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**IFRS 13 FAIR VALUE MEASUREMENT
COAST BRANCH FINANCIAL REPORTING
WORKSHOP**

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1. Introduction

- ❑ IFRS 13 was issued in May 2011.
- ❑ Effective for periods beginning on or after 1 January 2013.
- ❑ Establishes a single framework for measuring fair value where that is required by other standards.
- ❑ Applies to both financial and non-financial items measured at fair value.

2. Scope of IFRS 13

IFRS 13 does not apply to the following:

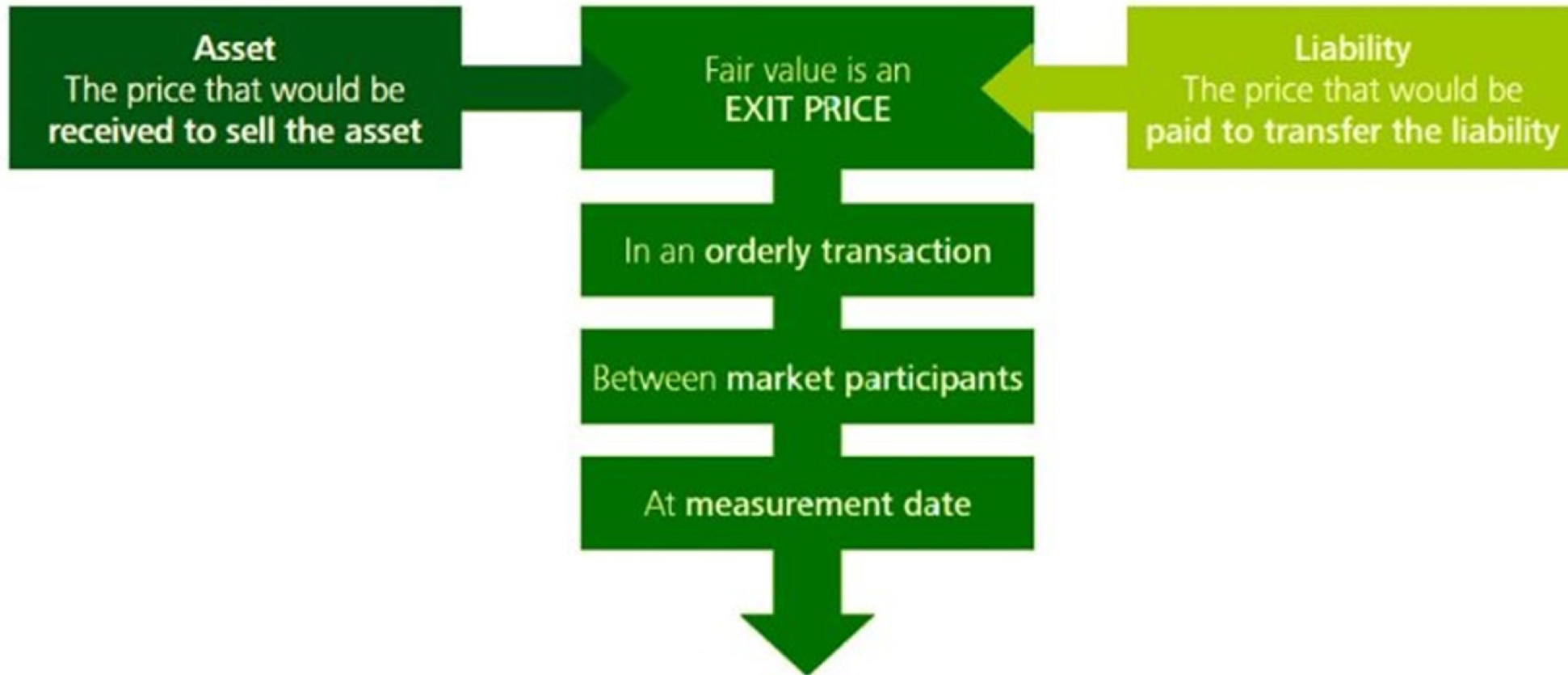
- ☐ Share-based Payment- within the scope of IFRS 2.
- ☐ Leases - within the scope of IAS 17.
- ☐ Inventories - within the scope of IAS 2.
- ☐ Impairment of Assets - within the scope of IAS 36.

3. Objectives of IFRS 13

1. To define fair value.
2. To establish a framework for measuring fair value.
3. Require disclosure about fair value measurement.

4. Definition of Fair Value

fair value



5. Valuation Techniques

1. Market approach.
2. Income approach.
3. Cost approach.

The technique adopted should maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

6. Fair Value Hierarchy

- ❑ Through a 'fair value hierarchy' IFRS 13 intends to establish consistency and comparability in fair value measurements and disclosures.
- ❑ Inputs used in valuation techniques are categorized into three levels:
 - ✓ Level 1 inputs
 - ✓ Level 2 inputs
 - ✓ Level 3 inputs

Fair value hierarchy



Level 1



=> Quoted price of shares
traded on stock exchange

Level 2



=> Quoted price for similar +/-
in active markets

=> Quoted price for similar /
identical +/- in inactive markets

=> Other observable inputs

=> Market-corroborated inputs

Level 3



=> Financial forecasts

=> Historical volatility

=> Adjustment to mid-
market consensus

6. Fair Value Hierarchy (continued)

☐ Level 1 inputs

- ✓ Securities on national exchange.

- ✓ Treasury Bills.

- ✓ Certain Treasury Bonds

☐ Level 2 inputs

- ✓ Corporate bonds.

- ✓ Derivatives such as interest rate and currency swaps

☐ Level 3 inputs

- ✓ Private equity investments.

- ✓ Residential and commercial mortgage related assets (including loans, securities and derivatives)

7. Presentation and disclosure

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

1. Carrying amounts and fair values of financial assets and financial liabilities.
2. Their levels in the fair value hierarchy.
3. The valuation techniques.
4. The inputs used to develop those measurements.
5. Level 3, a description of the valuation processes used by the entity.

8. Example 1

	Level 1	Level 2	Level 3
Fair value determined using;	Unadjusted quoted prices in active markets for identical assets or liabilities;	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;	Valuation models using significant non-market observable inputs.
Types of financial assets	<p>Actively traded government and other agency securities.</p> <p>Listed derivative instruments.</p> <p>Listed equities.</p>	<p>Corporate and other government bonds and loans.</p> <p>Over-the-counter (OTC) derivatives.</p>	<p>Corporate bonds in illiquid markets.</p> <p>Highly structured OTC derivatives with unobservable parameters.</p>
Types of financial liabilities	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

Source: KCB 2015

8. Example 2

2015 - Group Assets	Carrying amount					Total carrying amount KShs '000	Fair value			
	Held for trading KShs '000	Held to maturity KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Other amortized cost KShs '000		Level 1 KShs000	Level 2 KShs '000	Level 3 KShs '000	Fair value KShs '000
Financial assets										
Cash and balances with Central Banks	-	-	68,219,267	-	-	68,219,267	-	-	-	-
Due from other banks	-	-	20,286,903	-	-	20,286,903	-	-	-	-
Government securities	805,790	57,844,737	-	37,950,078	-	96,600,605	-	96,600,605	-	96,600,605
Investment in other securities	-	-	-	347,972	-	347,972	-	347,972	-	347,972
Loans and advances to customers	-	-	345,968,686	-	-	345,968,686	-	-	345,968,686	345,968,686
Clearing house	-	-	891,837	-	-	891,837	-	-	-	-
Total financial assets	805,790	57,844,737	435,366,693	38,298,050	-	532,315,270		96,948,577	345,968,686	442,917,263

Source: KCB 2015

Questions
Answers
Comments

Thank You!