acteo Association pour la participation des entreprises françaises à l'harmonisation comptable internationale

afep

Mouvement des Entreprises de France MEDEF

The IASB

30 Cannon Street,

London EC4M 6XH,

United Kingdom

29 September 2017

Dear Mr. Hoogervorst,

Request for information and comment letters—Post-implementation Review—IFRS 13 Fair Value Measurement

We welcome the opportunity to participate in the post-implementation review of IFRS 13.

Although Acteo encompasses many entities with different sectors of activity, please note that this letter is mainly motivated by the concerns of non-financial entities. We have organized our comments into two blocks: one concerning measurement and the other relating to disclosures.

If you require any more information please do not hesitate to contact us.

Yours sincerely,

ACTEO	AFEP	MEDEF
Patrice MARTEAU Chairman	François SOULMAGNON Director General	Agnès LEPINAY Director of economic and financial affairs

Measurement

- **Measurement of quoted investments**

We already took the opportunity to comment on the 2004 ED “Measuring Quoted Investments in Subsidiaries, Joint Ventures and Associates at Fair Value”. We have not changed our point of view since then as we still believe that the Board should be consistent between its conclusion about the unit of account and the way this unit of account is then measured. IFRS 13 states that fair value measurement for a particular asset (IFRS 13 paragraph 11 and 69) is determined according to its unit of account and taking into account the characteristics of the asset. There is a potential contradiction with paragraph 80, but we think that paragraphs 11 and 69 should prevail.

Since the IASB has concluded that the asset that is to be fair valued is the whole investment, IFRS 13 should be applied consistently with this conclusion. It should therefore be helpful first to consider whether there could be a level-one value for such an investment. We thus tend to agree with the view developed in paragraph BC 8 (a) of the 2014/4 ED, which considered that there was no Level 1 input for the unit of account when it is the investment as a whole, and, that therefore the investment’s fair value should be measured using either another valuation technique or by adjusting the Level 1 price to reflect differences between the whole investment and the underlying individual financial instruments.

Furthermore, even if the IASB had to maintain its Level 1 qualification, we note that IFRS 13 permits one in certain circumstances to make adjustments to Level 1 inputs. We believe that in the case of investments over which there is control or influence, one may usefully apply paragraph 79 (c) which permits the adjustment of the quoted price for “identical underlying assets” to reflect the factors specific to the asset which is measured at fair value.

- **Highest and best use for non-financial assets**

The use of a fair value based on the highest and best use occurs frequently in the context of business combinations and we do not believe that such a principle always leads to the most relevant information. In fact, fair value could be a predictive value but only if it is determined from the entity’s perspective, within the context of its overall strategy. A standard on fair value measurement in IFRS should develop how to implement a market-based measurement likely to be useful in financial reporting, and not develop a definition and measurement requirements for fair value *in abstracto*. A measurement is most useful in financial reporting if it helps best reflect an entity’s financial position at a reporting date. Market-based assumptions are helpful to bring objectivity – and hence comparability - to a current measurement notion. However, the use of a market-based measurement for the assets and liabilities of an entity should remain driven from the perspective of the entity. Measuring assets and liabilities independently from those objectives and pervasive assumptions is, in our view, at best useless and at worst misleading, when intended to depict an entity’s financial position.

- **Predominance of observable data**

While we acknowledge that observable data are generally objective and can be easily checked, we do not agree with the notion that systematically prioritising their use will always give the most relevant value. Actually, while a “valuation multiple” method is generally ranked Level 2 (in the case of prices derived from market data, for example), we do not agree that the results obtained with it are always more relevant and reliable than those obtained with a discounted cash-flow method, which is ranked Level 3. The robustness and the relevance of the model should also be considered in identifying the most relevant measure.

Furthermore, the way the standard addresses Level 3, including the level of disclosure required, is prejudicial, as it suggests that such a measurement is of inferior quality and/or risky. If the Board believes that a Level 3 fair value is still preferable to another measurement category (e.g. cost), then, in our view, it should not penalise entities that use it.

- **Credit Risk**

Computation of credit risk in the fair value of some financial instruments may be very onerous for many non-financial entities. Perhaps the Board could consider providing a practical expedient such as that it provided in IFRS 9 for financial instruments that have low credit risk. Indeed, it could be acceptable to ignore the credit risk in the fair value measurement as long as the instrument is considered to have low credit risk, based on criteria described in IFRS 9 paragraph B5.5.22.

Disclosures

First, we encourage the Board to consider its PIR in the light of the “Disclosure initiative” project and the comments received thereon.

For example, we think it would be very useful and relevant if the Board were to:

- Clearly describe the objective pursued with the specific disclosures of IFRS 13
- Explain how the concept of materiality may applied in this context
- Avoid formulations such as "shall" or “as a minimum” which appear to leave little room for judgment
- Reconsider the very long list of required disclosures in order to create a hierarchy of the information that is really necessary to understand the financial statements

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