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THE SCOPE OF DISCLOSURES OF FAIR VALUE MEASUREMENT METHODS OF FINANCIAL INSTRUMENTS IN FINANCIAL STATEMENTS OF BANKS LISTED ON THE WARSAW STOCK EXCHANGE

Summary: The fair value is one of the most significant of valuation categories. The reliable assessment of the value of assets and liabilities contributes to the accuracy and usefulness of information presented in financial statement, which is essential for capital market participants. The purpose of this article is to present research results related to fair value disclosure of financial instruments in consolidated financial statements of banks listed on Warsaw Stock Exchange. The author put special emphasis on analysing the impact of changes in the scope of required disclosures on financial statements in the years 2009 and 2013 implemented by the International Accounting Standards Board (IASB). Within this analysis the author attempts to assess and classify the level of disclosure of fair value among the consolidated financial statements of examined banking units. Additionally in the article, it has been also determined the range of fair value disclosures and general techniques of fair value valuation in compliance with the guidelines included in the International Financial Reporting Standards (IFRS).

Keywords: Fair value, measurement, International Financial Reporting Standards (IFRS), financial statements, disclosure.

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1. Introduction

The introduction of fair value measurement to financial reporting as one of the applicable accounting measurements from the beginning have aroused much controversy among both accounting theorists and practitioners [Ronen 2008; Andre et al. 2009; Hitz 2007; Whittington 2008]. Proponents of fair value approach have believed that this is the only reasonable valuation method of financial instruments, including quoted on active markets or derivative instruments. Opponents of fair value have underlined the significant lack of reliability, when there is no market price for financial assets and liabilities.

With the introduction of fair value to International Financial Reporting Standards has been defined the scope of disclosures in an attempt to ensure a proper assessment of financial instruments value measured at fair value and thus motivating business units to make best efforts in order to determine its reliable value. These requirements have been included initially in IAS 32 *Financial Instruments: Disclosure and Presentation*, without significant changes have been relocated to the new standard IFRS 7 *Financial Instruments: Disclosures* in the year 2005.

The global financial crisis, which began in 2007, has caused a return to the discussion on the fair value. Extreme opinions of the experts – from identifying fair value accounting as the main cause of the financial crisis after its salutary nature of messenger, which allowed to reveal the symptoms of global crisis at the earliest – has induced the IASB to review required disclosures in this area. The global financial crisis emphasised the importance of having common fair value measurement and disclosure requirements – with identical wording – in IFRSs and US GAAP. The IASB amended IFRS 7 *Financial Instruments: Disclosures* (2009) and issued new standard IFRS 13 *Fair Value* (2011) as the response to the global economic and financial crisis [IASB Expert Advisory Panel, 2008; IFRS Foundation and IASB, 2011; The G20 Leaders, 2009].

This article presents general guidelines for determining the fair value of financial instruments in compliance with IFRSs and the results of research on the level of fair value disclosures in the consolidated financial statements of banks listed on the Warsaw Stock Exchange in the years 2005–2007. The author has analysed the impact of changes in the scope of required disclosures on financial statements in the years 2009 and 2013 implemented by the International Accounting Standards Board. Within this analysis the author has attempted to assess and classify the level of disclosure of fair value among the consolidated financial statements of examined banking units and verify the research hypothesis which states that the scale of fair value disclosure is higher with passing of time, because the process of learning influences on the higher level of compliance with IFRS requirements.

2. Related literature and studies

The scientific literature review has shown that researchers have considered the term of fair value disclosure from different perspectives, due to the fact that this term still remains a vast subject in the scientific environment. The non-Polish scientists have focused on theoretical and regulatory presentation within empirical research of this issue in the terms of: first adoption of IFRS 7, value relevance of the fair value hierarchy, effect of IFRS 7 disclosure on investor's risk perception or disclosure of financial instruments [Bosch 2012; Bischof 2009; Bischof, Ebert 2014; Birt, Rankin, Song 2013]. Polish scientists mostly perform the term of fair value disclosure in the range of regulatory changes and compliance with IFRS, based on the theoretical

approach, not on researching [Gierusz 2010; Świderska (ed.) 2010, 2011; Buk, Kostur (ed.), 2013; Żukowska 2013]. Furthermore, in both Polish and world literature could not have been found any research on the effect of IFRS 13 on the level of disclosing the fair value in financial statements.

The author has raised the issue of fair value disclosure from a different angle, which has not been performed so far in the literature. The article presents author's research on the scope of disclosure about fair value measurement methods of financial instruments in financial statements of banks listed on Warsaw Stock Exchange at the turn of the years 2005–2013, including the effect of regulatory changes introduced by IFRS.

3. Methods of estimating fair value of financial instruments

International Financial Reporting Standards define fair value as 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 [IASB 2014, p. A539].

The best indicator of the fair value of a financial asset and financial liability are quoted prices in an active market. A financial instrument is regarded as being quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. It is considered that a quoted price in an active market is the most reliable evidence of fair value and should be used to measure fair value of a financial asset and financial liability whenever available [IASB 2014, p. B1169].

When a financial instrument is not traded in an active market, its fair value should be determined using different valuation methods. In this situation entities should apply valuation techniques that are commonly used by market participants. The objective of using valuation techniques is to estimate the price of transaction of exchange of financial instruments between market participants at the measurement date under current markets condition. The International Accounting Standards Board (IASB) recognises three widely used valuation techniques [IASB 2014, p. A549; Gierusz 2010, p. 212, 213]:

- *market approach* – uses prices and other relevant information generated by market transactions involving identical or comparable (similar) assets, liabilities, or a group of assets and liabilities (e.g. a business);
- *cost approach* – reflects the amount that would be required currently to replace the service capacity of an asset (current replacement cost);
- *income approach* – converts future amounts (cash flows or income and expenses) to a single current (discounted) amount, reflecting current market expectations about those future amounts.

The inputs used in these valuation techniques are broken down into observable and unobservable inputs – according to new IFRS 13 issued in 2011. Observable inputs are developed based on market data obtained from independent sources. The IASB indicates examples of markets in which inputs might be observable for financial instruments: *Exchange markets*, *Dealer markets*, *Brokered markets*, *Principal-to-principal markets* [IASB 2014, p. A571].

Unobservable inputs are developed based on the best information available in the circumstances. Examples of unobservable inputs that are typically developed internally and should be disclosed include [IFRS 13 2014]: prepayment rates, credit risk adjustments, default rates (market participant-based assumptions), control premiums, loss severities, non-controlling interest discounts, adjusted valuation multiples, discounts for lack of marketability (illiquidity),growth rates, volatilities, adjustments to historical third-party transactions and quotations.

The typical valuation techniques of financial instruments are: *techniques based on discounted cash flows*, *option models*, *comparative methods (benchmarking)*.

The key is for the valuation techniques to maximise the use of observable inputs and minimise the use of unobservable inputs and, therefore, increasing of reliability of fair value measurement. The valuation techniques should arrive at a realistic estimate of fair value, i.e. reasonably reflect how market could measure the financial instrument.

4. The scope of disclosure methods of estimating fair value of financial instruments before the year 2009

International Financial Reporting Standards, and before that International Accounting Standards (IAS), have required disclosures of numerous information in the scope of using fair value as a measurement of financial instruments, including its valuation techniques.

Originally, the extent of required disclosures relating to fair value was regulated in IAS 32 *Financial Instruments: Disclosure and Presentation*.[1] The standard requires entities to disclose, especially [IASB 2003, p. 24, 25]:

- for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with the corresponding carrying amount in the balance sheet;
- the methods and significant assumptions applied in determining fair values of financial assets and financial liabilities separately for significant classes of financial assets and financial liabilities;

[1] IAS 32 was adopted by The Commission of the European Communities in Commission Regulation (EC) no 2237/2004 of 29 December 2004. The standard became effective from 1 January 2005.

– information, whether fair values of financial assets and financial liabilities are determined directly, in full or in part, by reference to published price quotations in an active market or are estimated using a valuation technique;
– information, whether its financial statements include financial instruments measured at fair values that are determined in full or in part using a valuation technique based on assumptions that are not supported by observable market prices or rates. If changing any such assumption to a reasonably possible alternative would result in a significantly different fair value, the entity shall state this fact and disclose the effect on the fair value of a range of reasonably possible alternative assumptions;
– information about the total amount of the change in fair value estimated using a valuation technique that was recognised in profit or loss during the period.

In December 2005 the IASB amended IAS 32 by relocating all disclosures relating to financial instruments (including fair value measurement) to IFRS 7 *Financial Instruments: Disclosures*. Consequently, the title of IAS 32 changed to *Financial Instrument: Presentation*. The obligation of applying IFRS 7 in EU countries became effective as from commencement date of their 2007 financial year at the latest [Commission Regulation (EC) no 108/ 2006, p. 2].

The disclosure requirements of IFRS 7 issued in August 2005 did not implement any significant changes relating to fair value disclosure of financial instruments. In particular, there were still required disclosures [Commission Regulation (EC) no 108/ 2006, p. 10, 11]:
– for each class of financial assets and financial liabilities, an entity shall disclose the fair value of that class of assets and liabilities in a way that permits it to be compared with its carrying amount;
– the methods and, when a valuation technique is used, the assumptions applied in determining fair values of each class of financial assets or financial liabilities. For example, if applicable, an entity discloses information about the assumptions relating to prepayment rates, rates of estimated credit losses, and interest rates or discount rates;
– information, whether fair values are determined, in whole or in part, directly by reference to published price quotations in an active market or are estimated using a valuation technique;
– information, whether the fair values recognised or disclosed in the financial statements are determined in whole or in part using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and not based on available observable market data;
– information about the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss during the period.

Additionally, IFRS 7 implemented the requirement for an entity to disclose its accounting policy for the recognition of the difference in profit or loss (i.e. day one

profit/loss) between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique, if such a difference exists.[2]

Table 1. The scope of fair value disclosures in consolidated financial statements of companies prepared under IFRS in the years 2005–2007

The scope of disclosures in analysed 48 companies	Average assessment on a scale of 0 to 4		
	2005	2006	2007
Presentation of detailed information about the principles determining of fair value of financial instruments measurement in accounting policies	1.92	1.96	2.00
Information about fair value of all assets and liabilities	1.92	1.94	2.15
The methods and the assumptions applied in determining fair values of particular financial assets or financial liabilities	2.10	2.17	2.50
Information about the using of quoted prices in active market to fair value measurement of financial instrument or valuation techniques	0.94	0.96	1.27

Source: own elaboration based on [Świderska (ed.), 2011, p. 206].

Table 2. The scope of fair value disclosures in consolidated financial statements of banks prepared under IFRS in the years 2005–2007

The scope of disclosures in analysed 11 banks	Average assessment on a scale of 0 to 4		
	2005	2006	2007
Presentation of detailed information about the principles determining of fair value of financial instruments measurement in accounting policies	2.18	2.36	2.45
Information about fair value of all assets and liabilities	3.45	3.45	3.45
The methods and the assumptions applied in determining fair values of particular financial assets or financial liabilities	2.09	2.36	2.82
Information about the using of quoted prices in active market to fair value measurement of financial instrument or valuation techniques	2.18	2.27	2.45
The settlement method i.e. "day 1 profit/loss" (implemented in IFRS 7 par. 28)	n/a	n/a	1,6

Source: own elaboration based on [Świderska (ed.), 2011, p. 20.

The research of the completeness and quality of disclosures about fair value in the financial statements of companies listed on WSE (Warsaw Stock Exchange), carried out on the basis of the above-described requirements of IAS 32 and IFRS 7 in

[2] It is known as "Day 1 profit/loss" settlement method, Annex: *IFRS 7 Financial Instrument: Disclosures*, par. 28, p. 11 [Commission Regulation (EC) no 108/2006].

force at the reporting periods for the years 2005–2007 indicates a relatively low level of disclosure in the range of applied methods for estimating fair value.[3]

Tables 1 and 2 provide an illustration of the assessment of fair value disclosures in the analysed companies.

The data in Tables 1 and 2 shows that, in the analysed group of 48 companies, the greatest scope of disclosures was reported in the financial statements of banks (the subject of the analysis were 48 financial statements of companies listed on WSE, including 11 banks). However, despite increasing size of disclosure, still information about measurement methods and assumptions applied to valuation techniques is not sufficient, considering analysed financial statement of financial institutions (banks).

5. Improving disclosures about financial instruments in the year 2009

The obligatory disclosures in the use of fair value as a measurement of financial instruments before the year 2009 on the one hand, outlined the presentation of the fair value of financial instruments (particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments), but on the other hand, concentrated on the description of applied methods of fair value estimation.

In the face of the global financial crisis, it turned out that between the two above information a significant information gap has risen. In published financial statements, there was lack of information whether the fair values of financial assets and financial liabilities are determined by reference to published price quotations in an active market or are estimated using different valuation techniques. Particularly, it was impossible to determine the scale of using valuation techniques based on data which are not derived from an active market and, consequently, there was a problem with the reliability estimation of values of particular financial instruments presented in financial statements.

In March 2009, the IASB issued Improving Disclosures about Financial Instruments – enhanced the disclosures about fair value and liquidity risks in IFRS 7. The amendments were issued as a part of the IASB's response to the Global financial crisis [IASB 2011; G20 2009]. In order to facilitate the determination of fair values, the IASB has adopted the US Financial Accounting Standards Board's fair value hierarchy (as presented in SFAS 157) [Epstain, Nach,

[3] The research carried out as a part of the research project "Wpływ zakresu ujawnianych informacji na poprawę ochrony inwestorów oraz pozycję konkurencyjną emitentów papierów wartościowych" Project no. N113 024 32/2706 financed by Ministry of Science and Higher Education, realised in 2007–2009 at Warsaw School of Economics. The results of research were published in: [Świderska (ed.), 2010].

Bragg 2010, p. 169–212] that reflects the significance of the inputs used in making the measurements. The fair value hierarchy (§ 27A) has the following levels [Commission Regulation (EC) No 1165/2009, p. 23]:

– Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
– Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);
– Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

IFRS 7 indicates also that the level in the fair value hierarchy within which the fair value measurement is categorised in its entirety shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety [Commission Regulation (EC) No 1165/2009, p. 23].

Based on hierarchy, the paragraph 27B of IFRS 7 requires an entity disclose for each class of financial instruments [Commission Regulation (EC) No 1165/2009, p. 23, 24]:

– the level in the fair value hierarchy into which the fair value measurements are categorized in their entirety, segregating fair value measurements in accordance with the levels defined in IFRS 7;
– any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers;
– for fair value measurements in Level 3 of the fair value hierarchy, a reconciliation from the beginning balances to the ending balances, disclosing separately changes during the period attributable to the following:
• total gains or losses for the period recognized in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented),
• total gains or losses recognised in other comprehensive income,
• purchases, sales, issues and settlements (disclosed separately),
• transfers into or out of Level 3 and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3;
– the amount of total gains or losses for the period included in profit or loss that are attributable to gains or losses relating to those assets and liabilities held at the end of the reporting period and a description of where those gains or losses are presented in the statement of comprehensive income or the separate income statement (if presented);
– for fair value measurements in Level 3, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, the entity shall state that fact and disclose the effect of those

changes. The entity shall disclose how the effect of a change to a reasonably possible alternative assumption was calculated. For this 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.

The above changes implemented in IFRS 7 relating to disclosure of information, contributed to enable users of particular entity's financial statements to evaluate the significance of financial instruments for its financial position and performance. Additionally, the qualitative and quantitative disclosures included in IFRS 7 enables users of financial information to evaluate the nature and extent of risks arising from financial instruments to which particular entity is exposed. The qualitative information describes objectives, policies and processes for managing the risk. The quantitative disclosure provides information about the extent to which entity is exposed to risk, based on information provided internally the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risk they create.

6. The impact of changes in the fair value disclosures on financial statements of banks listed on WSE in the year 2009

The obligation to use the new requirements in IFRS 7 was adopted in Commission Regulation (EC) No 1165/2009 of 27 November 2009. Despite the later date of adoption all companies were obligated to disclose information about fair value hierarchy for financial instruments, as from the commencement date of its first financial year starting after 31 December 2008 [Commission Regulation (EC) No 1165/2009, p. 21].

Financial Statements for the year ended 31 December 2009 were the first financial reports in which the additional disclosures of fair value hierarchy should have been applied. In order to assess the way of the disclosure of this information and the range of the use of valuation techniques in estimating the fair value of financial instruments, the author carried out an analysis of consolidated financial statements of 12 banks listed on WSE. The analysis is conducted for years: 2008 and 2009. For these years, I created a sample that comprises all banks that satisfy the following criteria: (1) the bank is listed on WSE for the years 2008 and 2009, (2) fiscal year ends in December, (2) data are available (consolidated financial statements). The data were collected directly from particular banks' websites.

The data presented in financial statements of banks indicate that financial assets for which the method of determining the fair value has been classified in Level 1 were on average respectively:

– 50%[4] of total financial assets measured at fair value in the year 2008 (Figure 1), and
– 57% of total financial assets measured at fair value in the year 2009 (Figure 2).

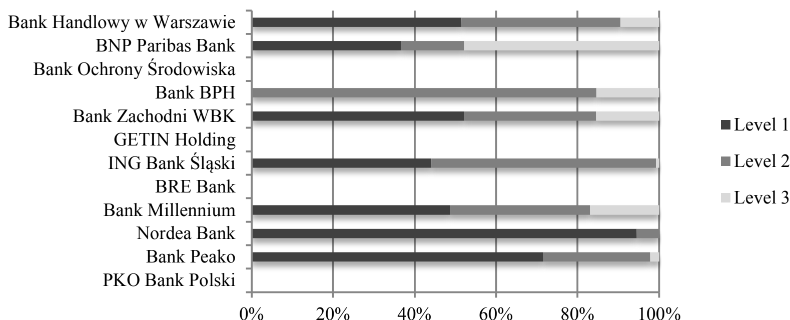

Figure 1. Financial assets of banks measured at fair value in the year 2008

Source: own elaboration based on consolidated financial statements of banks for the year 2008.

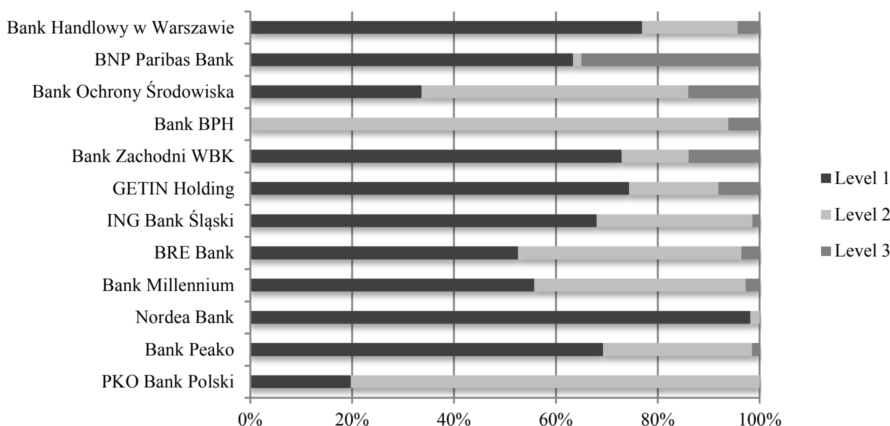

Figure 2. Financial assets of banks measured at fair value in the year 2009

Source: own elaboration based on consolidated financial statements of banks for the year 2009.

Figures 1–3 show that the mostly used method of estimating fair values of financial assets are valuation techniques based on quoted price in active markets – Level 1. The financial assets' share classified in Level 2 of fair value hierarchy is

[4] Not all banks presented comparative financial data for the year 2008. For the calculation of average data from 8 banks was taken, which presented comparative data in their financial statements for the year 2008 (Figure 1). The average percentage of financial assets measured at fair value classified in Level 1 for these 8 banks is 63% in the year 2009.

significant, with considerably lower share of Level 3 – respectively 14% and 8% in the year 2008–2009.

In the case of financial liabilities measured at fair value, the most dominant are liabilities, for which fair value is measured using valuation techniques classified in Level 2, respectively:

– 91%[5] of total financial liabilities measured at fair value in the year 2008 (Figure 3),
– 93% of total financial liabilities measured at fair value in the year 2009 (Figure 4).

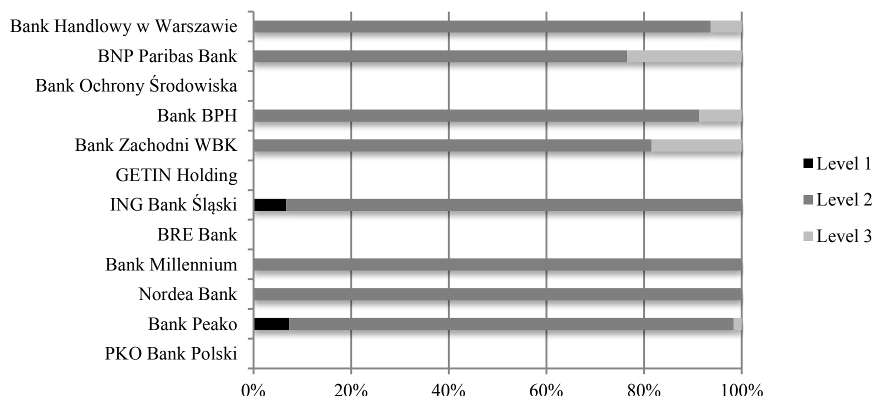

Figure 3. Financial liabilities of banks measured at fair value in the year 2008

Source: own elaboration based on consolidated financial statements of banks for the year 2008.

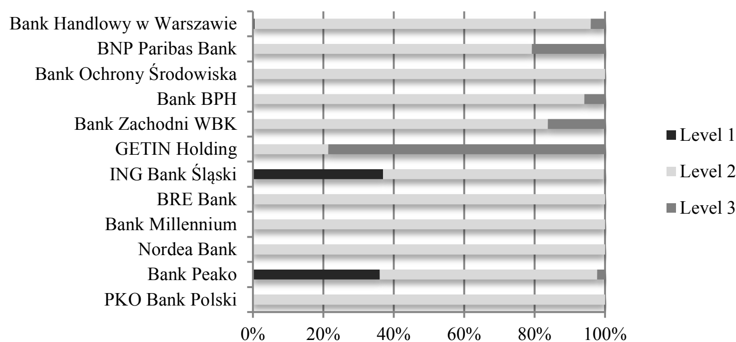

Figure 4. Financial liabilities of banks measured at fair value in the year 2009

Source: own elaboration based on consolidated financial statements of banks for the year 2009.

[5] Not all banks presented comparative financial data for the year 2008. For the calculation of average data from 8 banks was taken, which presented comparative data in their financial statements for the year 2008 (Figure 3). The average percentage of financial liabilities measured at fair value classified in Level 2 for these 8 banks is 85% in the year 2009.

Only half of analysed banks indicate possessing financial liabilities the fair value of which is determined using unobservable inputs to valuation techniques (Level 3). The average percentage of these liabilities is respectively 7 and 11% in the year 2008–2009.

Particular banks implemented the different rules for the presentation of the fair value hierarchy of financial instruments. The assessment of the level of these disclosures indicates not only the diversification in the range of the completeness and specificity of figures, but also the quality of qualitative disclosures about the applied principles of extracting different levels of the fair value hierarchy, the rules for classification methods for different levels and methods of determining the fair value of each class of financial instruments.

The analysis of financial statements indicates a significant share of financial assets and financial liabilities measured using valuation techniques based on observable and unobservable inputs (Level 2 and Level 3). At the same time, there is noticeable a relatively high completeness and quality of the quantitative disclosures in terms of fair value hierarchy (average assessment on the level 3.58 on scale of 0 to 4).[6]

The analysis in terms of the level of disclosure of fair value hierarchy indicates, that banks disclosed the significant information about the scale of financial instruments measured using valuation techniques i.e. methods of limited reliability (based on unobservable inputs) in relation to market-to-market models, but on the other hand they presented poor quality of disclosure of used valuation techniques and principles of its classification into appropriate levels of hierarchy. The assessment of qualitative disclosure oscillates around 2.52, so it means that quality of disclosure is at the average level.

Table 3. The level of disclosure of fair value hierarchy in consolidated financial statements of banks listed on WSE for the year 2009

The scope of disclosure	Average assessment on a scale of 0 to 4
Principles of extracting different levels of fair value hierarchy	2.16
Description of principles of classification of financial assets and financial liabilities into appropriate levels of fair value hierarchy	2.33
Description of applied valuation techniques of fair value of financial assets and liabilities	2.42
Specificity and readability of numerical data of fair value of financial assets	3.58
Specificity and readability of numerical data of fair value of financial liabilities	3.58
Reconciliation of changes in fair value of financial instruments classified in Level 3	3.25

Source: own elaboration based on consolidated financial statements of banks for the year 2009.

[6] Where: 0 – lack of information, 1 – poorly, 2 – mediocre, 3 – good, 4 – very good information.

7. IFRS 13 Fair Value – new fair value disclosure requirements

The fair value disclosure requirements for financial instruments come from both IFRS 7 Financial Instruments – Disclosures and IFRS 13 Fair Value Measurement.[7] IFRS 13 has replaced several of the IFRS 7 disclosure requirements although some IFRS 7 disclosures have remained. The chapter highlights the changes in fair value disclosures for financial instruments on application of IFRS 13 as compared with IFRS 7 as applied in prior years (see Table 4).

Table 4. The changes in fair value disclosures for financial instruments on application of IFRS 13 as compared with IFRS 7

Para	Disclosure requirements	Overview of difference
1	2	3
	IFRS 13	
93	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.	This paragraph was previously addressed by IFRS 7 paragraph 27B (b). Incrementally, IFRS 13 requires disclosure of the entity's policy for determining when a transfer has occurred.
	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 (e.g. 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.	The valuation technique, assumptions and changes to the technique are the same as previously required by IFRS 7 paragraph 27. The disclosure regarding quantitative information on unobservable inputs for those instruments in level 3 could be compared to IFRS 7 27B (e) relating to changes in assumptions that would have significant impact. However, in many cases an unobservable input will not have been disclosed as a reasonably possible change under IFRS 7, so this new quantitative information on unobservable inputs is likely to be a significant change.

[7] In May 2011, The IASB issued IFRS 13 "Fair Value Measurement", which defines fair value and replaces the requirements contained in individual Standards. The obligation of applying IFRS 13 EU countries became effective as from commencement date of their 2013 financial year at the latest.

Table 4, cont.

1	2	3
	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).	New requirement
	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).	This is an incremental requirement to provide a narrative disclosure as well as further disclosure of interrelationships.
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.	New requirement
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.	New requirement

Source: own elaboration based on IFRS 13 and IFRS 7 requirements.

The IFRS 13 Fair value measurement aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The overall disclosure objective of IFRS 13 is for an entity to disclose information that helps users of financial statements assess [IASB 2014, p. A554]:

– the valuation techniques and inputs used to measurement financial assets and liabilities that are measured at fair value, and
– the effect on profit or loss or other comprehensive income of significant unobservable inputs, used in the measurement of recurring Level 3 fair value measurements.

New requirements for fair value disclosures included in IFRS 13 are the complement to IFRS 7. Entities are obligated to presents more qualitative and quantitative information about fair value in their financial statements. The table below shows the result of research on the completeness and quality of disclosures about fair value in the financial statements of companies listed on WSE, carried out on the basis of the above-described requirements of IFRS 13 in force at the reporting period for the year 2013 indicates a relatively high level of disclosure in the range of applied methods for estimating fair value comparing with prior periods.

Table 5. The level of disclosure of fair value hierarchy in consolidated financial statements of banks listed on WSE for the year 2013

	PKO	PEO	NDA	MIL	MBK	ING	GTN	BZW	BPH	BOS	BNP	BHW
Disclosure on the level in the fair value hierarchy and disclosure on valuation techniques - for financial assets and liabilities not measured at fair value but for which fair value is disclosed (MSSF 13: 97)	Y	Y	Y	Y	Y	Y	Y	Y,without categorising into levels	Y	Y	Y,without categorising into levels	Y,without categorising into levels
Enhanced qualitative disclosures on valuation techniques and fair value hierarchy analysis in financial statements for the year 2013 compared with financial statements of prior years (MSSF 13: 93(d),(e),(g),(h))	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y
Reconciliation for level 3 items	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y	N/A
Disclosure of policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred with the amounts of transfer and the reasons for those transfers (MSSF 13: 95(c),(d),(e))	Y	Y	L	L	Y	Y	Y	Y	Y	Y	Y	Y

Y – Yes; N – No; L – lack of information; N/A – not applicable.

Source: own elaboration based on consolidated financial statements of banks for the year 2013.

The data in Table 5 shows that only a few of banks did not disclosure enough information about fair value as it is required in new IFRS 13. It can be concluded that with the passing of time and experience in the application of IFRS, banks attempt to

meet the requirements of IFRS and disclosure more information about applied fair value techniques in their financial statements.

8. Conclusions

Fair value is increasingly recommended by regulators and users of financial information as a basis of accounting measurement.[8]

The applied valuation techniques may be based on various input data, including those not deriving from an active market or even data based on entity's internal assumptions. As a result the values presented in the financial statements may be characterised by different levels of objectivity, and consequently the limited level of reliability. Investors unambiguously indicate that preferable models of fair value measuring are methods based on market data (market-to-market concept) than the techniques based on valuation methods (market-to-model concept) [Gassen, Schwedler 2008].

The present separation of qualitative information about the applied fair value valuation techniques from the quantitative disclosures has caused the impossibility of the assessment on the level of usage of fair value measurement methods described by entities in financial statements. Particularly, there was difficulty in determining the potential risk of estimating fair value by using techniques based on data not derived from an active market.

This situation has changed when the IASB implemented the amendments to IFRS 7 and issued new IFRS 13. The above standards aim to harmonise the fair value measurement and disclosure requirements internationally by using fair value hierarchy and enhancing qualitative and quantitative disclosure requirements.

The analysis of the consolidated financial statements of banks listed on WSE in the year 2009 indicates an increase in quantitative disclosures in the absence of change in qualitative disclosures. It can be considered that in the first year of application of the amended IFRS 7 it did not affect significantly on the level of information about the valuation techniques. However, banking units have disclosed the fair value hierarchy of financial assets and liabilities. This information makes it much easier to assess the impact of risk of fair value estimation on banks' financial situation presented in the statements. The level of qualitative disclosures of analysed banks has increased only after the implementation of IFRS 13 to International Financial Reporting Standards. Thus, it seems that the learning process has significantly influenced the scope of disclosures about fair value.

[8] Surveys carried out among users of financial statements indicate that 60.5% of users are in favour of using fair value not only to financial instruments but to all assets and liabilities [Gassen, Schwedler 2008, p. 16].

The presented results might provide a starting point for further research and analysis in the scope of disclosure the fair value of financial instruments. Additional research could be extended to other units of the entire financial sector (insurance companies, investment funds, etc.). Such a study could confirm whether in relation to other units of the financial sector the process proceeds in a similar way – i.e. it has the same characteristics as the banking sector has. This would allow for an universalisation of the one general conclusion about fair value disclosure concept for the entire financial sector. In the next stage of research, by verifying this issue in particular years, we may get the answer to the question about the value of disclosure index, which illustrates the pace of adapting the financial sector to IFRS requirements. The further research could be extend by the comparison of specific financial instruments (i.e. securities, derivatives) in order to verify whether these instruments are disclosed and presented in the same way in financial statements of examined units for the entire financial sector. This would allow for a more comprehensive examination of disclosing the fair value of financial instruments presented in financial statements.

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ZAKRES UJAWNIANYCH INFORMACJI W RAMACH METOD WYCENY WARTOŚCI GODZIWEJ INSTRUMENTÓW FINANSOWYCH W SPRAWOZDANIACH FINANSOWYCH BANKÓW NOTOWANYCH NA GPW

Streszczenie: Wraz z wprowadzeniem wartości godziwej do Międzynarodowych Standardów Sprawozdawczości Finansowej (MSSF) określono zakres dodatkowych ujawnień, które miały zapewnić prawidłową ocenę wartości instrumentów finansowych. Wymogi te nakazują m.in. udostępnienie w sprawozdaniu finansowym informacji o stosowanych technikach służących ustaleniu wartości godziwej, które mogą zwiększyć wiarygodność sprawozdań finansowych, motywując tym samym jednostki gospodarcze do dołożenia wszelkich starań w celu ustalenia jej rzeczywistej i odpowiedniej wartości. Celem niniejszego artykułu jest prezentacja wyników badań nad poziomem ujawnień

w zakresie wartości godziwej w skonsolidowanych sprawozdaniach finansowych banków notowanych na Giełdzie Papierów Wartościowych w Warszawie w latach 2005––2007 oraz analiza wpływu zmian wprowadzonych przez Radę Międzynarodowych Standardów Rachunkowości (IASB) w zakresie obowiązkowych ujawnień w sprawozdaniach finansowych w ujęciu komparatywnym w latach 2009 i 2013. W ramach przeprowadzonej analizy autorka podejmuje próbę oceny i klasyfikacji poziomu ujawnień wartości godziwej wśród skonsolidowanych sprawozdań finansowych badanych jednostek bankowych.

Słowa kluczowe: wartość godziwa, wycena, sprawozdanie finansowe, MSSF.