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## IASB<sup>®</sup> meeting

Date	<b>April 2024</b>
Project	<b>Second Comprehensive Review of the <i>IFRS for SMEs</i><sup>®</sup> Accounting Standard</b>
Topic	<b>Proposed new Section 12 <i>Fair Value Measurement</i>—use of plainer language</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards or the *IFRS for SMEs*<sup>®</sup> Accounting Standard. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of this paper

1. The purpose of this paper is to ask the International Accounting Standards Board (IASB) to consider how we might use plainer language to express the requirements in the new and revised sections of the third edition of the *IFRS for SMEs* Accounting Standard using Section 12 *Fair Value Measurement* as an illustration.
2. In this paper, the term SMEs refers to entities that are eligible to apply the *IFRS for SMEs* Accounting Standard (the Standard).

## Staff recommendation

3. The staff recommend that the IASB:
  - (a) consider whether plainer language can be used to express requirements in new and revised sections during drafting of the third edition of the Standard; and
  - (b) include the IFRS 13 definition of 'highest and best use' in Section 12.

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## Structure of this paper

4. This paper is structured as follows:
  - (a) introduction (paragraphs 5–6);
  - (b) approach to using plainer language in Section 12 of the Exposure Draft (paragraphs 7–10);
  - (c) definition of highest and best use (paragraph 11); and
  - (d) appendix—illustrations of redrafting paragraphs in Section 12 of the Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (Exposure Draft)

## Introduction

5. In the Exposure Draft the IASB proposed:
  - (a) to align the definition of fair value with that in IFRS 13 *Fair Value Measurement*;
  - (b) to align the guidance on fair value measurement with the principles of the fair value hierarchy in IFRS 13;
  - (c) to include examples relevant to SMEs that illustrate how to apply the hierarchy; and
  - (d) to move the fair value guidance and related disclosure requirements to a new section of the *IFRS for SMEs Accounting Standard* (section 12).
6. At its December 2023 meeting, the IASB discussed the feedback on Section 12 of the Exposure Draft and tentatively decided:
  - (a) to finalise its proposal to introduce the new Section 12 without significant changes to the overall content proposed for that section;
  - (b) to consider respondents' drafting suggestions and whether plainer language can be used to express requirements in Section 12;

- (c) to omit the proposed appendix to Section 12, and instead to include its examples in separate educational material; and
- (d) to consider respondents' suggestions for additional guidance and illustrative examples when updating the separate educational material.

## Approach to using plainer language in Section 12

7. The *IFRS for SMEs* Accounting Standard was developed based on full IFRS Accounting Standards with simplification that reflect the needs of users of SMEs' financial statements and cost-benefit considerations. One of the ways the IASB aims to simplify the *IFRS for SMEs* Accounting Standard compared to full IFRS Accounting Standards is consider whether the language used can be simplified and expressed more clearly for SMEs.
8. The language used in Section 12 of the Exposure Draft was based on IFRS 13 *Fair Value Measurement*. The staff have worked with IFRS Foundation editorial staff to consider how the language proposed in Section 12 might be simplified or expressed more clearly in four main ways:
  - (a) breaking down long, complex sentences into more than one sentence;
  - (b) changing passive voice to active voice;
  - (c) where appropriate, swapping out long, complicated, less common words for shorter, simpler, more commonly used words; and
  - (d) aligning with the current version of the IFRS Foundation Style guide, given IFRS 13 was issued in May 2011.
9. Nevertheless, the staff have avoided making changes to the language in the following areas:
  - (a) key definitions taken from IFRS 13, for example the definition of fair value and active market, would use the same wording as in IFRS 13; and

- (b) terminology that is used in other sections and well-established in the *IFRS for SMEs* Accounting Standard, for example, ‘fair value less costs of disposal’.
10. The appendix to this paper illustrates how some paragraphs in Section 12 of the Exposure Draft could be redrafted in plainer English following the approach in paragraphs 8–9 of this paper.

### Questions for the IASB

- 1) Does the IASB have any comments on the staff approach to using plainer language in Section 12, including the illustrations in the appendix to this paper?
- 2) Does the IASB support the staff following a similar approach to improve the language in new and revised sections of the third edition of the Standard?

### Definition of highest and best use

11. Section 12 of the Exposure Draft uses the term ‘highest and best use’ but does not provide a definition. When considering how to simplify the wording of the requirements for ‘highest and best use’ in Section 12, the staff observed that it would be helpful to include the IFRS 13 definition of ‘highest and best use’ to assist application. The staff think without this definition SMEs may find the principle difficult to understand and apply. The IFRS 13 definition of ‘highest and best use’ is:

The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.

### Question for the IASB

- 3) Does the IASB agree to include the IFRS 13 definition of highest and best use in Section 12?

## **Next steps**

12. The staff will apply the approach described in paragraphs 8–9 of this paper when drafting new and revised sections of the third edition of the Standard. The IASB members will be able to comment on the drafting during the balloting process.

## Appendix: Illustrations of redrafting paragraphs in Section 12 of the Exposure Draft

A1. The following table extracts paragraphs of Section 12 of the Exposure Draft and illustrates how they can be redrafted using plainer language applying paragraphs 8–9 of this paper.

Paragraph in Exposure Draft		Possible redrafting	Applying paragraph 8–9 of this paper
12.4	Fair value is a market-based measurement, not an entity-specific measurement. Therefore, it is measured using the assumptions that market participants would use when pricing the asset or liability. An entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.	Fair value is a market-based measurement, not an entity-specific measurement. An entity shall measure fair value using the same assumptions that market participants would use when pricing the asset or liability. The entity shall not take into account its own intention to hold the asset or settle the liability.	Applies paragraphs 8(a) and 8(b). Refers to 'same' assumptions for clarity.
12.11	<p>The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:</p> <p>(a) a use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (for example, the location or size of a property);</p> <p>(b) a use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property); and</p> <p>(c) a use that is financially feasible takes into account whether a use generates adequate income or cash flows that market participants would require from an investment in that asset put to that use.</p>	<p>To identify the highest and best use of a non-financial asset, an entity shall take into account any use of the asset that is physically possible, legally allowed and financially feasible. An entity shall consider:</p> <p>(a) <i>any use that is physically possible</i>—whether those physical characteristics of the asset would be taken into account by market participants when pricing the asset (for example, the location or size of a property);</p> <p>(b) <i>any use that is legally allowed</i>—whether there are any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (for example, the zoning regulations applicable to a property); and</p>	<p>Applies paragraphs 8(b), 8(c) and 8(d).</p> <p>Uses in-line heading style suggested in the Style Guide to improve readability.</p> <p>Use of 'any' to clarify that the entity needs to consider all possible uses that meet the criteria, not just one.</p> <p>Changes 'legally permissible' to 'legally allowed' applying paragraph 8(c).</p>

		(c) <i>any use that is financially feasible</i> —whether a use generates adequate income or cash flows that market participants would need from an investment in that asset.	
12.13	If the highest and best use of a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities) as a group, the fair value of the asset would assume that the asset would be used with those other assets (and liabilities) and that those complementary assets (and liabilities) would be available to market participants. Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets and liabilities within which the asset would be used.	If a non-financial asset provides maximum value to market participants through its use in combination with other assets (and liabilities), an entity shall assume the asset would be used with those other assets (and liabilities) and that those other assets (and liabilities) would be available to market participants. An entity shall make consistent assumptions about the highest and best use of a non-financial asset for all the assets (for which highest and best use is relevant) with which the asset would be used.	Applies paragraphs 8(a)-(d). Refers to 'other' assets (and liabilities) for clarity