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Straight away

IFRS bulletin from PricewaterhouseCoopers

IASB re-exposes certain fair value measurement disclosures

What is the issue?

The IASB has re-exposed its proposals for fair value measurement disclosures; it has put forward an additional requirement for the entity to consider the expected effect of correlation between inputs when performing the uncertainty analysis. In other words, it would no longer be possible to ignore the interdependencies between input variables. For example, if changing an assumption about credit spreads implies a corresponding change in an assumption about prepayment rates, the uncertainty analysis should take this into account. In contrast, under the proposals in the May 2009 exposure draft, the uncertainty analysis could have been performed by holding the pre-payment rate constant while changing the assumption about credit spreads.

The 2009 ED included a requirement to disclose a measurement uncertainty (sensitivity) analysis for all fair value measurements categorised within Level 3 of the fair value hierarchy. A similar requirement already exists in IFRS 7 for Level 3 fair value measurements of financial instruments. This uncertainty analysis requires that, if different unobservable inputs could have reasonably been used, and those alternative inputs would have increased or decreased the fair value significantly, management states that fact and discloses what the effect would be, and how it was calculated. The sensitivity calculation could be performed by changing one input while holding all other variables constant.

The re-exposure draft was developed as part of discussions with the FASB on the fundamental principles of fair value measurement. At the same time, the FASB has published an exposure draft of its own on amendments to Topic 820 (Fair Value Measurements and Disclosures), which includes a similar proposal.

However two key differences between the guidance under U.S. GAAP and IFRS would remain. Current IFRS guidance requires that a fair value measurement be based on observable inputs in order for a gain or loss to be recognized at inception. This is different from U.S. GAAP where such a gain or loss may be recognized even when the fair value measurement contains unobservable inputs. In addition, the IASB has decided that it will not provide a practical expedient under IFRS similar to that allowed under U.S. GAAP for the measurement of certain investments that report a net asset value.

Am I affected?

This proposed amendment might alter the disclosures management will be required to make if it has or will have assets or liabilities measured at fair value and categorised in Level 3 of the fair value hierarchy. Consideration of the effects of correlation between possible inputs could require significant additional effort, depending on the number and nature of inputs and the complexity of the model used.

What do I need to do?

Comments on the proposed amendment are due on 7 September 2010. The Board expects to finalise the fair value measurement standard in the quarter 4 of 2010. Management should begin to think about the effects of correlation between possible inputs.

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