The Corporate Reporting Users' Forum

International Accounting Standards Board
30 Cannon Street
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Via email: commentletters@ifrs.org

23rd October 2017

Dear members of the IASB

Post-implementation Review of IFRS 13 *Fair Value Measurement*

The Corporate Reporting Users' Forum welcomes the opportunity to comment on the Post-implementation review of IFRS 13 Fair Value Measurement, issued by the International Accounting Standards Board (IASB) in May 2017.

Our general response to this post-implementation review, with particular reference to question 2 on fair value disclosures, and question 3 on prioritising Level 1 inputs or the unit of account, is set out below.

CRUF participants generally find levels 1, 2 and 3 disclosure helpful but there are different views on the usefulness of reconciliations for level 3 disclosures. While some participants want more disaggregation, not all are concerned. This typically comes down to a notion of materiality and relevance for the underlying businesses under analyst coverage. The CRUF does not have a specific list of line items in the reconciliation that we think are more useful than others, and we are of the view that line items should not be taken out because they could provide useful information. We also note that some of the terminology in the Level 3 reconciliation is not that helpful. However, reconciliations still need to be sufficiently granular, as it would not be helpful for users of financial statements to have a significant balance reported as "Other movements" in the reconciliation.

The CRUF sees the 'Unit of Account' as a vague concept in the role it plays in Fair Value and we would like to see more clarification on this term. CRUF participants do not understand why a company would diverge from PxQ when valuing a listed investment as that would be the most intuitive method. Companies should be encouraged to explain in the notes or management commentary why they might believe that their stake is worth more than the PxQ result – we doubt many disclosures would conclude it is worth less. The CRUF does not believe that management will be able to derive a more reliable measure internally, but it should communicate the range of outcomes if significantly different to PxQ.

CRUF participants are of the view that the IASB should clarify in which circumstances it would be acceptable for a company to deviate from level 1 disclosure even though there are observable market prices and therefore, fall into level 2 or 3.

We expect that compliance with the standard should ensure consistent application. Where control premiums are applied, assets could be overstated. In particular, if there was an expectation that the investment would be sold, then there is a significant impact on any deal negotiation and also on market disclosure / inside information, as such disclosure would provide the expected selling price. In practice, the market value of holding companies with listed investments shows that the market tends to place a discount on such holdings, rather than a premium. If the investments are not liquid, the holding companies tend to apply a discount. There may also exist additional information or views on the prospective value of that business. As investors and analysts, some will make further adjustments beyond PxQ to incorporate a premium or discount. Some CRUF participants will project that P will change based on their target prices for the listed investment, thereby adjusting to give the value of the holding company. Where material, investors will also adjust for valuation movements daily to reflect price changing through time, to create a dynamic sum of the parts to value the holding company. Equally, if companies have major stakes and that business is considered undervalued, an analyst may place a higher value on it but it would not be attributed to a controlling stake and all shareholders would benefit from this change in value.

In respect of disclosures on gains and losses, CRUF participants think it would be useful to have disclosures on the realised portion of fair value changes, as current disclosures seem to aggregate both realised and unrealised gains/losses as a net figure – a split between the two would be more helpful. Ideally, such disclosure should be presented at each level of financial instruments, but as a minimum a total would be helpful, in addition to the requirement for Level 3 instruments. The CRUF recognises that for many businesses this could lead to "manipulation" of reporting through bed and breakfast trades or other window dressing but for many companies this is useful and, in some jurisdictions, necessary to understand the evolution of distributable profits.

It would also be helpful if the board moves its 'realised' and 'unrealised' guidance from Basis of Conclusions to a more prominent position like within 'Definition' in the standard. This will ensure that the 'realised' and 'unrealised' disclosure is consistently measured in accordance with IFRS guidance. This is important as some jurisdictions could have slightly different definitions which would affect comparability between issuers. For example, UK has recently updated its guidance on legal definition of 'realised gains and losses' and would consider unrealised fair value changes of a listed share as realised for distributable reserves.

While some CRUF participants sympathise with the larger banks on the complexity and difficulty for the full reconciliation disclosures on level 3 financial instruments because of the number of instruments and markets involved, others are of the view that if banks can compile this information for regulation stress tests, they should be able to prepare the disclosures in the financial statements. Complexity and volume should not be an excuse for not providing these disclosures. We also note that the largest volume of financial instruments disclosures sits in level 2 and there may be scope for reduction. However, it is difficult to form a view on the possible ranges and further consideration would be helpful. The burden ultimately falls on the company's management and the Audit Committee to determine what is material, and manage disclosure to ensure that a true and fair view is still delivered.

About the Corporate Reporting Users' Forum (CRUF)

The CRUF was set up in 2005 by users of financial reports to be an open forum for learning about and responding to the many accounting and regulatory changes that affect corporate reporting. In particular, participants are keen to have a fuller input into the deliberations of accounting standard setters and regulators. CRUF participants include buy and sell-side analysts, credit ratings analysts, fund managers and corporate governance professionals. Participants focus on equity and fixed income markets. The Forum includes individuals with global or regional responsibilities and from around the world, including Australia, Canada, France, Germany, Hong Kong, India, Japan, New Zealand, South Africa, UK and USA.

The CRUF is a discussion forum. Different individuals take leadership in discussions on different topics and in the initial drafting of representations. In our meetings around the world, we seek to explore and understand the differences in opinions of participants. The CRUF does not seek to achieve consensus views, but instead we focus on why reasonable participants can have different positions. Furthermore, it would not be correct to assume that those individuals who do not participate in a given initiative disagree with that initiative. This response is a summary of the range of opinions discussed at the CRUF meetings held globally. Local country differences of opinion are noted where applicable.

Participants take part in CRUF discussions and joint representations as individuals, not as representatives of their employer organisations. Accordingly, we sign this letter in our individual capacity as participants of the Corporate Reporting Users' Forum and not as representatives of our respective organisations. The participants in the Forum that have specifically endorsed this response are listed below.

(Signatures)

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