

INTERNATIONAL FINANCIAL REPORTING BULLETIN 2010/17

MEASUREMENT UNCERTAINTY ANALYSIS DISCLOSURE OF FAIR VALUE MEASUREMENTS, LIMITED RE-EXPOSURE OF PROPOSED DISCLOSURES



Background

In May 2009 the International Accounting Standards Board (IASB) issued for comment an Exposure Draft (the 2009 ED) 2009/5 *Fair Value Measurement* as part of its project to develop guidance on measuring fair value when required or permitted by International Financial Reporting Standards (IFRSs). The objectives of this project were to:

- Establish a single source for all guidance for fair value measurements required or permitted by IFRSs;
- Clarify the definition of fair value and related guidance;
- Enhance disclosures about fair value measurements; and
- Increase convergence of IFRSs and US GAAP.

The 2009 ED proposed a 3-level fair value hierarchy for the categorisation of fair value measurements of assets, liabilities and an entity's own equity instruments. These have been incorporated into IFRS 7 *Financial Instruments: Disclosures*, and are:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs, other than level 1 (quoted) prices, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the assets or liabilities that are not based on observable market data.

At a joint meeting of the IASB and the US Financial Accounting Standards Board (FASB) in October 2009, the Boards agreed to work together to develop common fair value measurement and disclosure requirements in IFRSs and US GAAP. The IASB and the FASB had tentatively decided that entities should disclose a measurement uncertainty analysis for fair value measurements categorised within Level 3 of the proposed fair value hierarchy unless another IFRS specifies that such disclosure is not required. Furthermore when disclosing such an analysis, an entity would be required to take into account the effect of correlation between unobservable inputs when relevant.

The 2009 ED did not include in its disclosure proposals the requirement to take into account the correlation, if any, between unobservable inputs. Consequently, the IASB issued ED/2010/7 *Measurement Uncertainty Analysis Disclosure for Fair Value Measurements Limited re-exposure of proposed disclosure* (the ED). The proposals in the ED would require an entity to disclose a measurement uncertainty analysis for fair value measurements categorised within Level 3 of the fair value hierarchy, and take into account the effect of correlation between unobservable inputs in that analysis where applicable.

The IASB will consider the responses to this exposure draft before proceeding further on the fair value measurement project.

STATUS

Exposure Draft

EFFECTIVE DATE

n/a

ACCOUNTING IMPACT

Disclosures of the valuation techniques and inputs used in developing the measurement assets and liabilities at fair value in the statement of financial position including a measurement uncertainty analysis for fair value measurements categorised within level 3 of the fair value hierarchy

Proposals

Scope

The disclosure proposals would apply to all entities which make fair value measurements required or permitted by IFRSs which have been categorised within Level 3 of the fair value hierarchy.

Disclosure

The proposals in the ED require an entity to disclose for each class of assets and liabilities measured at fair value in the statement of financial position after initial recognition:

- A description of the valuation techniques and inputs used to develop those measurements; and
- For fair value measurements using significant unobservable inputs (Level 3) the effect of the measurements on profit or loss or other comprehensive income for the period.

In order to meet this disclosure requirement, the ED proposes that, at a minimum, an entity would be required to disclose a measurement uncertainty analysis for all Level 3 fair value measurements. This would include the requirement to disclose the effect of changing one or more of the Level 3 inputs to different amounts that could have reasonably been used in the circumstances if the change results in significantly higher or lower fair value measurements. An entity would also be required to take into account the effect of correlation between unobservable inputs if that correlation is relevant when estimating the effect on the fair value measurement of using those different amounts. However an entity is not required to take into account unobservable inputs that are associated with remote scenarios.

Effective date and transition

As this is an exposure draft, there is no stated effective date in the ED.

Comment period

The IASB has requested the submission of comments on its proposals by 7 September 2010.

This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact your respective BDO member firm to discuss these matters in the context of your particular circumstances. Neither BDO IFR Advisory Limited, Brussels Worldwide Services BVBA, BDO International Limited and/or BDO member firms, nor their respective partners, employees and/or agents accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it.

Service provision within the international BDO network of independent member firms ('the BDO network') in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BVBA, a limited liability company incorporated in Belgium with its statutory seat in Brussels.

Each of BDO International Limited (the governing entity of the BDO network), Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and the member firms is a separate legal entity and has no liability for another such entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BVBA, BDO IFR Advisory Limited and/or the member firms of the BDO network.

BDO is the brand name for the BDO network and for each of the BDO member firms.

© 2010 BDO IFR Advisory Limited, a UK registered company limited by guarantee. All rights reserved.

www.bdointernational.com