

(b) During our outreach, we asked respondents which of P×Q amount and the amount reflecting control premium is more appropriate and relevant in measuring fair value of the quoted investments in subsidiaries.

There were mixed views on this question. A regulator in Korea and some preparers believed that P×Q amount is more appropriate with the reason being that the amount is objective and subjective estimates should be excluded. On the other hand, most valuation specialists suggested that the amount reflecting control premium is more relevant than P×Q amount.

[Hong Kong]

Stakeholders' views

Most preparers and auditors who responded consider it is uncommon to measure at fair value, quoted investments in subsidiaries, joint ventures and associates, and quoted cash-generating units. Joint ventures and associates are usually measured at cost in company-level financial statements and equity accounted in consolidated financial statements.

Some auditors consider fair value measurement is relevant when considering purchase price allocation and impairment using the value-in-use model.

Most stakeholders consider that valuing investments in subsidiaries, joint ventures and associates as a whole reflects a better picture of an entity's investment as it incorporates the prospects of holding such investments. Valuation experts and auditors shared the following observations:

- The share price of listed entities with low market capitalization can be high while the entities are loss-making in practice.
- The share price of a listed entity may be affected by a significant transaction (e.g. merger, acquisition or disposal and that impact could be temporary).
- The share price of a listed entity may reflect the value of the listed shell company and not the underlying operations.
- The share price may not reflect the liquidity of a listed entity.

HKICPA's analysis and recommendation

Theoretically, the nature of and intention of holding an investment (akin to a business model approach) would dictate the unit of account and therefore how the investment is measured. For example, an entity that holds shares in a company for short-term trading would find it more appropriate to measure those shares using the PxQ method. For entities that hold shares in a company for long-term strategic reasons and have control or influence over the company's business, the unit of account of the investment as a whole would be more appropriate and relevant.

Following this line of thinking, HKICPA maintains its view provided in response to the IASB ED/2014/4 Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair

Value. That is, investments in subsidiaries, joint ventures and associates, should be measured at investment as a whole.

IFRS 13, however, considers the measurement of fair values from the perspective of market participants, not the entity. This therefore creates a tension in applying the standard.

[China]

Examples (of such fair value measurement) commonly found in practice include the following:

- IFRS 3 *Business Combinations* – fair value measurement is needed when acquiring a listed subsidiary and fair value measurements of related non-controlling interests.
- IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations* – fair value of a subsidiary's assets and liabilities (or investments in joint ventures or associates) that have been classified as held for sale.
- IFRS 10 *Consolidated Financial Statements* - fair value measurement of a retained interest in situations where an entity loses control of a subsidiary.

Sometimes, in China, one big buyer may enter into block transfer with one big seller instead of purchase of the shares from the stock exchange, hence, PxQ (calculated from the quoted stock price) may be different from the actual consideration paid to acquire the block of shares in the transaction.

Therefore, we think the IASB should consider providing additional clear application guidance to ensure consistent application of the IFRS 13 in this respect.

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

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

[Korea]

(a) Although there were not many feedback on non-financial assets, the feedback we received are as follows:

In the survey, we asked the respondents whether the requirements of IFRS 13 are easy to understand and whether the requirements can be applied as intended. The respondents answered that the requirements of non-financial assets are more difficult to understand and to apply as intended than requirements of financial asset and liability.

There is not sufficient guidance to determine what the highest and best use of a non-financial asset is. According to paragraph 29 of IFRS 13, "… an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset." When applying this paragraph, it is not clear to what extent an entity should consider market information or other factors. For example, there is farm land which is expected to be developed as residence but the plan is not finalized. In this case, it is difficult to determine whether an entity should consider the expectation or not because the plan is not finalized at the measurement date.

(b) In practice, the assets' current use is considered to be their highest and best use in most cases.

(c) No cases identified.

(d) No cases identified.

[Hong Kong]

Stakeholders' views

Valuation experts and auditors who responded generally think that it is challenging to apply the highest and best use concept more so in jurisdictions that apply land-use-rights as there may be legal restrictions imposed by a government.

A preparer from the banking industry does not have significant issues in dealing with the concept of "the highest and best use for non-financial assets", and believes that the existing guidance in IFRS 13 is sufficient.

Valuation experts and auditors also think that the residual value method could produce counter-intuitive results. A typical example they observed in practice: a factory on a land is currently valued at $5 million but the highest and best use of the land only is $6 million. The counter-intuitive result is the value of the factory is nil and therefore, the highest and best use is to knock down the factory.

Some auditors noted a diversity in how preparers apply the highest and best use assessment. In particular, they question how much work is required to determine the highest and best use.

HKICPA's analysis and recommendation

The HKICPA thinks that the challenge with the highest and best use concept is whether it should apply to a single asset or a group of assets. Having said that, the HKICPA believes there is merit in providing such information to investors in order for them to assess management's stewardship and opportunity cost. The HKICPA therefore recommends that the IASB consider the overall cost-benefits of making this assessment. If the concept were to be retained, the concept and the objective of the concept need to be better explained in IFRS 13.

[China]

We think that the assessment of highest and best use is challenging. While the guidance relating to market participants is generally well understood, the notion of identifying the characteristics of market participants as opposed to specific market participants is confusing to some preparers, particularly when they are measuring assets or liabilities that are typically not sold or transferred. In addition, questions have arisen about whether the reporting entity itself should be viewed as a (or perhaps the only) market participant.

Question 5—Applying judgements required for fair value measurements

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 a 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.

[Korea]

(a) There are many comments that it is challenging to assess whether a transaction takes place with sufficient frequency and volume to provide pricing information on an ongoing basis. Many respondents suggested that more detailed guidance is needed on sufficient frequency and volume to help assess whether a market is active.

Particularly, there were opinions that it is difficult to judge whether the market where the stock trading volume is relatively small (e.g., KOSDAQ 1 and Konex 2 market) can be regarded as an active market; and there is a possibility that over-the-counter market or the membership trading market is viewed as an active market, but it is difficult to assess.

In addition, it is suggested that there are insufficient guidance for assessing whether the quoted price can be considered as that provided in an active market in cases where various practical issues arise, such as circuit break or locked up situation.

(b) During the focus group interview, an issue was raised that the distinction between level 2 and level 3 is unclear. For example, there is a financial asset which is classified as level 2 and contains early redemption option. In this example, it is challenging to assess whether the unobservable inputs of early redemption option are significant to the entire measurement of the asset.

[Hong Kong]

Stakeholders' views

Most stakeholders found that IFRS 13 has sufficient guidance on whether an input is unobservable and thus have not found this to be a challenge. However, they found it challenging to assess whether some markets are active and whether an input is significant to the entire measurement.

Valuation experts and auditors generally consider it subjective in determining whether a market for an asset or liability is inactive. For example:

- How to determine whether thinly-traded or infrequently transacted instruments are inactive?
- Whether the listed bond market in Hong Kong is active? There are only limited listed bond transactions in Hong Kong as compared to Europe.

One regulator and one preparer found that it is difficult to judge whether over-the-counter (OTC) markets are active and whether OTC instruments should be classified as Level 1 or Level 2 investment.

One regulator observed that auditors have used 'audit materiality' to determine whether an input is significant in a valuation. However, the materiality threshold may be different in valuation practices. They would like clarification on what the standard means by a "significant" input.

HKICPA's analysis and recommendation

The HKICPA also thinks that the concept of an active market can be judgemental and recommends IASB to provide further education/guidance (e.g. a list of criteria that preparers can use to assess whether the market is active or better explain the concept and the application).

In addition, we consider that the following areas need further clarification.

- Paragraph 73 of IFRS 13 requires the hierarchy of inputs (Level 1 – Level 3) to be determined based on the lowest level input that is significant to the entire measurement. However, paragraphs 76-77 of IFRS 13 require a Level 1 fair value only if 'the only input' is an unadjusted quoted price for identical items in an active market. This creates a conflict in assessing the valuation of a unit fund. For example, in Hong Kong, there are unit funds that invest in quoted shares only (measured as Level 1 investment) and have few (if any) other assets/liabilities. Investors of unit funds typically determine the value of the funds using 'net asset value'. The issue here is whether net asset value can be considered Level 1 input following paragraphs 73 and 76-77 of IFRS 13.
- Paragraph 70 states that the use of bid price and ask price is permitted but not required when measuring an asset and a liability, respectively. However, paragraph BC163 of IFRS 13 suggests that judgement is used in determining which price in the bid/ask range is most representative of fair value.
- In the context of comparable transactions (e.g. refer to paragraph B37), what is meant by 'recent' or 'relevant'. For example, how recent is 'recent' (e.g. 1 to 24 months) and how relevant is 'relevant' (e.g. similar credit characteristics)?

[China]

We believe that challenging areas in applying judgement include the following:

Active market

- We think more guidance is needed, especially, in developing markets like China, to assist entities in assessing when a particular market (e.g. New Third Board market in China, where transactions are infrequent for many stocks traded on the market) is considered liquid or active versus illiquid or inactive.

Significance of an input

- Some preparers find it difficult to determine whether an input is significant to the measurement of fair value; they believe more specific guidance on how entities should evaluate the significance of inputs should be provided.
- Sometimes, significant judgement is needed in assessing the significance of an input when third-party pricing services or brokers are used. This is more difficult if preparers do not have sufficient visibility into the valuation techniques and inputs used.

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

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?

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	

[Korea]

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

We have no comments.

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

It has been identified that valuation specialists have some experience with the education material regarding unquoted equity instruments within the scope of IFRS 9.

Some of the valuation specialists raised the opinion that the overall valuation theory and the discount rate calculation logic are helpful, but there are some contents that are too theoretical and difficult to apply in Korea.

They suggested it would be necessary that the IASB provide more detailed educational materials on practical difficulties (e.g., measurement of control premium, measurement of non-controlling interest discounts, calculation of permanent growth rate, etc.). This would be helpful not only in applying the requirements but also in preventing valuation results from varying widely depending on the subjective judgment of the valuation specialist.

[Hong Kong]

Stakeholders' views

Valuation experts and auditors who responded consider that accounting for biological assets is a highly specialised area and requires agriculture experts to be involved when valuing such assets. It may not be possible for the IASB or IFRS 13 to assist further. The challenge faced when valuing biological assets is the availability of high quality agriculture experts.

One valuation expert commented that valuers found it difficult to assess the quality, quantity, yield and stage of growth of biological assets. Agriculture experts may be required to help them verify the inputs for valuation.

Some stakeholders are not aware of the IASB's educational material Unquoted equity instruments within the scope of IFRS 9 Financial Instruments.

Some preparers already experience difficulty in fair valuing unquoted equity instruments due to the lack of available information about privately-held entities. Immediate guidance is needed to help preparers measure such investments as the cost exemption is no longer available under IFRS 9.

HKICPA's analysis and recommendation

The HKICPA does not have any comments.

[China]

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

We note that preparers find measuring the fair value of biological assets very challenging.

- Some biological assets are not traded in an active market; preparers often have to estimate their fair value based on a lot of assumptions.
- It is even more difficult to measure biological assets before they reach maturity. In these circumstances, because transactions in their current condition and location are very rare, and the future is very uncertain, it is difficult to forecast future cash flows when they use discounted future cash flows to estimate the fair value.

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

We note that, under IAS 39, many entities have used the cost exemption in IAS 39's paragraph 46(c) for unquoted equity instruments, which is often observed in China. However, this cost exemption has not been carried forward into IFRS 9. Therefore, after Chinese entities adopt IFRS 9, there is greater need for guidance on valuing unquoted equity instruments.

Though the education material 'Unquoted equity instruments within the scope of IFRS 9 Financial Instruments' is very useful, we think the IASB needs to expand upon its existing educational material to assist entities in measuring fair value of unquoted equity investments where the capital market is still developing.

Guidance may be needed not only on the valuation techniques but also on how inputs can be obtained under certain circumstances, eg., how to identify the comparable entity when using Comparable Valuation technique, and how to decide the lack of liquidity discount for an unlisted entity with a listed comparable entity.

Question 7—Effects and convergence

(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.

[Korea]

(a)(i) In relation to the effect IFRS 13 has on users' ability to assess future cash flows, it is considered that IFRS 13 did not have much effect because not many users have made use of fair value measurements disclosures.

(ii) In relation to the comparability of fair value measurements, the result of the survey indicates that our stakeholders believe that there is high comparability of fair value measurements and disclosures between different reporting periods for an individual entity, but low comparability between different entities in the same reporting period.

As a result of the survey regarding consistency, the majority (69.1%) of the respondents answered that the requirements of fair value measurements and disclosures are applied consistently between different reporting periods for an individual entity. But at the same time, a majority (61.8%) of the respondents answered that the requirements are not applied consistently between different entities in the same reporting period.

Regarding the question on the consistency between different reporting periods for an individual entity, there were different views among stakeholders. While no less than 95% of the preparers answered that the requirements of fair value measurements and disclosures are applied consistently between different reporting periods for an individual entity, only 52% among the users agreed.

The reason that many stakeholders believe that the requirements are not consistently applied between different entities is because there are differences in disclosure formats and disclosure faithfulness among the entities due to the lack of detailed guideline about disclosure. As a result, the usefulness of disclosure information decreased.

(iii) In a question related to compliance cost of IFRS 13, 84.6% of the respondents answered that higher costs incurred than expected.

As for the causes of the high costs, the use of valuation services by external valuation agencies was ranked first, and the increase of external audit fees and audit requirements were ranked second.

Regarding the reasons for the increase in external audit fees and audit requirements, 52% of the respondents answered it was caused by outside environmental factors such as in-depth review by auditors and regulators and 40.9% answered it was caused by the requirements of IFRS 13.

(b) We have no comments.

[Hong Kong]

Stakeholders' views

Valuation experts and auditors do not consider that IFRS disclosure can help assess an entity's future cash flows as financial reports are meant to reflect the financial position as at a balance sheet date only.

A preparer from the insurance industry thinks that IFRS 13 enhances the comparability of fair value measurements between different reporting periods for an individual entity. However, the measurements may not be comparable between different entities, especially if entities use different valuation techniques.

HKICPA's views

The HKICPA considers it is desirable to have converged standards. However, the HKICPA urges the IASB to prioritise a standard that is high quality, understandable and principle-based, rather than compromise on the principles for the sake of convergence.

If IFRS 13 is no longer converged with the US equivalent standard, HKICPA strongly suggests that the IASB add a table of comparison to IFRS 13 that explains the text that are no longer the same and whether and why the Boards think they would or would not lead to the same accounting outcome.

[China]

We think that IFRS 13 is a significant improvement to enhance consistency and comparability in financial reporting by establishing a definition of fair value and a framework for its measurement. However, as noted in our responses to previous questions, further guidance is needed in order to further improve the measurement of fair value and address the challenges and difference in implementation.

We think that further practical guidance and educational materials will bring more benefits to users and reduce the preparers' cost of implementation and compliance, especially for emerging economies like China, where market is not well developed and market participants are not sophisticated enough.

Chinese entities are not normally affected by the fact that the requirements for fair value measurement in IFRS 13 are converged with US GAAP, though the convergence is important for companies which have operations globally.

Question 8—Other matters

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.

[Korea]

We have no comments.

[Hong Kong]

The HKICPA supports the use of fair values in financial reporting as it provides useful information to primary users of financial reports. However, such information is useful only when there is proper support (and this could require jurisdictional effort) to facilitate the provision of high quality valuations.

The HKICPA considers that an accounting standard on its own is not sufficient to ensure that fair value measurements are applied/reported correctly.

The HKICPA considers that a centralised body that regulates the valuation industry as well as more informed auditors (on auditing estimations) are also necessary for the use of fair values to be successful. To the extent possible, the IFRS Foundation could consider leveraging its relationships with global regulators and the IAASB, and consider how to work together to improve valuations globally.

The IASB could also consider initiating more education programs on the concept of and need for fair values in financial reporting – the HKICPA would be happy to assist/support this in any way we can.

[China]

Application in developing markets

We think that additional application guidance or educational material would be needed to assist entities in developing markets.

Usually, in developing markets, the capital markets or other type of markets are less liquid/active, and the volume of observable data is less and observable transactions are fewer; hence, it is more challenging for entities in those markets when determining fair value, and more guidance or educational material is needed to ensure a better implementation.