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Impact of IFRS 13 on disclosure requirements under fair value hierarchy

Case: Industrial sector in Finland

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Abstract:

Due to globalization, more companies become international. This created a necessity for a common accounting language, International Financial Reporting Standards (IFRS). International convergence of accounting standards is still under investigation and new standards are being issued. This research work is specifically focused on one accounting standard, IFRS 13, *Fair Value Measurement* that is planned to be under a post implementation review in 2016. The study investigated the impact of IFRS 13 on the note section and was motivated by the general discussion on how IFRS is different from Finnish Accounting Principles (FAS). Fair Value Hierarchy is the central concept under IFRS 13, which is represented by three levels (Level 1, Level 2 and Level 3). The extent and nature of disclosure requirements are based on the Level in which the inputs are categorized. The concept has been previously applied under IFRS 7, *Financial Instruments: Disclosures*. However, IFRS 13 extended requirements to non-financial instruments. The purpose is to investigate how requirements to disclose hierarchy levels for both financial and non-financial instruments affected the note section with an in-depth research on financial instruments. The scope of the research is limited to large and medium-sized companies operating in the industrial sector in Finland. The data is gathered from the note sections of annual reports from 2012 and 2013. An explanatory approach is used in data interpretation, which refers observations to existing theory. As the main result, IFRS 13 extended disclosures. However, the greatest impact was on the companies, which had Level 3 inputs.

Keywords:	Accounting principles, Finnish Accounting Standards, IFRS 13, Fair Value Measurement, Fair Value Hierarchy, Financial Instruments, IFRS 7
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1. INTRODUCTION

In the 1990s Finland started to follow EU's accounting policy and the existing expenditure-revenue policy was replaced by Finnish accounting legislations. The causes of the reforms were the increasing internationalization of Finnish companies and the preparation of Finland to enter the European Union. After Finland became part of the EU, the accounting standards were in need of further harmonization with EU legislation and accounting principles. It resulted in the Accounting Act (1336/1997) and the Accounting Ordinance (1339/1997) in the end of 1997. In June 2002 all listed companies in EU were required to prepare consolidated financial statements following International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRSs). In Finland IFRSs became effective in 2005 and are still in use. (Virtanen. 2009)

Internationalization of capital markets required harmonized financial reporting standards in general. Harmonization refers to the reduction of differences among accounting standards to make them mutually compatible. This concept is also known as the convergence of accounting standards, "the development of a unified set of high-quality, international accounting standards that would be used in at least all major capital markets"(FASB, 2015). The international convergence of accounting standards was first introduced due to World War II's economic integration with a consequent increase in cross-border capital flows in the late 1950s.

Accounting can be understood as an information system measuring business activities into different reports, including financial statements. It provides information, which serves as a basis in decision-making processes (Harrison et al. 2014). Accounting principles have to respond to the needs of the markets. The development of accounting principles has been going along the general economic development. The necessity to have a common international accounting language evolved from the ongoing globalization. It is unrealistic to expect international investors to understand accounting principles applied in different countries. Comparing to Finnish Accounting Standards, IFRS is more investor oriented. It is a common frame of accounting standards, which a potential investor could use to assess company performance (Troberg. 2013). Moreover, for a multinational company, which has operations and

transactions that cross national boundaries, the consolidation of the group financial statements can become a challenge if financial statements are built upon different standards.

IFRS is more of a principle-based set of standards with fewer exceptions and contains fewer detailed rules. This principle-based nature of IFRS leads to extensive disclosures in the financial statements. Another interesting fact is that a principle-based framework has potential for different interpretations of similar business activities, leaving more discretion and responsibility to financial managers and auditors in making professional judgments. (Vincent et al. 2003)

The international convergence of accounting standards is still under investigation. Harmonization of financial reporting is used to reduce differences in national accounting standards and IFRS. Every year a solid amount of research is aimed to improve IFRS, to make it more transparent and efficient. This research is focused on one specific accounting standard, IFRS 13 Fair Value Measurement, which provides a clear set of guidelines on the disclosure of fair value measurement.

Previously fair value accounting has been applied under IFRSs. However, more clear and detailed guidance on the valuation standard of fair value measurement has been required, which resulted in a revision of the standard in 2011, IFRS 13. Prior to IFRS 13, there was no single framework and definition of fair value. (Deloitte. 2014) The new accounting standard IFRS 13 has been applied to annual reporting periods since 1 January 2013. It removed inconsistency in fair value measurement and provided more disclosure requirements, which are described in paragraphs 91-99 in IFRS 13, as Appendix 2 shows.

Fair value hierarchy is the central concept of disclosure requirements under IFRS 13. It includes three basic levels in which inputs used in measurements of fair value are categorized. Levels are denoted as Level 1 for quoted inputs, Level 2 for observable inputs and Level 3 for unobservable inputs. Fair value hierarchy has been previously applied to financial instruments under IFRS 7, Financial Instruments: Disclosures. However, IFRS 13 extended this requirement to non-financial instruments. It should be noted that new disclosure requirements and their extent depend on the Level in which the input is categorized. Part of the new disclosures are particularly aimed on

Level 3 inputs with applied accounting policies, since those inputs carry greater uncertainty and investors must be mindful to mitigate risks in companies utilizing unobservable inputs. (Yarnold & Ravlic. 2014)

1.1 Problem statement

Nowadays, IFRS 13 is under investigation. Each new standard should become subject to a Post-Implementation Review (PIR) in two to three years after it came into force. The reason for a post-implementation review is to develop and enhance accounting standards. In 2016, the International Accounting Standards Board (IASB) is likely to start the PIR of IFRS 13. The ongoing concern is whether there is any impact of the new accounting regulations on the financial statements (IFRS. 2015). This motivates the significance of the research topic. It is important to get a deeper understanding of the applications of the new disclosure requirements.

While listed companies are required to follow IFRS, it is unclear if the introduced standard had an impact and brought significant value. Investors and other users of financial reports can utilize the changes in the note section to further enhance and improve their decisions and make more accurate judgments, regarding investment decisions for example. The research can be of interest for auditors, as they are required to evaluate the validity of financial statements and the correct application of accounting standards.

1.2 Research questions and aim

Fair value hierarchy has been developed to manage inputs used in the measurement of fair value, and IFRS 13 provided detailed disclosure requirements on it.

The leading research questions are:

1. How did the new requirements to disclose hierarchy levels for both financial and non-financial items affect the note section?
2. Fair value hierarchy was previously applied to financial instruments under IFRS 7. What new requirements did IFRS 13 bring to the disclosure of fair value hierarchy of the financial instruments?

This project is also motivated by the discussion of how IFRS 13 is different from Finnish Accounting Standards (FAS) in general. However, the purpose is to assess whether IFRS 13 had any impact on the note section in reference to the fair value hierarchy and specific disclosure requirements of financial instruments. The assessment is done in order to get a deeper understanding of the influence of adopted IFRS 13, which can be useful in the Post-Implementation Review regularly carried by IASB.

1.3 Limitations

The scope of the research on IFRS 13 is limited to the disclosure part of the standard (paragraphs 91-99). Specifically, the focus is placed on disclosures under fair value hierarchy, which limits the research to the note section. The study is neither aimed to assess the material impact of the new standard nor the quality of the new disclosures. The second part of the research is limited to the note section for financial instruments because financial instruments previously required the disclosure of hierarchy levels under IFRS 7, allowing comparisons in the requirements. Standards on disclosure requirements for property, plant and equipment or investment property might be considered for further investigation, but are not subject to investigation in this project. Analysis is micro-oriented, therefore other market sectors, i.e. real estate or financial institutions are neglected in this research.

Financial statements are analyzed for years before, and after the adoption of IFRS 13, meaning that the investigated time range is limited to years 2012 and 2013. It is the transition period to IFRS 13, where the change should be the most noticeable. Some requirements where IFRS 13, *Fair Value Measurement* and IFRS 7, *Financial Instruments: Disclosures* are comparable with certain incremental requirements for IFRS 13 are left out of the research, since they are not expected to bring significant changes in the note section.

2. METHODOLOGY

2.1 Material

The impact of IFRS 13 on a company depends on the industry it operates in and the types of assets and liabilities it holds. The focus of this study is placed on the industrial sector since industrial companies have to revalue their property and might have to disclose additional information on valuation policies under IFRS 13. The study includes 19 large and medium-sized companies listed on NASDAQ Nordic, all located in Finland.

1. Aspo Oyj
2. Cargotec Oyj
3. Cramo Oyj
4. Finnlines Oyj
5. Huhtamäki Oyj
6. KONE Oyj
7. Konecranes Oyj
8. Lassila & Tikanoja Oyj
9. Lemminkäinen Oyj
10. Outotec Oyj
11. PKC Group Oyj
12. Ponsse Oyj
13. Pöyry Oyj
14. Ramirent Oyj
15. SRV Yhtiöt Oyj
16. Tikkurila Oyj
17. Uponor Oyj
18. Vaisala Oyj
19. Wärtsilä Oyj Abp

Four companies have been excluded from the investigation because of structural changes they had. This was done in order to enhance comparability of valuation inputs and fair value hierarchy levels for the years 2012 and 2013. Excluded companies are: YIT Oyj, Caverion Oyj, Metso Oyj and Valmet Oyj. YIT demerged into Caverion and YIT while Metso demerged into Valmet and Metso in 2013.

Annual financial reports of all companies are the core material for this investigation. Particularly, data is gathered from the note section of consolidated financial statements, which particularized on carrying amounts and fair values of financial assets and financial liabilities by categories. The empirical data is gathered from the years 2012 and 2013 with an emphasis on the analysis of present levels according

to fair value hierarchy and the note section on Financial Instruments. In total, 19 annual reports are analyzed before adoption of IFRS 13 and 19 annual reports after the implementation of the standard. Comparing the two data sets helps in understanding and assessing the impact of the new standards on disclosure requirements.

Research is supported by secondary data, which mainly consists of reviews from the Big Four largest accounting firms, PwC, Deloitte, EY and KPMG. In addition to these, information from IFRS' official website, past research papers and other literature is used. The main piece of literature, which has been used to support the discussion on IFRS in Finland is the book IFRS NOW - In the light of US GAAP and Finnish practices by Pontus Troberg (2013).

2.2 Approach and data analysis

Case companies are selected using NASDAQ Nordic's database, filtering by industry and location. The data is collected from the note section of consolidated financial statements from the years 2012 and 2013. The research is mainly qualitative. An inductive approach is applied to answer the research questions, meaning that the existing theory is reviewed and the author's own findings, based on selected research material, are added to the information pool (Bryman & Bell, 2011). The findings are compared to current theories on reporting standards' requirements, such as the principle-based nature of IFRS. As the main technique, an empirical method helps to assess the way IFRS 13 influenced disclosures in financial reporting.

The research is split into two parts. The first part is intended to answer the first research question and the focus is placed on whether there were changes in the representation of levels after the adoption of IFRS 13. Here, the aim is to look through each level of fair value hierarchy and mark if new levels were disclosed. However, the author also examines what kinds of instruments were categorized under the levels. This allows us to find out if new items fell under a certain level after the adoption of IFRS 13, and whether the extended requirement on the disclosure of non-financial instruments affected the presentation of fair value levels.

The second part of the research is intended to go deeper into a specific part of the note section, Financial Instruments. The purpose is to find out how disclosures on this section changed in comparison to disclosures under IFRS 7, which were applied before IFRS 13. Therefore, disclosures in the note section for Financial Instruments from 2013 are compared against new requirements under IFRS 13. The new requirements, which have been disclosed, are marked down. This allows us to assess the actual impact IFRS 13 had on the note section of Financial Instruments from a practical perspective.

Companies have different ways in how they present parts of financial data in their annual reports. Therefore, the challenge was to generalize data. Generalization was done with the help of a simple and easy to understand table, where the presence of the searched input was marked as x, if it was found. This made it easier to analyze data. An explanatory approach is used in the data interpretation, which refers to the observation of existing theory. The analysis of the data is carried through a discussion on the established theoretical framework.

3. THEORETICAL FRAMEWORK

3.1 Background information

Fair value accounting has been used for the past two decades. The fair value standard is different from the old tradition of keeping books at historical cost. It affects investment choices and management's decisions. It was investigated that fair value accounting makes it more relevant, however, historical cost accounting proved to be more conservative and reliable. Fair value has been criticized for some dubious practices in 2008 when the economy was in crises.

Yet, fair value accounting is still practiced and extensively used in nearly 100 countries. It is used, for example, in accounts concerning derivatives and hedges, financial assets, goodwill impairment testing etc. The accounting research in the 1980s-1990s showed that the reason for the wide spread of Fair Value is the financial theory's idea that financial markets are efficient enough for their prices to be a source of measures of value. During this time opinions on accounting merits of historical cost and fair value have changed (Ramanna. 2013) Hoogervorst (2015) discussed historical cost versus fair value measurement at an IFRS Conference in Paris, France. It was found out that historical cost and fair value measurement are at the opposite end of the measurement spectrum. The International Accounting Standards Board (IASB) continues to research fair value measurement and its relevance and accuracy.

3.2 IFRS Standards

International Financial Reporting Standards (IFRS) are developed by the International Accounting Standards Board (IASB), which is an independent standard-setting board of the IFRS Foundation. They aim to create a common accounting language upon which financial statements are built. The idea is that financial statements can be easily understood and compared. The basis of IFRSs is to be transparent, accountable and efficient to the financial markets around the world. Still, there is criticism towards IFRS. The harmonization process of IFRS and national accounting standards is ongoing. There are also concerns of the positive effect of IFRS in a hyperinflationary economy. (IFRS, 2015)

Transparency is brought to the table by the enhancement of comparability and quality of financial information. It enables investors and other financial statements' users to make uniform economic decisions. The providers of capital, and customers, are brought closer thus strengthening accountability. IFRS standards also have an impact on economic efficiency. Through transparency and comparability, investors can identify favorable opportunities and risks across the world. It in turn should improve capital allocation. A profound benefit of IFRSs is also seen in its effect on businesses since they can lower the costs on international reporting by using a common trusted accounting language. (IFRS, 2015)

International Financial reporting standards serve as a common guideline on how to prepare financial statements. IFRS is under constant development. The day the standard was issued is different from when it became effective due to the review process on the published standard, during which the standard can be corrected and amendments made. Table 1 below lists all issued international financial reporting standards with a corresponding date when they became effective.

Table 1 Historical development of IFRS Standards

IFRS	Name	Issued	Effective Date
IFRS 1	First-time Adoption of International Financial Reporting Standards	2008	1 Jul 2009
IFRS 2	Share-based Payment	2004	1 Jan 2005
IFRS 3	Business Combinations	2008	1 Jul 2009
IFRS 4	Insurance Contracts	2004	1 Jan 2005
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations	2004	1 Jan 2005
IFRS 6	Exploration for and Evaluation of Mineral Resources	2004	1 Jan 2006
IFRS 7	Financial Instruments: Disclosures	2005	1 Jan 2007
IFRS 8	Operating Segments	2006	1 Jan 2009
IFRS 9	Financial Instruments	2014	1 Jan 2018
IFRS 10	Consolidated Financial Statements	2011	1 Jan 2013
IFRS 11	Joint Arrangements	2011	1 Jan 2013
IFRS 12	Disclosure of Interest in Other Entities	2011	1 Jan 2013
IFRS 13	Fair Value Measurement	2011	1 Jan 2013
IFRS 14	Regulatory Deferral Accounts	2014	1 Jan 2016
IFRS 15	Revenue from Contracts with Customers	2014	1 Jan 2018

Source: Deloitte. 2015

3.2.1 Principle-based nature

IFRS is generally known to be principle-based. However, it does also include rule-based standards. Rule-based standards contain a list of predefined rules, which have to be obeyed in preparation of financial statements. Strict rules diminish a

possibility of a lawsuit since it gives a clear set of rules that have to be followed. They also reduce ambiguity, which could trigger aggressive reporting decisions by managers (Sargeant. 2016). On the other hand, the principle-based nature of IFRS reduces the complexity in the preparation of financial statements and enhances convergence with accounting standards across countries (Vincent et.al. 2003).

The principle-based nature of IFRS brings a conceptual basis for accountants. A set of key elements and objectives are set out in the standards to ensure good reporting. Some common examples are provided to guide and clarify objectives. What is specifically interesting is that besides rules, which cannot be avoided, some rules set are not meant to be applied in every situation and sometimes heavily rely on the management's judgmental skills and the opinion of the auditor committee.

The fundamental advantage in the principle-based nature is in its broad guidelines and practical applications in a variety of circumstances. However, along with advantages comes the problem of inconsistent information and difficulty to make a comparison between several organizations, due to the lack of guidelines and strict rules as in rule-based standards. Managers can manipulate the statements to fit compulsory parts of a standard by evaluating the significance of some information for the company's operations. Therefore, after reaching an agreement with auditors, it might just result in the non-disclosure of specific aspects mentioned in a standard. (Sargeant. 2016)

The latitude inherent in the principle-based standards allows managers to choose accounting treatments, which would reflect their understanding of the underlying business transactions. This latitude permits manager to advocate reporting treatments. Therefore, it is important for managers and auditors to possess expert judgment along with a desire for unbiased reporting. Only then can conceptual standards result in a proper reflection of underlying business activities. IASB supports this view and places focus on the quality rather than simply acceptability of financial reporting. (Vincent et.al. 2003)

3.3 Valuation principles

The valuation principle is a method according to which an item is recorded on the balance sheet. It helps to estimate the worth of an asset or company. Some valuation principles are:

- original acquisition cost
- fair value
- replacement cost
- net realizable value
- value in use

Acquisition cost (historical cost) is based on the original value of an item. It has been widely used in most countries due to its verifiability. The value of an asset can be easily proved with a source document (bill, receipt). However, in the times of high inflation, acquisition cost proved to be unreliable and not realistic in portraying a company's operations and financial position. Many countries started to use the replacement cost principle instead of recording the acquisition cost on the balance sheet. It has happened in the Netherlands and Great Britain, and to a limited extent, Finland has also allowed the use of replacement cost. The situation has changed with the introduction of IFRS accounting standards on fair value.

Americans' attitude has always been strict on revaluation, expect for financial instruments. IFRSs are more permissible. In addition, there are a separate IFRS, IAS 29 issued in 2001, and the U.S. corresponding standard SFAS 89 issued in 1989 for hyperinflationary economies. (Troberg, 2013)

IAS 16 (revised 2003) regulates accounting for property, plant and equipment. According to it the entity must choose either a cost model, where an asset is recorded at acquisition cost with subtraction of any accumulated depreciation and impairment, or revaluation model, where the item shall be recorded at the fair value (market value) if it can be reliably measured minus depreciation and impairment losses.

As the result of tight cooperation between International Accounting Standards Board (IASB) and Financial Accounting Standards Board (FASB), a common framework for measuring fair value has been developed, which lead to the appearance of IFRS 13 in 2011. The fair value principle has been considered relevant in economic decision-making and IASB is moving towards wider use of fair value. (Troberg, 2013)

3.3.1 Acquisition (historical) cost accounting and FAS

Finnish Accounting Standards (FAS) emphasize traditional acquisitions, or in other words, historical cost accounting. This principle means that if a company owns a factory, that factory has to be recorded at historical cost on the balance sheet. An asset should be valued according to the time of the exchange transaction and this value is recognized as how much an asset is worth on the balance sheet. Any changes in a fair market value have to be neglected in the accounting system. In this way, historical cost helps to differentiate an item's original cost of its current, replacement, or inflation-adjusted cost.

However, FAS allows measurements at a market value, record fair value of a land, water area or security if it is permanently and significantly higher than its acquisition cost (Jarva and Lantto, 2012).

Acquisition cost can be easily proven with the help of a receipt, bill or any other trade document. However, it does not necessarily represent the current fair value of the asset, liability or equity investment due to its divergence over time. Some adjustments on the costs of long-term assets are required over time. They include depreciation and impairment losses recorded on the item. However, despite the historical cost measurement being reliable, it still portrays an excessively conservative picture of a company and is currently under review, moving towards measurement of fair value.

3.3.2 Fair value

Many accounting standards use fair value to define the value of an asset because it is regarded as more relevant. Prices are recorded at orderly transaction. Assets and liabilities are presented at the current market price, meaning that if the company decides to sell securities it owns on the balance sheet, it will receive the amount of money stated on the balance sheet. Fair value assumes a hypothetical transaction to sell an asset at the measurement date recorded on the balance sheet. According to Emerson, Karim and Rutledge (2010, p.80): "The crux of what is labeled "fair value accounting" includes: (1) asset and liability recognition, (2) the treatment of income as a residual, and (3) the expectation that balance sheet values sum to the market valuation of the company".

However, fair value has been blamed for dubious practices and is considered less objective than historical cost. In 1929, the greatest stock market crash in the history of the United States happened, nowadays known as Black Tuesday. Some assume this happened because of valuation overstatements resulting from fair value estimates. From the 1930s until 1970s it was virtually banned by the United States Securities and Exchange Commission (Ramanna, 2013). Holthausen and Watts (2001) claim that fair value accounting is not relevant or predictive enough and it does not provide explanatory powers of accounting information.

Yet, fair value measurement continues to be extensively used in derivative and hedge accounts, financial assets, goodwill impairment testing etc. One reason behind the extensive use of fair value is the finance theory that states, "financial markets are efficient and their prevailing prices are a reliable measure of value" (Ramanna, 2013). It resulted in the creation of a separate standard on fair value determination on May 12, 2011.

3.4 IFRS 13

On 12 May 2011, the International Accounting Standards Board (IASB) issued a new accounting principle IFRS 13 Fair Value Measurement. IFRS 13 came into force for annual reports issued on or after 1 January 2013. It describes three major aspects:

fair value definition, a single IFRS framework on measuring it, and disclosures about fair value measurement (IFRS, 2013). The standard can be applied both to financial and non-financial items and is related to all transactions and balances. However, it does not include requirements on when fair value has to be applied. Examples of fair value measurement within the scope of IFRS 13 are listed in table 2 below.

Table 2 Fair value measurement within the scope of IFRS 13

IFRS	Required	Permitted	Details
IFRS 3	x		Acquisition-date fair value of consideration transferred. Required of most assets and liabilities acquired.
IFRS 5	x		Non-current assets for sale and disposal groups (measured as fair value less costs to sell)
IAS 16		x	Revaluation of plant, property and equipment at fair value
IAS 19	x		Defined benefit plan assets (fair value measured)
IAS 27,28 and 31		x	Measurement of investments in subsidiaries, associates or jointly controlled entities (at fair value)
IAS 36	x		In the establishment of recoverable amount (measured as fair value less costs to sell)
IAS 38	x		Revaluation of intangible assets
IAS 39	x	x	Depends on the type of financial instrument
IAS 40	x		Investment property is valued at fair value
IAS 41	x		Biological assets and agricultural produce (at fair value)

In IFRS 13 the emphasis is only put on how to measure fair value when it is required or permitted by another accounting standard (Grant Thornton, 2011). For example, IAS 40 Investment Property requires items to be recorded at their fair value on a recurring (ongoing) basis. IAS 16 permits fair value measurement in the revaluation of property, plant and equipment. IAS 39 requires or permits measurement at fair value depending on the type of financial instrument. Other accounting principles may require fair value only on the initial recognition of an item (i.e. in IFRS 3 Business Combinations). (Deloitte, 2011)

Table 3 The change in definition of fair value for a financial liability

Previous IAS 39 (IFRS 9)	New IFRS 13
Fair value is "the amount for which an asset could be exchanged, or a **liability settled**, between knowledgeable, willing parties in an arm's length transaction".	Fair value is "the price that would be received to sell an asset or paid to **transfer a liability** in an orderly transaction between market participants at the measurement date"

Source: Deloitte, 2013

The new definition of fair value used in IFRS 13 replaced the previous definition in IAS 39 Financial Instruments, Recognition and Measurement (and IFRS 9, Financial Instruments). The price used in the new definition of IFRS 13 can also be referred to as an exit price. The revised definition of the fair value for a liability is not based on a settlement notion but rather on a transfer notion. "The argument for not including own credit risk in financial liability fair values no longer holds" (Deloitte, 2013, p.1). It emphasizes that fair value is not an entity-specific measurement but rather a market-based. Fair value measurement involves assumptions, which market participants would use in pricing the asset, involving risks associated with current and future market conditions.

Table 4 Key definitions in the scope of IFRS 13

Active market	"A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis".
Exit price	"The price that would be received to sell an asset or paid to transfer a liability".
Highest and best use	"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 (e.g. a business) within which the asset would be used".
Most advantageous market	"The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs".
Principal market	"The market with the greatest volume and level of activity for the asset or liability".

Source: Aljedaibi. 2014

Table 4 includes the key definitions used in IFRS 13. These definitions are of great importance in order to understand the discussed standard.

According to IFRS, a fair value measurement requires to determine the following:

- the particular asset or liability which is being measured
- the best use of the asset (if it is non-financial asset) and whether it is used in combination with some other assets or alone
- the market in which the orderly transaction occurs
- the appropriate valuation technique to measure fair value. It has to maximize fair value accuracy through using the most relevant observable inputs which have to be consistent with those which will be used in pricing the asset (or liability). (IFRS, 2013)

If the transaction is not directly observable in the market, a valuation technique can be applied. IFRS 13 lists three valuation techniques by which a fair value can be determined: market approach, income approach and cost approach. The market approach means an entity "uses prices and other relevant information generated by market transactions involving identical or comparable (i.e. similar) assets, liabilities or a group of assets and liabilities" (IFRS, 2013). The income approach means an entity "converts future amounts (e.g. cash flows or income and expenses) to a single

current (i.e. discounted) amount" (Deloitte, 2011). The cost approach means an entity uses a value, which "reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost)" (IFRS, 2013).

In the application to liabilities and an entity's own equity instruments, a fair value measurement assumes that a liability, whether financial or non-financial, or an entity's own equity instrument, is transferred at the measurement date. Other assumptions are that:

- Liability remains outstanding while the market participant transferee is required to fulfill the obligation;
- Entity's own equity instrument will remain outstanding while the market participant transferee is acting according to rights and responsibilities associated with an instrument.

3.4.1 Fair Value Hierarchy

Fair value hierarchy is used to enhance consistency and comparability in fair value measurements and disclosures. Previously, the hierarchy was applied only to financial instruments. Since the adoption of IFRS 13, fair value hierarchy is used for inputs to fair value measurement of both financial and non-financial items. Fair value hierarchy consists of three levels, which are portrayed in the picture below.

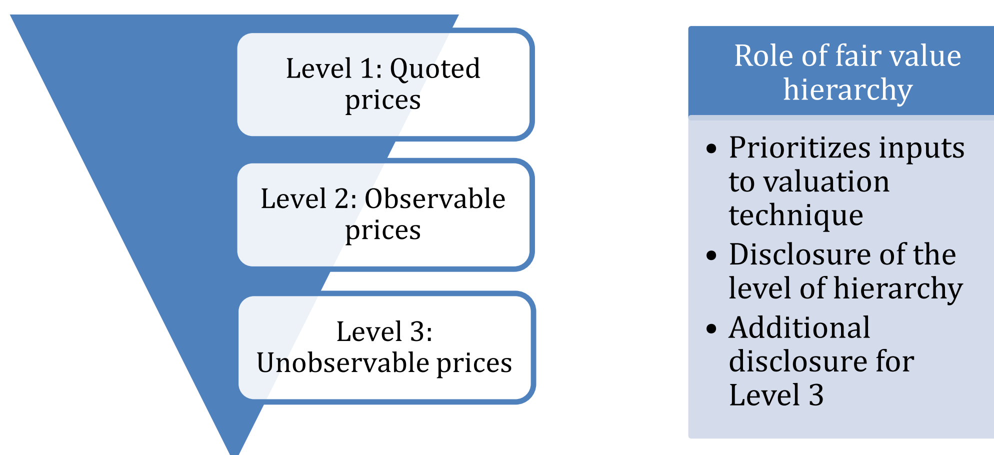

Figure 1 Fair value hierarchy

As per paragraph IFRS 13:76, Level 1 inputs are “quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date”. Those inputs are the most reliable and therefore should be used to measure fair value whenever available and without adjustments. Those inputs are often available for financial assets and financial liabilities across different active markets. As Yarnold and Ravlic (2014) described, the emphasis in those inputs is to determine the most appropriate market along with the possibility to complete the transaction at the measurement date.

Level 2 inputs are “inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly” [13:81]. Terms and conditions surrounding assets and liabilities with contractual obligations are also taken into consideration and guide the decision in whether inputs can be considered to be observable for the lifespan of the asset or liability. Adjustments within this category of inputs are allowed and depend on the asset’s condition and comparability to the asset or liability, along with the level of market activity. When adjustments to Level 2 inputs are significant, it may result into measurement of fair value within Level 3 inputs, where significant unobservable inputs will have to be disclosed. (Yarnold &Ravlic. 2014)

Level 3 inputs allow fair value measurement in the conditions when there is a lack of an active market to be relied upon. Those inputs are defined as “unobservable inputs for the assets or liability” [13:86]. There is a risk associated with estimation of fair value assumptions and therefore, in order to use the best estimations, different professionals and institutions may rely on diverse valuation techniques. The problem of estimates has been explicitly discussed. However, IFRS 13 is in place to make valuation techniques and assumptions used in Level 3 estimates more transparent to reduce risk for investors, and other users of financial statements, in their decisions. As Sundgren (2013) concludes, correct disclosures should make it possible to reduce risk in investor decision-making through the opportunity to evaluate the estimates that the company has made.

The hierarchy is used to categorize inputs to valuation techniques into three levels, quoted prices, observable prices and unobservable prices. The highest priority is given to Level 1, quoted (unadjusted) prices for identical assets and liabilities in an

active market. Those items are considered to be the most reliable. While the lowest priority is given to Level 3: Unobservable prices. Thus, an entity should aim to maximize the use of Level 1 inputs. Level 2 are directly or indirectly observable inputs that cannot be included into Level 1.

The following figure illustrates how fair value hierarchy can be presented in financial statements. Fair value hierarchy includes three levels and those levels are shortly explained below, followed by the table, which summarizes recurring assets and liabilities carried at fair value.

Fair value hierarchy[2]

The table below analyses recurring assets and liabilities carried at fair value. The different levels are defined as follows.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

In thousands of euro	Level 1	Level 2	Level 3	Total
Standing timber	-	-	4,193	4,193
Livestock	-	-	912	912
Total biological assets	-	-	5,105	5,105
Real estate for rental	-	-	2,170	2,170
Total investment property	-	-	2,170	2,170

Figure 2 Representation of fair value hierarchy example

Source: (KPMG. 2013)

3.4.2 Disclosures

In addition to the fair value hierarchy, which provides guidance on valuation techniques on fair value measurement, the standard has a set of disclosure requirements to provide extensive information of assets and liabilities. The information is aimed to help users of financial statements assess the following:

- Valuation techniques and inputs used to develop fair value measurements for assets and liabilities (on a recurring or non-recurring basis) in the statement of financial position after initial recognition

- The effect of measurements on profit and loss (or other comprehensive income for the period) for recurring fair value measurement, which involves significant portion of unobservable inputs (Level 3). (IFRS, 2013)

In some cases the measurement and disclosure requirements do not apply. Such cases are:

- IFRS 2 Share-based Payment (share-based payment transactions)
- IAS 17 Leases (leasing transactions)
- Measurements that only have similarities to fair value and are not actual fair value, i.e. net realizable value (IAS 2 Inventories) and value in use (IAS 35 Impairment of Assets).

Further, disclosure requirements do not apply for the following:

- IAS 19 Employee Benefits, plan assets measured at fair value
- IAS 26 Accounting and Reporting by Retirement Benefit Plans, retirement benefit plan investments measured at fair value
- IAS 36, assets with a recoverable amount of fair value less costs of disposal. (IFRS, 2013)

Since disclosures are differentiated, a class should be determined for an asset or liability. The class is defined based on the nature and risks of an asset (or liability) including the categorized level of fair value hierarchy. Some disclosure requirements depend on whether it is a recurring or non-recurring fair value measurement. Recurring means that fair value is required or permitted by another IFRS to be recognized in the statement of financial position at the end of the accounting period (for example, financial instruments). While non-recurring means that fair value is required or permitted by another IFRS to be recognized in the statement of financial position on a specified occasion (for example, a non-current asset held for sale under IFRS 5).

However, there is a set of specific disclosures required for each class of assets and liabilities to which fair value measurement has been applied. Each class of assets

and liabilities is obligated to meet the following minimum disclosure requirement (IFRS. 2013):

- Fair value measurement has to be disclosed at the end of a reporting period
- The reasons for the measurement for non-recurring fair value measurements has to be specified
- Level of the fair value hierarchy in which inputs are categorized has to be disclosed (Level 1, 2 and 3)
- Valuation technique and inputs have to be described

Table 5 IFRS 13 disclosure requirements

	Recurring	Non-recurring
General		
o Fair value at the end of the reporting period	x	x
o Explanation (reasons for the measurement)		x
General (fair value hierarchy)		
o Level (1, 2 or 3) in which the valuation falls*	x	x
o Determination policy (when transfers between hierarchy levels occurred)	x	x
o Reasons for transfers between hierarchy levels	x	
o Description of valuation techniques and inputs (Level1,2 or 3) used in fair value measurement*	x	x
Disclosures specific to Level 3		
o Quantitative information has to be presented about significant unobservable inputs used in the measurement of fair value*	x	x
o Reconciliation related to fair value changes. (The following attributes have to be separately disclosed: 1. Total gains/losses recognized in profit or loss and the line item where gains/losses were recognized; 2. Total gains/losses recognized in other comprehensive income and the line item where they were recognized; 3. Purchases and sales, issues and settlements; 3. Transfers from or into Level 3.)	x	
o Total gains/losses in profit or loss in relation to the unrealized gains or losses change (for measurements within Level 3)	x	
o Valuation process description (used in Level 3 measurements)	x	x
o Narrative description, sensitivity analysis (for Level 3 measurements)	x	
o The effect of altering an unobservable input (where it will significantly change fair value)	x	

Other requirements		
o For non-financial assets an explanation of where highest and best use differs from current use must be provided	x	x
o For liabilities which are measured at fair value and issued with inseparable credit enhancement from the third party, the existence of the credit enhancement must be provided with a statement whether it is reflected in liability related fair value measurement	x	x
o Disclosure of the fact if exception of measuring a group of financial assets and financial liabilities (on the basis of the net position) occurred.	x	x

*disclosure requirements also have to be applied to assets and liabilities for which fair value is disclosed in the financial statements (even if they are not measured at the fair value).

The list is a general summary and additional specific disclosure may be required where necessary. (GrantThornton, 2011)

3.4.5 Financial instruments

Accounting for financial instruments is one of the most challenging areas for IASB to provide guidance on. International accounting standards for financial instruments have been developing since the late 1990s. Ever since, requirements for financial instruments have been proved to be the most controversial among IFRSs. In 2010 IASB was put under pressure from G20 nations and the European Union to revise the standard and guidance on financial instruments. (Elliott & Elliott. 2011)

International financial markets are highly dynamic, which results in a great variety of available financial instruments. Examples of financial instruments are equity and debt instruments, derivative instruments, i.e. swaps and futures. Contingent consideration can also be classified as an asset or a liability, which should follow disclosures of financial instruments (IASPlus. 2016). Instruments can play a significant role in the risks a company faces and represent both on and off balance sheet instruments. In December 2003 IAS 32, Financial instruments: Presentation was introduced and became effective on or after January 2005. It considered only how financial instruments have to be presented and highlighted the range of financial instruments used by a company and their effect on the financial position, performance and cash flow. A subsequent standard, IAS 39 has included recognition and measurements associated with financial instruments.

In 2005 the new standard, IFRS 7, Financial Instruments was issued and became effective on or after January 2007. The standard applies to all entities regardless of quantity measured under financial instruments. Disclosure requirements are dependent on the exposure to risk and the extent to which financial instruments are used. In general IFRS 7 required the following disclosures:

- Significance of the financial instrument
- Qualitative and quantitative information in regards to exposure to risks in financial instruments (minimum disclosures included credit, liquidity and market risks)

Quantitative information is supposed to give an insight into the extent to which a company is exposed to risk. While qualitative disclosures are aimed to help the user of financial statements understand management's objectives and policies both in valuation of instruments and processes for managing risks. (Elliott & Elliott, 2011)

Fair value hierarchy has been previously discussed and required by IFRS 7, Financial Instruments: Disclosures. IFRS 13 is comparable to IFRS 7 with certain incremental requirements. Some disclosure requirements remained the same, however, there are also significant changes in the new standard. In the table below, disclosure requirements, which were moved from IFRS 7 into IFRS 13, are presented. (KMPG, 2011)

Table 6 Financial Instruments disclosures under IFRS 7 and IFRS 13

Old requirement under IFRS 7	New requirement under IFRS 13
IFRS 7.27	IFRS 13.39(d)
IFRS 7.27A	IFRS 13.72
IFRS 7.27B(a)	IFRS 13.93(b)
IFRS 7.27B(b)	IFRS 13.93(c)
IFRS 7.27B(c)	IFRS 13.93(e)
IFRS 7.27B(d)	IFRS 13.93(f)
IFRS 7.27B(e)	IFRS 13.93(h)(ii)

Listed requirements remained the same for IFRS 13, except the incremental requirement 7.27B(b) "any significant transfers between Level 1 and Level 2 of the

fair value hierarchy and the reasons for those transfers" must be disclosed. In IFRS 13 the word 'significant' is left out meaning that transfers between Level 1 and Level 2 of any amount must be supported by the reason of the transfer in addition to the entity's policy for determining when the transfer has occurred. However, some significant changes in disclosure requirements to Financial Instruments have occurred due to adoption of IFRS 13. New requirements are specified in tables 7 and 8.

Table 7 New disclosure requirements under IFRS 13 specific to Level 3 inputs

Paragraph (IFRS 13)	Overview of difference, extract from requirement
13:93(d)	"For fair value measurements categorized within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement"
13:93(g)	"For recurring and non-recurring fair value measurements categorized within Level 3 of the fair value hierarchy, a description of the valuation process used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period)"
13:93(h)(i)	Incremental requirement: "For recurring fair value measurements categorized within Level 3 of the fair value hierarchy: (i) For all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d)."
13:94	"The number of classes may need to be greater for fair value measurements categorized within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity… an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position." Previously IFRS 7 also had a requirement of fair value disclosure by class to be able compare it to the carrying amount. IFRS 13 significantly specified the requirement including disaggregation of Level 3."

Source: PwC. 2013

Table 7 lists those parts of the paragraphs, which present new requirements in the disclosure of unobservable inputs that are expected to be subject for significant change in the note section.

The following table includes other new disclosure requirements and significant changes under IFRS 13 in comparison to IFRS 7.

Table 8 New disclosure requirements under IFRS 13

13:95	"An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognizing transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following: a. The date of the event or change in circumstances that caused the transfer. b. The beginning of the reporting period. c. The end of the reporting period."
13:96	"If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact." Paragraph 48 states that an entity, which holds financial assets and liabilities is exposed to market and credit risks of each of the counterparties. If an entity manages such assets or liabilities on the basis of its net exposure to market or credit risks then an entity is permitted to apply an exception for measuring fair value.
13:97	"For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS."
13:98	"For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability."

Source: PwC. 2013

The tables listed the most crucial changes under IFRS 13. Disclosures on Level 3 inputs have been notably increased along with some other disclosure requirements on accounting policies and transfers between levels. Table 9 illustrates how the actual change may appear for contingent consideration in the note section of financial statements.

Table 9 Example of disclosure requirements on Financial Instruments under IFRS 13

	Extract of Note 34 – 'Financial Instruments – Accounting classifications and fair values'[1]
	Determination of fair values
	Financial liabilities
IFRS 13.93 (d)	**Contingent consideration**
IFRS 13.93 (h) (i)	Level 3: The contingent consideration liability arose from the acquisition of Papyrus Pty Limited, which includes a clause that entitles the seller to an amount of €600 thousand if the acquiree's cumulative EBITDA over the next three years exceeds a threshold. The fair value is determined considering the estimated payment, discounted to present value. The estimated payment is calculated applying the income approach, considering different scenarios of projected EBITDA, considering the amount to be paid under each scenario, weighted by the probability of each scenario. Key unobservable inputs include anticipated revenue rate of annual growth (3% to 8% depending on each scenario), the EBITDA margin (X to Y%) and the discount rate (10.5%). The estimated fair value increases the higher is the annual revenue growth rate, the higher is the EBITDA margin and the lower is the discount rate.
IFRS 13.93 (h) (ii)	Management considers that changing the above mentioned unobservable inputs to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

Source: KPMG. 2013

In the given example by KPMG, significant unobservable inputs were disclosed for contingent consideration under paragraph 93 (d) along with other requirements to disclose accounting policy, valuation techniques and interrelationships between inputs under paragraph 93 (h).

3.5 Previous research

Since and before the adoption of IFRS 13 there have been extensive discussions over the importance and impact of the new standard. The Big Four auditing companies provided with summaries and practical tips towards IFRS 13. PwC released *A practical guide to IFRS 13 disclosures*, where it explained what changes in disclosure requirements IFRS 13 brought in comparison to other IFRS standards. There have also been multiple researches done in this area. This section gives a glimpse into what is already known about IFRS 13's impact on disclosures from previous research.

After IFRS 13 was first introduced, Ittonen and Ahmed (2012) carried out a study of auditing fair value measurements and disclosures. The authors raised a problem of the rising demand in financial reporting along with continuous changes in accounting

frameworks, which lead to increased attention of reliability in fair value measurement. The frequent changes in accounting frameworks require high expertise and judgmental skills from both managers and auditors in measuring accounting estimates accurately.

It is arguable that fair value measurement presents challenges. The research showed that there are substantial problems towards measurements of fair value. It is difficult to obtain information about prices in a market, which is not even. This is why the application of fair value hierarchy and its disclosure is of great use. It was noted that for an auditor it is important to know how the accounting estimates were measured because “it helps auditors to evaluate the validity of internal control mechanism” (Ittonen & Ahmed. 2012). Auditors seek information related to reasonableness of accounting estimates and any changes occurred in accounting policies. Therefore, an enhanced and detailed note section in financial statements is crucial.

In 2014, Yarnold and Ravlic conducted research on IFRS 13 and its influence on investment decisions. The authors investigated whether changes under IFRS 13 had any influence on said investment decisions. The concern was that the new principle may not make significant differences to all investors and some may not notice the change. The reason for this laid in the insufficient investor experience of IFRS 13 since only one annual report was built according to IFRS 13 by the time research was carried out. However, the main outcome was that indeed, increased disclosure requirements and consequent enhancement of clarity in financial reporting have been useful to interviewed investors in their decision-making.

In Yarnold and Ravlic’s research, one of the interviewed investors also brought up the importance and impact of IFRS 13 on the industrial sector. In regards to industrial companies, since valuation methods are already aligned to IFRS 13, the main difference should be in supplementary information (disclosures), which is provided in the note section. Another important change for investors was in paragraph 94, increased classification of assets and liabilities, which provided investors with more information. The research paper includes an interesting discussion of investor expectations and suggested improvements for IASB regarding the standard. One of these improvements was the suggestion to revise the

accounting best practices and disclose fair values for financial assets and liabilities, which significantly differ from historical value.

All in all, with the implementation of IFRS 13, most of the standards related to fair value have been gathered under the single framework of IFRS 13. It made it easier for companies to understand and follow guidelines set by IASB. Thus, together with increased disclosure requirements, it is believed to increase the understandability of information available to investors. The authors also pointed out on Level 3 inputs, unobservable prices, which are hard to control and are prone to bias and error. (Yarnold & Ravlic. 2014)

4. RESULTS AND DISCUSSION

The results are summarized in table 10 for the first part of the empirical research and tables 11-12 for the second part. The main result of the empirical study was that IFRS 13 had extended disclosures of the note section. The first part of the research was intended to investigate the impact of the new requirements to disclose hierarchy levels on the note section. Extended disclosure requirements on non-financial items did not bring a change. However, the main effect was in the requirement to disclose levels for financial assets and liabilities not measured at fair value but for which fair value is disclosed, and also for contingent consideration with significant unobservable inputs. Extended disclosure requirements on Level 3 inputs were also subject to a change in the note section for financial instruments. This part of the research compared disclosures of financial instruments under IFRS 7 and IFRS 13. Additional disclosures in measuring contingent liability categorized at Level 3 were the main reasons for the change. Another interesting finding was that due to the principle-based nature of IFRS, not everything was disclosed by companies, as was stated in IFRS 13.

4.1 Disclosures under fair value hierarchy

19 companies were examined in how requirements under IFRS 13 affected the note section and findings are summarized in the table below. A detailed summary of what kind of instruments fell into each level can be found in the Appendix 1.

Table 10 Disclosure of fair value hierarchy levels

Company name	2012			2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Aspo Oyj		x			x	
Cargotec Oyj		x			x	
Cramo Oyj	x	x			x	
Finnlines Oyj		x			x	
Huhtamäki Oyj	x	x		x	x	
KONE Oyj	x	x	x	x	x	x
Konecranes Oyj		x			x	
Lassila & Tikanoja Oyj		x	x		x	x
Lemminkäinen Oyj		x	x		x	x
Outotec Oyj	x	x	x	x	x	x
PKC Group Oyj		x	x		x	x
Ponsse Oyj		x			x	
Pöyry Oyj		x	x		x	x
Ramirent Oyj		x			x	x
SRV Yhtiöt Oyj		x	x		x	x
Tikkurila Oyj		x	x		x	x
Uponor Oyj	x	x	x	x	x	x
Vaisala Oyj		x			x	
Wärtsilä Oyj Abp	x	x	x		x	x

The primary aim of the table is to show what kind of inputs in the measurement of fair value both financial and non-financial instruments had, which had to be disclosed under IFRS 13. Thus, gathered data can be split into two subsections in the table. The first subsection relates to the year 2012, before adoption of IFRS 13. Here, fair value hierarchy was applied only to financial instruments. The second subsection relates to the year after IFRS 13 became affected, the year 2013. Three levels are defined according to fair value hierarchy: level 1 (quoted inputs), level 2 (observable prices), Level 3 (unobservable inputs). Companies, which had a certain level of

inputs, were marked as x under the level. If no inputs were found, the related cell remained blank.

Most companies' note section was not influenced by new requirements on the disclosure of levels of fair value hierarchy. Mainly there were no transfers between levels and no new levels of inputs were disclosed. For example, Aspo Oyj had level 2 inputs in the year 2012 and representation of levels remained the same in the year 2013. In Appendix 1, there are details on what kind of instruments had observable inputs (level 2). In this case, only financial instruments were measured using observable inputs: currency forwards and interest rate swaps in the year 2012 and only interest rate swaps in the year 2013. None of the companies had non-financial instruments, which would require additional disclosure of the level of inputs used in its measurement under IFRS 13. Therefore, for Aspo Oyj and as for other case companies there was no such effect of the new principle on the note section.

The table shows that some companies had changes in the representation of levels of inputs. Some of such changes were not due to implemented IFRS 13. Similar to the case of Aspo Oyj, where there were no changes in the levels of inputs, only the representation of financial instruments has changed because of other than new disclosure requirements reasons. Wärtsilä Oyj Abp sold Lyxor ETF MSCI Emerging Markets shares in 2013, which were measured using quoted prices in year 2012. Therefore, there are no Level 1 inputs in 2013.

Another interesting case is Cramo Oyj. Referring to the table 10, Cramo Oyj had level 1 and level 2 inputs in 2012 but only level 2 inputs in 2013. The change came because in 2012 interest-bearing liabilities were measured using quoted prices (Annual report 2012). In 2013 they were measured using observable prices (Annual report 2013).

Ramirent Oyj had level 2 inputs in 2012 while level 2 and level 3 inputs in 2013. This change in the representation of levels of inputs was caused by an implemented IFRS 13 principle, which required additional disclosure of contingent consideration, which is measured at fair value initially and subsequently using unobservable inputs. In the case of Ramirent Oyj contingent consideration was measured using "inputs for the asset or liability that are not based on observable market data" (Ramirent Oyj.

Annual report 2013), therefore quantitative information, regarding level 3 inputs was disclosed. Same change in the note section occurred for Uponor Oyj since it had a contingent consideration at Level 3. Other companies also had contingent considerations but the level of inputs has not been disclosed because measurements did not include significant unobservable inputs. For example, in the case of KONE Oyj, levels of inputs were disclosed only for financial instruments: Electricity price forward contracts (level 1) and foreign exchange forward contracts and swaps, including cross-currency swaps (level 2) (Appendix 1).

In the case of Tikkurila Oyj, it had both level 2 and level 3 inputs for years 2012 and 2013. However, in 2013 the level of inputs was disclosed also for non-current receivables and non-current financial liabilities. According to paragraph 13:97, for financial assets and liabilities not measured at fair value but for which fair value is disclosed an entity shall disclose the information required by paragraph 93(b) including "the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3)". This requirement also affected other companies, Cramo Oyj, Lassila & Tikanoja Oyj and Wärtsilä Oyj Abp, on Level 2 inputs. Another interesting impact of IFRS 13 on financial statements of Tikkurila Oyj is the requirement to disclose contingent consideration (non-current liability) as Ramirent Oyj and Uponor Oyj did. In 2013 there were no contingent liabilities for Tikkurila Oyj. However, in the comparison period of the 2013 annual report contingent consideration was disclosed including the level of inputs (Level 3).

Huhtamäki Oyj disclosed quantitative information and the type of inputs used in financial instruments measured at fair value on a recurring basis. The types of inputs were described as quoted prices in active market or observable market data. The levels 1, 2 or 3 were not mentioned, and there was no reference to the fair value hierarchy in the financial statements for years 2012 and 2013.

The concept of fair value hierarchy was already applied in IFRS 7, financial instruments and the definition of Levels has not changed. However, IFRS 13 to some extent extended disclosures of fair value hierarchy levels in the note section of discussed companies. The main change in additional disclosures was not due to the extended requirement to disclose the level of inputs used in fair value measurement

for non-financial items. Additional disclosures of levels were applied to financial assets not measured at fair value but for which fair value is disclosed (case of Tikkurila Oyj, Cramo Oyj, Lassila & Tikanoja Oyj and Wärtsilä Oyj) and for contingent liabilities measured at fair value initially and subsequently using unobservable inputs (case of Ramirent Oyj, Uponor Oyj and Tikkurila Oyj). Other companies were not discussed since no change in representation of fair value hierarchy levels has been identified.

4.2 Financial Instruments

The second part of the research was aimed to investigate what new requirements IFRS 13 brought to the disclosure of financial instruments under fair value hierarchy, if such changes occurred. Findings are summarized in two tables listed below; the first table includes companies, which did not have any Level 3 inputs in their fair value measurement, while the second table specifically combines results for companies, which had Level 3 inputs. This division in the presentation of data allows to process it in two subsets in order to clearly see whether the main effect of IFRS 13 is focused on Level 3 inputs, as can be assumed from the nature of the new principle and its guidelines on unobservable inputs.

Table 11 Financial Instruments (companies, which do not have Level 3 inputs)

Paragraph (IFRS 13)	13:93(d)	13:93(g)	13:93(h)(i)	13:94	13:95	13:96	13:97	13:98
Aspo Oyj								
Cargotec Oyj						x		
Cramo Oyj							x	
Finnlines Oyj								
Huhtamäki Oyj								
Konecranes Oyj								
Ponsse Oyj								
Vaisala Oyj								

Table 11 summaries findings on new disclosures under IFRS 13 for companies, which do not have Level 3 inputs. If a certain requirement has been applied, the corresponding cell is marked as x, otherwise remained blank.

New reporting standards described in paragraphs 13:93 (d), 13:93 (g), 13:93 (h)(i) and 13:94 are applied to Level 3 inputs and therefore did not affect companies listed in the table. Paragraph 13:95 is applied when transfers between levels are deemed

to have occurred in accordance with paragraph 93 (c) and (e) (iv). Since no transfers between levels were recognized and disclosed, the paragraph did not have any impact on disclosures in the note section of any company. However, an interesting case of Cramo Oyj is discussed below. Paragraph 13:96 also had no impact if none of the companies made a decision to have an exception in accounting policies following paragraph 13:48. Only Cargotec Oyj had such an exception and disclosed the fact in the note Financial instruments by category and Derivatives. Paragraph 13:98 had no impact on the note section of any of the companies.

Cramo Oyj stated in the annual report of 2013 that "IFRS 13 Fair Value Measurement…had no impact on the Group's disclosures". However, investigation on the note section of fair values of financial assets and liabilities showed that there has been an effect on disclosures. According to IFRS 13, paragraph 97 the level of inputs has to be disclosed, "For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed". This requirement brought changes to disclosure of fair value hierarchy levels for all assets and liabilities for which fair value was disclosed. Moreover, in the report for 2012, Cramo identifies non-current interest bearing liabilities as Level 1, while as Level 2 in the report for 2013. If such a transfer out of Level 1 occurred, Cramo would have to disclose the fact, the reason and the policy behind the transfer, according to 13:95. This has not been disclosed in the annual report of 2013. The reason for not disclosing this information can be the principle-based nature of IFRS. There is some flexibility to disclose information. Since the annual report was audited, it might be that the transfer between levels has not been significant to Cramo's operations and therefore reasons and accounting policies behind the decision were not disclosed.

Huhtamäki Oyj "has amended financial asset and liability disclosures accordingly" (Huhtamäki Oyj annual report. 2013). In the financial statements of 2013, the group has disclosed information on the approach in determining the fair value (income approach) and inputs used (foreign exchange rates, interest rates, yield curves and implied volatilities). This was not among the new requirements of IFRS 13. Similar to Huhtamäki Oyj, Konecranes Oyj has also disclosed new information in 2013. Note on fair values of derivative financial instruments include detailed valuation techniques used to measure Level 2 inputs.

For Finnlines Oyj and Ponsse Oyj, IFRS 13 had no impact on the consolidated financial statements. Financial instruments consisted only of derivatives for which fair value was presented with the corresponding fair value hierarchy level (Level 2). Similar, Vaisala Oyj did not have an impact of IFRS 13's new requirements. However, in Vaisala's report of 2013 the following information was included, "there were no transfers between the hierarchy levels during the financial period". Transfers between levels are related to new requirements under paragraph 13:95, which would have to be applied if such transfers had occurred.

Table 12 Financial Instruments (companies, which have Level 3 inputs)

Paragraph (IFRS 13)	13:93(d)	13:93(g)	13:93(h)(i)	13:94	13:95	13:96	13:97	13:98
KONE Oyj						x		
Lassila & Tikanoja							x	
Lemminkäinen Oyj				x				
Outotec Oyj						x		
PKC Group Oyj								
Pöyry Oyj		x				x		
Ramirent Oyj	x	x						
SRV Yhtiöt Oyj								
Tikkurila Oyj	x	x	x				x	
Uponor Oyj	x	x						
Wärtsilä Oyj Abp							x	

Table 12 above summarizes findings on new disclosures under IFRS 13 for companies, which have Level 3 inputs. If a certain requirement has been applied, the corresponding cell is marked as x, otherwise remained blank.

KONE Oyj and Outotec Oyj had an additional disclosure related to financial assets and liabilities with offsetting positions in market risks or counterparty credit risk. Additional disclosure under paragraph 13:96 was applied to derivatives.

In the annual report of 2013 for Lassila & Tikanoja it was stated that, "IFRS 13 has, to some extent, extended the scope of the notes to the financial statements". The change was brought by paragraph 13:97. The fair value hierarchy level has been additionally disclosed for assets and liabilities not measured at the fair value in the statement of financial position but for which fair value is disclosed. Additional disclosure was applied to non-current assets- finance lease receivables and non-

current financial liabilities- borrowings. Principles for determining fair value of financial assets and liabilities, including the valuation technique and the inputs used in the fair value measurements, have been already discussed in the annual report of 2012 prior to adoption of IFRS 13, since it was required by IFRS 7 paragraph 27. In a similar way, Tikkurila Oyj and Wärtsilä Oyj Abp additionally disclosed levels under paragraph 13:97.

Paragraph 13:94 did not have significant impact. However, Lemminkäinen Oyj has extended the number of classes for available-for-sale financial assets, which were separated into money market investments (Level 2) and equity instruments (Level 3). This extension can be viewed as a disaggregation of available-for-sale financial assets because of greater uncertainty in Level 3 inputs used in the measurement of equity instruments.

PKC Group Oyj "has expanded the notes presented of the items measured at fair value" (PKC Group Oyj annual report. 2013). PKC Group has derivatives and minor available-for-sale investments, which are measured at fair value. In the annual report of 2012 there were no clear guidelines on fair value hierarchy, instead the group referred to IFRS 7's certain paragraphs as an explanation for identified Level 2 and Level 3 inputs. In the report for the year 2013, the group had a detailed explanation of fair value hierarchy with levels of inputs, which are also clearly presented in the table Classification of financial assets and liabilities by valuation category 2013.

Pöyry Oyj added an explanation on the changes on fair value measurement within Level 3 as required by paragraph 13:93 (g). The following additional information was disclosed: "the change in level 3 compared to previous year is explained by fair value changes of such shares owned by group companies which are not denominated in euros, and/or selling of these shares". Besides, in contrast to 2012, in the annual report of 2013, Pöyry Oyj elaborated on the inputs of levels (for example as a type of input, the current bid price was used as a quoted market price, Level 1) and valuation methods and clearly stated that there were no transfers between level 1,2 and 3. Paragraph 13:96 also brought changes to the note section; the group specified the accounting policy related to financial assets and liabilities with offsetting positions in market risks.

Previously, under IFRS 7 an entity had been required to disclose fair value hierarchy for each class of financial instruments. However, the new requirement under paragraph 13:93 (d) brought new quantitative information on unobservable inputs. That is contingent consideration measured using Level 3 inputs. Ramirent Oyj, Tikkurila Oyj and Uponor Oyj have disclosed contingent considerations. All companies have also extended notes on the valuation process for contingent consideration. Uponor Oyj has a very detailed description of the valuation process applied to contingent consideration in 2013, as well as Tikkurila Oyj. Besides, Tikkurila Oyj extended the disclosure of valuation techniques applied to available-for-sale financial assets and forward exchange contracts. In addition, Tikkurila clearly applied minimum requirements under paragraph 13:93(h)(i). It disclosed information regarding interrelationships between unobservable inputs but not "how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement" [13:93(h)(i)].

Most of the companies, which did not have Level 3 inputs, were not influenced by IFRS 13's new requirements. Some of the companies, which had Level 3 inputs, were also not influenced by IFRS 13's new requirements. However, they still extended disclosures and clarified fair value hierarchy. Companies, which had contingent consideration measured using unobservable inputs have been influenced the most by IFRS 13. Such companies additionally disclosed quantitative information, fair value hierarchy levels, and valuation techniques used in measurements. Tikkurila Oyj has been most impacted by IFRS 13 in terms of the influence of new requirements on disclosures of financial instruments.

5. CONCLUSION

The internationalization of capital markets shaped the necessity for the creation of generally accepted ways for preparing financial statements. This does not exclude the need for harmonized financial reporting across countries and a clear, structured way in presenting financial data. IFRS was specifically introduced to help achieve transparency in financial reporting through an extended note section and specific disclosures that are an essential feature of IFRS, in comparison to Finnish Accounting Principles. IFRS brought a single framework of accounting principles, which are applied globally, including listed companies in Finland. This in turn should help investors understand financial statements and applied accounting practices better.

The focus of this research was on a specific reporting standard, IFRS 13 Fair Value Measurement. The standard clearly defined fair value and established a framework for measuring it. IFRS 13 did not extend the use of fair value but provided new disclosure requirements. The nature of disclosures relates to fair value hierarchy and levels under which inputs used in measurements fall. Fair value hierarchy was previously addressed in IFRS 7 Financial Instruments: Disclosures as a requirement to be disclosed for financial instruments. IFRS 13 extended this requirement to non-financial instruments and enhanced disclosures by requirements to provide certain information on significant unobservable inputs (Level 3), specify accounting policy and valuation techniques in certain cases and reasons for transfers between levels (including transfers between Level 1 and 2). It also extended requirements to the disclosure of fair value hierarchy for assets and liabilities not measured at the fair value but for which it is disclosed.

Since IFRS 13 became effective for annual periods beginning or after 1 January 2013, comparison of disclosures in annual reports for years 2012 and 2013 was done, with the limitation to fair value hierarchy. One of the main characteristics of IFRS 13, the extension of fair value hierarchy for non-financial instruments, did not have an effect on the note section of the examined companies. However, additional disclosures were shown for financial assets not measured at fair value but for which fair value is disclosed and for contingent liabilities with significant unobservable inputs, which are measured in accordance with IFRS 9 Financial Instruments.

The second part of the research looked deeper at the financial instruments since fair value hierarchy has been previously applied to them under IFRS 7. IFRS 13 has significantly expanded disclosures on Level 3 inputs. Empirical evidence showed that most companies, which had Level 3 inputs in their measurements, had been influenced by IFRS 13, at least to some extent. Additional disclosures on quantitative information and valuation policies applied in the measurement of the significant unobservable inputs related to contingent liabilities, were the main impact of IFRS 13 on disclosure of Level 3 inputs. On the other hand, companies, which did not have unobservable inputs had been slightly influenced or had not been influenced at all by new requirements.

The principle-based nature of IFRS has also an influence on the extent of the impact of standards on financial statements. Not all requirements under IFRS 13 were disclosed by some companies, which is likely due to non significance of non disclosed issues on the company's operations. Annual reports have to be approved with auditors and if the management can argument and justify the way the information is presented, it can be accepted by an audit committee. The way financial information is presented still has to be reasonable and must follow IFRS guidelines. However, some flexibility still exists.

At first glance, it may seem that the standard has no significant impact on the consolidated financial statements. Indeed, since the standard did not change valuation techniques or policies when fair value is applied, it is unlikely to have any material impact on the entity's financial statements. However, since fair value measurement is prevalent in IFRS, the research showed that IFRS 13 had an impact on the note section and expanded disclosures to bring more transparency to financial statements on valuation techniques and management policies, in particular to help investors in managing risk and to make uniform economic decisions.

The conducted research can be useful for anyone interested in the effect IFRS 13 had on the financial statements. It can be beneficial for IASB in the upcoming Post-Implementation Review, in order to have a broader picture of the results in the implementation of IFRS 13. In this paper disclosures on financial Instruments were examined more in detail. Further research can be done on disclosure requirements

for property, plant and equipment and investment property. Since industrial companies have to revalue their property, they might require bringing additional disclosures under IFRS 13 in the note sections in order to maintain transparency in accounting policies. Another development strategy can be to examine different market sectors as the influence and extent can vary depending on the industry. Finally, the impact of IFRS 13 could be assessed deeper by placing the study in a historical perspective taking into account recent years. This will allow to collect more data as some new requirements may show their significance only on certain occasions (such as when transfers between fair value hierarchy levels occur) and therefore not be vivid at first during the adoption year of IFRS 13.

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APPENDICES

Appendix 1 : Details on the fair value hierarchy levels

Table 13 Fair value hierarchy, Level 1 quoted inputs

Company name	2012 Level 1	2013 Level 1
Cramo Oyj	Non-current interest-bearing liabilities	-
Huhtamäki Oyj	Available-for-sale investments and electricity forward contracts	Available-for-sale investments and electricity forward contracts
KONE Oyj	Electricity price forward contracts	Electricity price forward contracts
Outotec Oyj	Available-for-sale financial assets	Available-for-sale financial assets
Uponor Oyj	Electricity derivatives	Electricity derivatives
Wärtsilä Oyj Abp	Listed shares (Lyxor ETF MSCI Emerging Markets)	-

Table 14 Fair value hierarchy, Level 2 observable inputs

Company name	2012 Level 2	2013 Level 2
Aspo Oyj	Derivatives	Derivatives
Cargotec Oyj	Derivatives	Derivatives
Cramo Oyj	Derivatives	Non-current interest-bearing liabilities, Derivatives Additional disclosures: non-current assets- interest-bearing receivables, current financial assets- cash and short-term deposits and current interest-bearing liabilities
Finnlines Oyj	Interest-bearing liabilities	Interest-bearing liabilities
Huhtamäki Oyj	Derivatives **Note:** no use of levels	Derivatives **Note:** no use of levels
KONE Oyj	Derivatives	Derivatives
Konecranes Oyj	All financial instruments	All financial instruments
Lassila & Tikanoja Oyj	Derivatives	Derivatives Additional disclosures: non-current assets- finance lease receivables and non-current financial liabilities-borrowings
Lemminkäinen Oyj	Available-for-sale financial assets (money market investments), Derivatives	Available-for-sale financial assets (money market investments), Derivatives

Outotec Oyj	Derivatives	Derivatives
PKC Group Oyj	Derivatives	Derivatives
Ponsse Oyj	Derivatives	Derivatives
Pöyry Oyj	Derivatives	Derivatives
Ramirent Oyj	Derivatives	Derivatives
SRV Yhtiöt Oyj	Derivative financial liabilities and available-for-sale financial assets (unlisted shares)	Derivative financial liabilities and available-for-sale financial assets (unlisted shares)
Tikkurila Oyj	Available-for-sale financial assets (non-current financial assets) and derivatives (in assets and liabilities)	Available-for-sale financial assets and derivatives (in assets and liabilities), Additional disclosure: non-current receivables and non-current financial liabilities
Uponor Oyj	Other derivative contracts	Other derivative contracts
Vaisala Oyj	Derivative contracts	Derivative contracts
Wärtsilä Oyj Abp	Derivatives	Derivatives

Table 15 Fair value hierarchy, Level 3 unobservable inputs

Company name	**2012**	**2013**
	Level 3	Level 3
KONE Oyj	Shares (under IFRS 7)	Shares (under IFRS 7)
Lassila & Tikanoja Oyj	Non-current available-for-sale-investments	Non-current available-for-sale-investments
Lemminkäinen Oyj	Available-for-sale financial assets (equity instruments), Derivatives	Available-for-sale financial assets (equity instruments), Derivatives
Outotec Oyj	Available-for-sale financial assets	Available-for-sale financial assets
PKC Group Oyj	Available-for-sale financial assets	Available-for-sale financial assets
Pöyry Oyj	Available-for-sale assets, shares	Available-for-sale assets, shares
Ramirent Oyj	-	Contingent consideration
SRV Yhtiöt Oyj	Available-for-sale financial assets (unlisted shares)	Available-for-sale financial assets (unlisted shares)
Tikkurila Oyj	Available-for-sale financial assets	Available-for-sale financial assets (Comparison period year 2012: contingent consideration)
Uponor Oyj	Other derivative contracts	Other derivative contracts Contingent consideration
Wärtsilä Oyj Abp	Unlisted shares (Sato Oyj and other shares)	Unlisted shares (other shares, Sato Oyj were sold)

Appendix 2: International Financial Reporting Standard 13, Fair Value Measurement

Disclosure

91 An entity shall disclose information that helps users of its financial statements assess both of the following:

(a) **for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements.**

(b) **for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.**

92 To meet the objectives in paragraph 91, an entity shall consider all the following:

(a) the level of detail necessary to satisfy the disclosure requirements;

(b) how much emphasis to place on each of the various requirements;

(c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this IFRS and other IFRSs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this IFRS) in the statement of financial position after initial recognition:

(a) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement. Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

(b) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).

(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

(d) for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, a description of the valuation technique(s) and the inputs used in the fair value measurement. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

    (i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.

    (ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.

    (iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).

    (iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the amount of the total gains or losses for the period in (e)(i) included in profit or loss that is attributable to the change in unrealised gains or losses relating to those assets and liabilities held at the end of the reporting period, and the line item(s) in profit or loss in which those unrealised gains or losses are recognised.

(g) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation

processes used by the entity (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with (d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

(a) the nature, characteristics and risks of the asset or liability; and

(b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the statement of financial position. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the statement of financial position. If another IFRS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this IFRS if that class meets the requirements in this paragraph.

95 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

(a) the date of the event or change in circumstances that caused the transfer.

(b) the beginning of the reporting period.

(c) the end of the reporting period.

96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.

97 For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this IFRS.

98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

99 An entity shall present the quantitative disclosures required by this IFRS in a tabular format unless another format is more appropriate.

Source: European Parliament. 2012