Grupo Latinoamericano
de Emisores de Normas
de Información Financiera

Group of Latin-american
Accounting Standard Setters

September 22, 2017

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

RE: REQUEST FOR INFORMATION: POST-IMPLEMENTATION REVIEW – IFRS 13 *FAIR VALUE MEASUREMENT*

Dear Board Members,

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on the "Request for Information: Post-implementation Review – IFRS 13 *Fair Value Measurement*" (the RFI)**.**

Due process

The discussions regarding the RFI were held within a specified Technical Working Group (TWG) created in May 2017. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG has undertaken different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall comments

The document prepared by the TWG summarizes the main points of view of different stakeholders in several countries of our region regarding the use in practice of IFRS 13. Given the nature of the RFI, on this occasion the TWG has made a survey and has organized the responses to reflect all points of view.

In summary:

- IFRS 13 has been well received by the stakeholders in our region;
- With a few exceptions, the application of IFRS 13 was not observed to have been overly complex or resulted in significant additional costs for financial statement preparers or users;
- We believe that enhanced guidance for the preparation of fair value footnote disclosures and for the determination as to when a market should be considered active would be desirable to increase the usefulness of the information prepared pursuant to IFRS 13.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Board), Bolivia, Brazil (Vice Chairman), Chile, Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico (Chairman), Panama, Paraguay, Peru (Board Alternate), Uruguay (Board) and Venezuela (Board).

Specific comments
Attached please find our specific responses to the questions included in the RFI.

Contact
If you have any questions about our comments, please contact glenif@glenif.org.

Sincerely yours,

Felipe Pérez Cervantes
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

GLENIF GLASS

Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

Attachment

Group of Latin American Accounting Standard Setters (GLASS)
GLASS' comment letter on the "Request for Information: Post-implementation Review – IFRS 13 *Fair Value Measurement*"

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?

<u>TWG´s response to question 1A:</u>

The majority of the stakeholders that answered the questions related to fair value measurement are financial statement preparers or auditors. To a lesser extent, regulators, academics and valuation specialists have participated.

The main jurisdictions of those that responded are:

- Argentina.
- Brazil.
- Colombia.
- Costa Rica.
- Mexico.
- Uruguay.
- Venezuela.

The main sectors represented are the follows:

- Agriculture and agro industries.
- Real Estate.
- Public service operators.
- Manufacturers.
- Banks and financial services.

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Question 1B—Your experience			
How extensive is your experience in relation to the measurement of the following items at fair value (including the measurement of their recoverable amount on the basis of fair value less costs of disposal)?			
Type of item	**The extent of your experience with fair value measurements**		
	Little	**Some**	**Much**
Property, plant and equipment			
Intangible assets including goodwill			
Investment properties			
Biological assets			
Investments in subsidiaries, joint ventures or associates			
Financial instruments			
Other (please specify which)			

TWG´s response to question 1B:

Although the degree of experience that could be observed in the responses received was varied, most of those who responded claim to have a lot of experience related to fair value measurements of property, plant and equipment and biological assets. To a lesser extent, those who responded indicated having experience related to the application of IFRS 13 to investment properties and intangible assets. The experience of those who have responded related to the application of IFRS 13 to financial instruments is limited. Regarding the fair value measurement of subsidiaries, joint ventures and associates, in the region there is little relevant experience, since:

- although IAS 27, *Separate Financial Statements*, did not previously allow the use of the equity method to value such investments in separate financial statements, in most cases local regulations required use of the equity method; or
- in practice, those entities that could elect the use of the different options in IAS 27 preferred to use the cost model.

The following table summarizes the previously described answers:

Type of item	The extent of your experience with fair value measurements		
	Little	Some	Much
Property, plant and equipment			
Intangible assets, including goodwill			
Investment properties			
Biological assets			
Investments in subsidiaries, joint ventures and associates			(1)
Financial instruments			

	Most of those who have responded
	Minority of those who have responded

(1) In some cases, those who use the equity method have had to measure the fair value of such investments for purposes of comparing these amounts with their recoverable amount.

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.

TWG's response to question 2:

(a) Most of those who responded indicated that they found the information provided on the Level 3 fair value measurements to be useful. In particular, they highlight the relevance of the description of the valuation models used and the specific information about the input data that are used to apply each model. However, some have suggested that the manner of presenting the information regarding Level 3 fair value measurements may on occasion not be relevant, because the Standard is unclear and does not provide sufficient tools to guide judgments that allow properly structuring such disclosures (for example, the note referred to sensitivity analysis), which incorporates a high degree of subjectivity in the information ultimately provided.

(b) With regard to this point, those responding generally have highlighted the following:

(i) The generic disclosure of information adversely affects the usefulness of the resulting information. For example, in many cases entities use disclosure models that do not necessarily reflect their specific circumstances. Another case that has been mentioned that adversely affects the usefulness of the information provided is the presentation of information about fair value measurements (including Level 3 fair value measurements) in a dispersed manner throughout different footnotes, instead of including a single note that summarizes information about the use of fair value in the financial statements.

For example, an entity using IFRS 13 to account for PP&E, investment properties and biological assets could disclose in three different footnotes information regarding the use of IFRS 13 for these types of items (including those related to Level 3 fair value measurements) instead of presenting a single footnote. This dispersion hinders the ability of the user to find all the necessary information about how measurements of fair value affect the financial position and financial performance.

On the other hand, some emphasized that the lack of guidelines about how to add information about Level 3 fair value measurements negatively affects the usefulness of financial information, since it limits the comparability between entities.

(ii) They are unaware of factors other than those mentioned in the previous response that affect the usefulness of the information provided on Level 3 fair value measurements.

(iii) To prevent the above factors from reducing the usefulness of the information, it is suggested:

- Requiring that all the disclosures coming from the application of IFRS 13 (including notes concerning Level 3 fair value measurements) be summarized in a single note to the financial statements, notwithstanding that the relevant notes retain the relevant information pertaining to each financial statement item.
- Providing clearer guidelines about how to group information that is required.

(c) In general, those responding have indicated that the cost of preparing the disclosures regarding Level 3 fair value measurements is greater in the case of assets of a specialized nature, biological assets or intangible assets that must be measured separately from the goodwill arising from a business combination in accordance with IFRS 3 *Business Combinations* (among others), for which external appraisers are involved, since sometimes the appraisers do not provide the entity with the detailed information needed to comply with the requirements of IFRS 13. This requires that sometimes the entity must resort to alternative procedures to comply with the disclosure requirements, which increase the costs of preparation and of audit. Some also expressed the view that the preparation of these disclosures is costly when referring to biological assets and financial instruments. On the other hand, these costs are particularly high in our region due to the lack of available information.

(d) Most respondents have not identified any additional relevant information not required to be disclosed by IFRS 13. However, some expressed the view that the disclosure of macroeconomic data supporting fair value measurements might be relevant.

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?

TWG´s response to question 3:

In relation to this question, those who responded told us that in the region most jurisdictions require that in the separate financial statements, investments in subsidiaries, associates and joint ventures are accounted for using the equity method and not fair value, as a result of which there is no experience in this regard. On the other hand, there are no cases of listed cash generating units.

However, some members believe that the general principle established in the definition of fair value should always prevail. Therefore, in these cases fair value should reflect the price at which these items could be sold at the measurement date from the perspective of market participants, at the level of the appropriate unit of account, resulting in more relevant information for the users of financial statements. However, some have highlighted the importance of more thoroughly analyzing the problem of subjectivity that such definitions could add to the financial information.

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.

TWG´s response to question 4:

(a) Those who responded do not consider the assessment of the highest and best use of a non-financial asset to be problematic.

(b) In general, the current use does not differ from the highest and best use of a non-financial asset. However, occasionally regulations that limit the use of a specific asset for certain purposes, or in items such as investment properties, have resulted in the current use not necessarily being the highest and best use. One particular case relates to certain parcels of land that are used in the agricultural sector, that could be suitable for different activities, and based on changes in the market prices of agricultural products, the highest and best use may differ from the current (including between periods, for a single entity).

For example, an entity dedicated to the production and sale of milk uses a field for grazing of producing cows. However, a significant downturn in the market prices of milk, to the detriment of other products - for example, soybean - could lead to the conclusion that the highest and best use of that land which market participants would consider to set their price should not reflect the use given to dairy activity, but to the production of soybean.

(c) Those who responded indicated they have no specific experiences in which they have applied the highest and best use and at the same time the residual valuation method.

(d) In general, respondents have not identified diversity in practice concerning the application of the concept of highest and best use.

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.

TWG´s response to question 5:

(a) Those who responded consider that in general it is not problematic. However, in the case of quoted financial instruments there can be some level of complexity to determine if the level of depth of the market and the number of transactions that are made in connection with certain instruments allow considering the market for these specific instruments to be active or not.

(b) Respondents have indicated that although it should not be problematic, in practice on occasion there may be degrees of subjectivity that affect the relevance of the information finally generated.

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?

TWG´s response to question 6A:

(a) In some cases, those who responded have indicated that they have experienced problems with the fair value measurement of biological assets, especially when no Level 1 and 2 input data to determine that fair value is available. For example, in the case of certain agricultural plantations, where the biological product is not sold in an active market, the statistics generated by the management, based on the valuation methods used, are vital. In addition, these methods are to be established by experts, such as agronomists, who must take into consideration the growth cycle of the crop, the conditions of the soil, the climate, the maintenance of farming methods, if they are manual or automated, and other relevant factors for experts. However, as the predominant agricultural activity in the region, the difficulties are very different depending on the country and the type of production concerned.

(b) The respondents have considered that it is always useful to have additional help to apply IFRS 13. However, one of the reviewers noted it might be difficult to generate a guide that helps apply this rule to items such as diverse the scope of application of IFRS 13 to the biological assets of an entity.

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.

<u>TWG´s response to question 6B:</u>

(a) Respondents are generally unfamiliar with such material, or know of it but have not used it. In one case, it was noted that it had been used for academic purposes.

(b) Given the lack of knowledge of this material, the reviewers are not able to provide an answer to this question.

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.

TWG´s response to question 7:

Most who responded have stated that they are unaware of research allowing them to conclude on the issues addressed in this question. Also, they have no basis to assess whether the indicated regulatory convergence may have resulted in significant changes in the assessment of the fair value by users. On the other hand, in relation to question 7(b), some had the view that convergence between the requirements of US GAAP and IFRS standards on the measurement of fair value should be 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.

TWG´s response to question 8:

There are no comments in this regard.

End of the document