ASC
ACCOUNTING STANDARDS COUNCIL
SINGAPORE

22 September 2017

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

(By online submission)

Dear Hans

RESPONSE TO REQUEST FOR INFORMATION – POST-IMPLEMENTATION REVIEW: IFRS 13 FAIR VALUE MEASUREMENT

The Singapore Accounting Standards Council (ASC) appreciates the opportunity to comment on the Request for Information – Post-implementation Review: IFRS 13 *Fair Value Measurement* (the RFI) issued by the International Accounting Standards Board (the IASB or the Board) in May 2017.

We strongly support the conduct of Post-implementation Review (PIR) for each new IFRS Standard or major amendment, which we believe is a crucial step that is aligned with the goal of improving financial reporting.

The following comments on the specific questions in the RFI are formulated based on feedback received from our constituents and do not purport to represent the views of the ASC.

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?

The ASC is the independent national accounting standard-setter appointed under Statute in Singapore.

In formulating this letter, we have sought feedback from sample population of stakeholders from the following groups: academics, auditors, investors, preparers, regulators, and valuation specialists. The experiences of these constituents in relation to fair value measurements spanned across multiple industries and geographical locations.

Question 1B – Your experience
How extensive is your experience in relation to the measurement of items (property, plant and equipment, intangible assets including goodwill, investment properties, biological assets, investments in subsidiaries, joint ventures or associates, financial instruments) at fair value (including the measurement of their recoverable amount on the basis of fair value less costs of disposal)?

Our constituents have substantial experience in relation to the fair value measurements of investment properties and financial instruments, and some experience in relation to the fair value measurements of the remaining items listed in Question 1B.

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.

<u>Usefulness of disclosures about Level 3 fair value measurements</u>

Our constituents generally considered the information provided about Level 3 fair value measurements to be useful.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

In particular, our constituents commented that the disclosures relating to the valuation techniques and inputs (including quantitative information about significant unobservable inputs), together with the valuation policies and procedures, provide insights into complex measurements and the judgements made in those measurements. In addition, such information could be useful for explaining fluctuations in fair value measurements over time and for benchmarking within particular industries.

However, our constituents shared that the information value of disclosures about significant unobservable inputs could be constrained in certain circumstances. For example, the reasonableness of inputs could depend on the specificity of individual instruments. Yet, there is a trade-off with providing disclosures in the level of detail necessary for such an assessment because such disclosures are useful only if users possess deep valuation knowledge, are costly to prepare, and may lead to disclosure clutter.

Besides, the way in which those disclosures are provided, for example inappropriate aggregation and generic disclosure, may compromise the information value of such disclosures in practice. This could be an outcome of the difficulty in applying judgement, or the lack of valuation knowledge and insights into the valuation inputs when the valuation is performed by external valuation specialists (related to the challenges in determining whether an input is unobservable and significant as described under Question 5).

In addition, our constituents were generally supportive of the disclosures relating to sensitivity to changes in significant unobservable inputs. They considered the impact of such changes in numerical terms to be easily understood by users, without the need for users to have a deep understanding of complex valuation techniques, or for entities to provide disclosures in such level of detail that could be understood by users with deep valuation knowledge only.

Some constituents noted that the IASB had previously decided to assess the practicality of disclosures about quantitative sensitivity analysis, including the effect of interrelationships between unobservable inputs, after issuing IFRS 13. Those constituents considered quantitative sensitivity analysis, together with narrative description of interrelationships between unobservable inputs, to be useful disclosures for both financial and non-financial assets and liabilities. They suggested that the IASB should consider extending the quantitative sensitivity analysis beyond financial instruments to include all Level 3 fair value measurements.

Nevertheless, there is an alternative view suggesting that disclosures about sensitivity analysis might not be necessary, on the basis that sensitivity analysis would have been considered in determining that the significant unobservable inputs are reasonable as part of the valuation process.

With regard to the reconciliations from opening to closing balances, our constituents recognised the information value of certain reconciling items, but had mixed views about whether the costs of the reconciliations are disproportionate to the resulting benefits. Reconciling items that are considered useful include transfers into or out of Level 3 fair value hierarchy, and total gains or losses recognised in profit or loss and other comprehensive income, together with the related information about unrealised gains or losses recognised in

profit or loss. These disclosures allow users to relate the changes in fair value measurements to the effects on profit or loss and other comprehensive income, and to assess earnings quality as well as uncertainty in future cash flows.

To address our constituents' cost-benefit concerns over the reconciliations, we suggest that the IASB could consider replacing the reconciliations with disclosures of specific information that the RFI has identified as being useful.

Factors affecting usefulness of information

Our constituents considered that aggregation and generic disclosure generally limit the usefulness of the resulting information. Aggregation obscures information, particularly when different valuation techniques and inputs are used within particular classes of assets and liabilities, while generic disclosures lack entity-specific information that is relevant and necessary for an understanding of fair value measurements reported in financial statements.

Our constituents further made the following observations about aggregation and generic disclosure:

(a) The practice could have resulted from the entity's intention to protect commercially sensitive information. This may be the case, for example, when an asset is being marketed for sale or is the subject of price negotiation.

(b) The level of aggregation could be affected by considerations of the level of detail practically needed by typical users to avoid disclosure overload.

(c) Disclosures about valuation policies and procedures, together with quantitative information about significant unobservable inputs, tend to be more generic when the valuation processes are substantially covered by external valuation specialists (for example, in the case of property valuations).

In addition, our constituents commented that comparability among entities could be limited by practice diversity in the application of the principles in paragraphs 92 and 94 of IFRS 13, and the application of requirements, such as fair value hierarchy classification and sensitivity analysis.

Accordingly, our constituents suggested that the IASB could:

(a) Provide additional guidance on, and examples of, disclosures that incorporate or illustrate useful inputs commonly used in international valuation guidelines, which would encourage more relevant and comparable disclosures.

(b) Provide more useful examples to illustrate how the principles in paragraphs 92 and 94 could be applied.

Most costly disclosures

Our constituents identified the disclosure of sensitivity to changes in significant unobservable inputs as being one of the most costly disclosures to prepare. They highlighted that significant amount of time is spent by management, valuation specialists and auditors on the following areas:

(a) The determination of significant unobservable inputs and reasonably possible alternative assumptions, which requires significant judgement and agreement among those parties.

(b) The gathering of underlying data.

(c) The computation of sensitivity analysis, particularly if it involves complex valuation techniques.

Some of our constituents considered the reconciliations from opening to closing balances to be onerous. This is because the information is not used for internal risk management or performance measurement purposes, and systems are typically not configured to track such movements.

<u>Additional useful disclosures not required by IFRS 13</u>

Our constituents generally considered that the current disclosure requirements are sufficient. Instead, the IASB should focus on avoiding disclosure clutter by removing disclosures that are less useful, such as the reconciliations from opening to closing balances.

Notwithstanding so, our constituents suggested that the following disclosures could be useful:

(a) For both Level 2 and Level 3 fair value measurements, the inputs and the underlying assumptions – regardless of whether those inputs are observable or unobservable, if a change in those inputs might change the fair value measurements significantly. Such information would be useful given the potential volatility in fair value measurements.

(b) Information necessary for users to assess the reliability of Level 3 fair value estimates vis-à-vis actual realisations. Such information would be useful since Level 3 fair value measurements require the application of significant judgement.

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. Is there anything else relating

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

to this area that you think the Board should consider?

Our constituents noted that measuring quoted investments in subsidiaries, joint ventures and associates at fair value is uncommon, except for investment entities, venture capital organisations, mutual funds, unit trusts and similar entities. In addition, it is not common to measure the recoverable amount of quoted cash-generating units on the basis of fair value less costs of disposal, which is often lower than the value in use (although P×Q may be used to assess the reasonableness of the value in use estimate). That said, fair value measurement has been applied in practice to the circumstances as described in page 29 of the RFI, and to quoted investments in joint ventures and associates of the acquiree in business combinations.

Our constituents observed diversity in practice and material differences between the fair value amounts measured (i) on the basis of P×Q alone and (ii) using other valuation techniques, which could be attributed to the following reasons:

(a) The amount determined under (i) might not be representative of the fair value of the investment as a whole, because the quoted price would not include the adjustment for premium or discount for a controlling or significant non-controlling stake in the investee.

(b) The quoted price could be affected by market factors, such as market depth and sentiments and speculative activities, which would not reflect the economics of the investments.

(c) The quoted price reflects the price of individual transactions. Information asymmetry could result in different measurements under other valuation techniques, such as an income approach.

Our constituents further observed that both P×Q and alternative techniques are used to assess the reasonableness of the fair value amount measured using a valuation technique. It is a common practice for valuation specialists to attempt to understand the reasons for material differences between the various valuation techniques.

With regard to IFRS 13 requirements on the fair value measurement of quoted investments in subsidiaries, joint ventures and associates, our constituents noted that the International Valuation Standards do not require the use of P×Q even when the subject asset is a quoted investment in subsidiary, joint venture or associate. Those standards identify control premium or discount for lack of control as one of the common adjustments made in the market approach for differences between the subject asset and the publicly-traded securities. They further noted that the IASB has learned from its outreach that many users prefer P×Q not because it is more relevant, but rather it is an objective and verifiable starting point from which users would derive their conclusions on the fundamental value of the investment.

In our view, the IASB has conducted the necessary outreach activities and has been adequately informed of the stakeholders' views on this issue. We reiterate our view on the need for the IASB to amend the rule-based requirement relating to assets or liabilities with a quoted price in an active market, by giving due consideration to the unit of account for the asset or liability.

In addition, our constituents suggested that the IASB could consider whether the following disclosures would be relevant when fair value is derived using unobservable inputs: (i) the reason for considering the measurement derived from unobservable inputs to be a fairer representation of fair value as compared to P×Q, and (ii) the impact to financial statements if P×Q had been used.

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.

Our constituents generally considered the assessment of an asset's highest and best use to be challenging due to the following reasons:

(a) Valuation specialists could have a different understanding of the term 'highest and best use' as a result of individual jurisdictions' valuation guidance or customary practice. For example, valuation specialists may accept an alternative use as being the highest and best use only if it is reasonably probable, which may be a higher threshold as compared with the concept in IFRS 13.

(b) Significant judgement could be required in determining when contrary evidence would rebut the presumption that an asset's current use is the highest and best use. For example, a prospective buyer of a building could offer a price that is higher than the value derived from current use under an income approach, but the entity might not have information about whether the offer price is derived based on a different use.

(c) Determining the legal permissibility and financial feasibility of an alternative use could require significant judgement and/or inputs from various parties, which would demand significant time and effort of preparers and auditors.

(d) Comparable market information could be limited for a new business, and the presumption that the current use of assets in the new business is the highest and best use could be challenged.

That said, our constituents noted that it is fairly uncommon for the current use of an asset to deviate from its highest and best use, given that for-profit entities should maximise shareholders' value by deploying assets to their best use. Circumstances in which the current use could differ from the highest and best use typically involve real estate (in addition to

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

defensive assets). Examples include an emergence of new uses of land in an area (e.g. pursuant to urban expansion), or a change in building restriction laws (e.g. pursuant to relocation of strategic installations).

Some constituents further noted diversity in practice arising from varied interpretations among preparers, valuation specialists and auditors of the following matters:

(a) The distinction between the concepts of 'legally prohibited' and 'not legal at the measurement date' (but capable of being legally permitted) in paragraph BC69 of the Basis for Conclusions on IFRS 13 for the purpose of determining whether an alternative use is legally permissible. For example, whether and how the probability of regulatory approval for an alternative use could swing the conclusion between 'legally prohibited' and 'not legal at the measurement date'.

(b) The extent of evidence required to rebut the current use, and accept an alternative use, as being the highest and best use.

Following from the above comments, our constituents recommended that the IASB should provide more practical guidance in the following areas:

(a) Determining when the presumption of current use being the highest and best use can be rebutted.

(b) Assessing whether an alternative use is the highest and best use.

Counter-intuitive fair value measurements: Group of assets

We have been informed that counter-intuitive measurements of individual assets could result from applying highest and best use and the residual valuation method to a group of assets. An example cited is the valuation of biological assets that are physically attached to a piece of land, when there is no active market for the biological assets and the highest and best use of the land differs from its current use. If the residual valuation method is applied to the biological assets, the value attributed to the biological assets may be nil or negligible.

It appears that there are at least two issues underlying the concern about counter-intuitive measurements: (1) the accounting for individual asset(s) that would be destroyed under the highest and best use of the combined assets; (2) the allocation of fair value to individual assets when an individual asset in itself has a highest and best use that differs from that of the combined assets.

Issue (1): Highest and best use of combined assets entails destruction of individual asset(s)

We note that counter-intuitive measurements could result from the concept of highest and best use when it entails the destruction of one or more individual assets, regardless of whether it is applied in conjunction with the residual valuation method. An example includes biological assets that are physically attached to a piece of land, and the highest and best use of the combined assets is *development of industrial property*.

An existing interpretation is that the biological assets would have a nil fair value measurement even if the entity would continue with the current use of agricultural activity. The financial statements would not faithfully reflect the entity's financial position and performance because the biological assets are measured at nil, and the counter-intuitive

outcome would be compounded if the land continues to be measured using the cost model. This issue appears to arise because the biological assets cannot be sold separately from the land and may have to be destroyed if its current use differs from the highest and best use of the combined assets. In such a case, applying paragraph 31(a)(i) of IFRS 13 may be problematic.

Issue (2): Highest and best use differs between combined assets and individual asset(s)

There are situations in which no individual asset would be destroyed. An example includes biological assets that are physically attached to a piece of land, and the highest and best use of the combined assets is *agricultural activity* (even though the land in itself may have a different highest and best use, such as industrial use).

Even in such situations, it appears that there are different interpretations as to how the fair value of the combined assets should be allocated, when the highest and best use of individual asset(s) differs from that of the combined assets.

The issue about counter-intuitive measurements appears to arise from an interpretation that, notwithstanding paragraph 31(a)(iii) of IFRS 13, the allocation of fair value among the individual assets depends on the unit of account and the highest and best use on the basis of that unit of account. In the above example, the fair value of the combined assets would be determined on the basis of agricultural activity, but that fair value would be allocated to the biological assets and the land on the basis of agricultural activity and industrial use, respectively.

However, the fair value measurement is not always counter-intuitive under a different interpretation. One other interpretation is that the individual assets should have the same highest and best use as the combined assets, and the allocation of fair value among the individual assets would be determined on the basis of that highest and best use. In the above example, the fair value of land and the resulting measurement for biological assets would be determined on the basis of agricultural activity, even if the land in itself has a different highest and best use.

Therefore, we suggest that the IASB should clarify how the concept of highest and best use should apply to a group of assets, and the individual assets in that group, when:

(a) One or more individual assets would be destroyed if the current use of the group of assets differs from its highest and best use.

(b) An individual asset in itself has a highest and best use that differs from that of the combined assets.

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 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.

Assessment of whether a market for an asset or a liability is active

Our constituents generally considered it challenging to assess whether a market for an asset or a liability is active. This is because the assessment of active market requires significant judgement and there is limited guidance on what constitutes 'sufficient frequency and volume' to provide pricing information on an ongoing basis. Examples of such challenges include:

(a) Inherent difficulty in obtaining information about trading frequency and volume for dealer and brokered markets.

(b) For exchange-traded instruments that are thinly traded, the frequency and volume of trades necessary to provide evidence of an active market.

(c) Whether and what adjustments should be made to quoted prices, when markets are less developed and do not publish daily quotes even when there are trades.

(d) Whether the factors in paragraph B37 of IFRS 13 would apply to the assessment of (the loss of) an active market, and whether and how this assessment would differ from an assessment of significant decrease in the volume or level of activity (e.g. a market may have experienced significant decrease in the level of activity, but it may still be an active market if it continues to meet the 'sufficient frequency and volume' condition). The challenges may be compounded when multiple factors are relevant for each assessment and/or the relevant factors differ between the two assessments.

Our constituents suggested that the IASB should consider developing additional practical guidance to address the identified challenges.

Assessment of whether an input is unobservable and significant to the entire measurement

Our constituents generally considered it challenging to determine whether an input is unobservable and significant to the entire measurement due to the following reasons:

(a) Valuation specialists' valuation knowledge may not be aligned with the requirements in IFRS 13.

(b) Such assessments are subjective and can lead to diversity in practice. Examples of subjective assessments include:

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

(i) Whether a significant unobservable input exists, when an observable input requires an adjustment using an unobservable input that is not significant in quantum, but a significantly different fair value could result from an adjustment using a different unobservable input. For example, in the case of a particular real estate valuation, the quantum of adjustment to recent transaction data may not be significant (say, between similar units on 3rd and 5th storey), but it could have been significant depending on the extent of differences (say, between similar units on 3rd and 30th storey) between the property being valued and the properties involved in recent transactions. This may indicate that 'storey' is a significant input regardless of the actual quantum of adjustment.

(ii) Whether own credit risk is a significant unobservable input, when it is difficult to observe own credit spread for all tenors.

(c) There are practical challenges in situations involving third-party pricing or information services or external valuation specialists, and the use of proprietary databases or valuation models. Examples of practical challenges include: (i) for proprietary valuation models, identifying multiple inputs, the significance of each input, and the adjustments made to each input; and (ii) for proprietary databases, determining whether inputs are based on actual transactions, and what unobservable adjustments have been made.

In addition, we have been informed that determining fair value hierarchy, based on the lowest level of significant input, may be counter-intuitive for emerging market practices in fair value measurements. In emerging market practices, such as the application of funding valuation adjustment, inputs may be difficult to observe and the resulting measurements will be classified as Level 3 fair value measurements. Early adopters of emerging market practices may be disadvantaged and users may place less reliance on the resulting fair value measurements, even though such measurements may be superior to those derived using the prevailing techniques.

Our constituents suggested that the IASB should provide (i) more clarity on what constitutes unobservable inputs, and (ii) more guidance on whether an input is considered significant.

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?

Some constituents commented that determining the fair value measurements of biological assets is challenging due to the lack of observable inputs, and the subjective and complex assumptions involved.

For example, in the case of agricultural produce growing on bearer plants, significant judgement is required to determine the stage of biological transformation, the projected yield (e.g. in the case of oil palm, the fresh fruit bunch yield and the oil content of individual

fruits), the market prices of agricultural produce when such produce does not have a market up to the point of harvest (e.g. in the case of oil palm, the prices of fresh fruit bunches are unquoted, but may be referenced from local government reports released on an infrequent basis), and the allocation of costs between the agricultural produce and the bearer plant.

Those constituents recommended that the IASB should consider introducing educational material on fair value measurement of agricultural produce growing on bearer plants and part-grown biological assets. Such educational material would be helpful, especially if the material could cover the relevant considerations that may be used to determine circumstances wherein the methods for measuring fair value are unreliable.

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.

Some constituents observed that the material has limited use as the valuation approaches included in the material rely heavily on public information of comparable companies that may be difficult to obtain in practice. Nonetheless, paragraph 130 of the material relating to common oversights has been cited as being useful for auditors in reviewing the fair value measurements.

Those constituents suggested that the IASB should include additional guidance on areas that are challenging in practice, such as:

(a) Circumstances wherein the unquoted equity instruments are issued by investees having different equity classes (e.g. preference shares and non-voting ordinary shares).

(b) Selecting and placing weights on valuation techniques and inputs when the indicative valuations vary significantly.

(c) Determination of the point within the range of values that is most representative of the fair value measurement.

(d) Determining whether the restriction of transfer is a characteristic of the equity instrument or is specific to the holder of the instrument.

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.

Overall effect of IFRS 13

Effect on users' ability to assess future cash flows

Some constituents believed that the disclosures required by IFRS 13 are useful for assessing future cash flows, in particular the disclosures on unrealised gains or losses, sensitivity analysis for Level 3 fair value measurements, and valuation techniques and inputs.

However, some constituents observed that, in certain industries such as the financial services industry, the concept of fair value has been widely used and has not fundamentally changed before and after the introduction of IFRS 13. Furthermore, those industries tend to use more complex valuation techniques and the resulting disclosures may not be easily understood by most users. In such cases, the application of IFRS 13 may not have a significant effect on users' ability to assess future cash flows.

Effect on comparability of fair value measurements

Some constituents commented that the disclosures required by IFRS 13, such as the valuation techniques and significant unobservable inputs for Level 3 fair value measurements, improve comparability of fair value measurements between different reporting periods for an individual entity. That said, comparability between reporting periods could be affected by an individual entity's ability to revise, between reporting periods, its valuation techniques and inputs, and the weights placed on different valuation techniques and inputs.

Moreover, those constituents observed that comparability between different entities in the same reporting period is limited by the diverse application of disclosure and fair value hierarchy classification requirements.

Furthermore, in certain industries for which the concept of fair value has been generally well established, such as the financial services industry, the introduction of IFRS 13 did not have

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

significant impact on comparability, both between different reporting periods and between different entities.

Effect on compliance costs

Some constituents observed increased compliance costs for preparers, particularly on the fair value hierarchy classification and quantitative disclosures relating to Level 3 fair value measurements. The costs of complying with other aspects of IFRS 13 have been generally acceptable, particularly when the fair value computations are performed in-house.

<u>Convergence with US GAAP</u>

Our constituents were generally not directly affected by the convergence of requirements between IFRS and US GAAP.

Nonetheless, they were supportive of continuing convergence for the following reasons:

(a) Continued convergence would enhance comparability of financial statements across jurisdictions.

(b) IFRS and US GAAP contain identical definition and measurement objective of fair value, and it would be counter-intuitive and unduly complex for any future divergence.

(c) Convergence has expanded the amount of literature available to preparers, valuation specialists and auditors, which would remain beneficial only if convergence is maintained.

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.

Our constituents commented that there is a need for more guidance in the following areas that pose practical challenges:

(a) Determining whether and how fair value measurements could consider buyer's transaction costs (including future transaction costs), for example,

 (i) If market participants would include buyer's transaction costs in buyer's pricing considerations (e.g. stamp duties for real estate assets), or as part of development costs when determining the fair value of properties under construction.

 (ii) If market participants would sell the asset in the future and are expected to incur buyer's future transaction costs at the time of future disposal (e.g. future selling costs in relation to development properties).

(b) Determining credit/debit valuation adjustments and similar adjustments for the fair value measurement of derivative financial instruments, which often involves complexities and situations in which relevant market data is limited.

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386

(c) Valuation of contingent consideration in the absence of observable transaction or market data (e.g. business combinations, and asset acquisitions of intangible assets and property, plant and equipment).

(d) Determining whether and how the fair value measurement of an asset could consider the corporate structure that holds the asset, if market participants would consider it more tax efficient to sell the interest in the corporate structure, instead of the underlying asset.

Notwithstanding the above, we recognise that valuation is an area outside the traditional boundaries of financial reporting, and the IASB's constraints in developing valuation guidance.

Therefore, we recommend that the IASB should focus on how the current concepts in IFRS 13 and what additional considerations would apply to the identified areas of challenges, while working with the relevant international bodies not only to develop specific valuation guidance to address those challenges, but to ensure consistency in the fair value concepts between IFRS 13 and the specific valuation guidance.

We hope that the above comments will contribute to the IASB's deliberation on the PIR of IFRS 13. Should you require any further clarification, please contact our project manager Siok Mun Leong at Leong_Siok_Mun@asc.gov.sg.

Yours faithfully

Suat Cheng Goh
Technical Director
Singapore Accounting Standards Council

Address: The Secretariat, Singapore Accounting Standards Council,
10 Anson Road, #05-18, International Plaza, Singapore 079903.
Website: www.asc.gov.sg Email: MOF_Feedback_ASC@mof.gov.sg Fax: (65) 6226 3386