IFRS 13 Fair Value Measurement

Agenda

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Objective of IFRS 13

❖The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements except in specified circumstances

❖The IFRS is to be applied for periods beginning on or after 1 January 2013

❖Some IFRSs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments.

❖The requirements for measuring fair value were dispersed and in many cases did not articulate a clear measurement objective

❖Part of the work between IASB and FASB to develop common requirements for measuring fair value measurements

Scope

- ❖IFRS 13 applies when another IFRS requires or permits fair value **measurement** or **disclosures** about fair value measurements;
- ❖It does not apply to the following;
  - ✓Share based payment transactions under IFRS2
  - ✓Leasing transactions within the scope of IAS 17
  - ✓ measurements that have similarities to fair value but are not fair value such as net realisable value in IAS 2 or value in use under IAS 36.

Definitions

- ❖Fair value – 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;
- ❖Level 1 inputs – quoted (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- ❖Level 2 inputs – inputs other than quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- ❖Level 3 inputs – unobservable inputs for the asset or liability
- ❖Principal market – the market with the greatest volume and level of activity for the asset or liability
- ❖Most advantageous market – the market that maximizes the amount that would be received to sell the asset or minimize the amount that would be paid to transfer the liability

Measurement

❖A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between **market participants** to sell the asset or transfer the liability under current market conditions;

❖This assumes that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability or the absence of a principal market in the most advantageous market;

❖The market in which the entity would normally enter into a transaction to sell the asset is presumed to be the principal market;

❖The price should not be adjusted for transaction costs and these should be accounted for in accordance with other IFRSs.

Valuation techniques

- ❖An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs;
- ❖Three widely used valuation techniques are the market approach, the cost approach and the income approach
- ❖In some cases a single technique will be appropriate, in other cases multiple valuation techniques will be appropriate.
- ❖Valuation techniques used to measure fair value shall be applied consistently.
- ❖However a change is appropriate if it results in a measurement that is more representative of fair value.

Fair value hierarchy

❖To increase consistency and comparability in fair value measurement, IFRS 13 establishes a fair value hierarchy that categorizes into three levels the inputs to valuation techniques used to measure fair value.

❖This gives highest priority to quoted prices in active markets and the lowest priority to unobservable inputs

- ❖ **level 1 inputs** - These are quoted prices (unadjusted) in active market for identical assets or liabilities;
- ❖ A quoted price in an active market provides the most reliable evidence of fair value

Fair value hierarchy

- Level 2 inputs – these are inputs other than the quoted prices included within level 1 that are observable for the asset or liability either directly or indirectly
- Level 3 inputs – these are unobservable inputs for the asset or liability
- Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little if any market activity for the asset or liability at the measurement date

Disclosures

- An entity shall disclose information that helps users of its financial statements assess for assets and liabilities measured at fair value, the valuation techniques used to develop those measurements
- For recurring fair value measurements using significant unobservable inputs (level 3) the effects of the measurement on the profit or loss or other comprehensive income

Disclosures

- For recurring and non recurring fair value measurements, the fair value at the end of the reporting period and for non recurring fair value measurements, the reasons for the measurement.
- Recurring fair value measurements are those that other IFRSs require or permit at the end of the period;
- Non recurring fair value measurements are those that other IFRSs require in particular circumstances e.g. under IFRS 5 non current assets held for sale;

Disclosures

- ❖The level of fair value hierarchy within which the fair value measurements are categorized
- ❖A description of the valuation techniques and the inputs used in the fair value measurement
- ❖For recurring fair value measurements a reconciliation from the opening balance to the closing balance disclosing separately the total gains for the period recognized in profit or loss, under other comprehensive income, purchases sales and settlements;
- ❖The amounts of any transfers into and out of level 3 of the fair value hierarchy

Summary of measurement basis

Standard	Measurement Basis
IAS 2 – Inventories	Inventories shall be measured at the lower of cost and net realizable value.
IAS 16 –Property, Plant and Equipment	An entity shall choose either the cost model or the **revaluation model** as its accounting policy
IAS 40 – Investment Property	Cost or fair value model
IFRS 5 – Non current assets held for sale and discontinued operations	Lower of carrying amount and fair value less costs to sell

Measurement basis

❖**Net realisable value** -Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

❖**Cost model** - cost less any accumulated depreciation and any accumulated impairment losses.

❖**Revaluation model -** After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.