IFRS Foundation
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Submitted electronically via go.ifrs.org/comment

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Dear Sirs,

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the IASB Post-Implementation review (PIR) of IFRS 13 *Fair Value Measurement*. AFME represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates stable, competitive and sustainable European financial markets, which support economic growth and benefit society.

We note from page 9 of the PIR that the IASB's request for information is based on stakeholders "experience of the use of IFRS 13". We also note that respondents are encouraged to "answer as many or as few questions as are relevant to [their] experience". We are therefore focusing our comments on the issues of most relevance to our members.

As a general comment, we support the fact that IFRS 13 is the result of a convergence process with the FASB and would urge that any potential amendments to IFRS 13 resulting from the current review process do not change the converged status of the standard. We would therefore encourage the IASB to discuss any potential changes to IFRS 13 as part of a common project with the FASB and to ensure the continued alignment between IFRS and US GAAP on this issue. We also support the principles-based nature of IFRS 13 and do not believe that there are major issues related to its implementation. We would however like to raise a number of areas of potential improvement.

Paragraph 69 of IFRS 13 states that:

"Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity) rather than as a characteristic of the asset or liability

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(eg a control premium when measuring the fair value of a controlling interest) are not permitted in fair value measurement".

Paragraph 69 therefore explicitly prohibits the consideration of blockage factors (or block discounts) from fair value measurement. Paragraph 69 also states however that "an entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability".

Our overall comment on the inputs to valuation allowed by IFRS 13 would be that we do not believe the "price times quantity" equation would always be the relevant measurement technique for determining fair value. When, for example, a market participant is required to pay a premium to obtain a large block of a single security the price paid would reflect the strategic advantage also acquired by the market participant due to their ownership of a sizeable or controlling block of that security. Similarly, a discount might be required when the block of stock is so large relative to the daily volume that it cannot be sold over a short time period without depressing the market price of the stock. The PxQ relationship would not therefore be reflective, in such cases, of the value of large holdings of the security. Allowing the use of blockage factors as an input in fair value measurements would also be better aligned to economic reality, with institutions often unable to trade individual instruments or items.

In order to overcome this issue, we suggest that the unit of measurement should be aligned to the unit of account. Accordingly, if the unit of account is the entire holding, then the unit of measurement would also be the entire holding. Similarly, if the unit of account is a portfolio of instruments, the unit of measurement is also the portfolio. The key characteristics of the asset are those of the unit of account and should be reflected in the valuation.

We would refer in this respect to the comments raised by some respondents to the IFRS 13 ED and reflected in paragraph BC 155 of IFRS 13 which states that: "Other respondents stated that the fair value measurement should reflect the fair value of the entity's *holding*, not of each individual instrument within that holding (ie they did not agree that the unit of account for a financial instrument should be a single instrument). Those respondents maintained that the principle should be that the unit of account reflects how market participants would enter into a transaction for the asset or liability. They asserted that market participants would not (and often cannot) sell individual items. The FAS received similar comments when developing SFAS 157". Also, in view of our general comment regarding the convergence between IFRS 13 and US GAAP, we would urge the Board to engage the FASB in discussing a potential common response of the two accounting standard-setters to this issue.

As a general point, we believe that the IASB Board should consider the issue of disclosures in IFRS 13 in light of the comments received from constituents on the Principles of Disclosure project (the Discussion Paper for which was published earlier this year and is open for comments until 2 October) as well as any subsequent decision reached in relation to that project. With respect to the specific disclosures required by IFRS 13, we understand that the reconciliation required under paragraph 93(e) (“for recurring fair value measurements categorised within Level 3 of the fair value hierarchy”) is not aligned with the practice used by most institutions for their own internal management purposes and seems to have a high cost to benefit ratio. This is a result of the high cost of preparing the reconciliation due to the detailed nature of the information required, for example “purchases, sales, issues and settlements (each of those types of changes disclosed separately)”. We would therefore agree with the statement from page 5 of the PIR which notes that “most preparers said that some disclosure requirements for Level 3 fair value measurements are burdensome and fail to reflect entities’ business management” and would encourage the IASB to consider alternative disclosure models (such as narrative disclosures tailored to entities’ circumstances).

If helpful, we would of course be pleased to discuss any of the comments above in greater detail.

Yours sincerely,

Richard Middleton

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