

IFRS 13: Fair Value Measurement

IFRS 13 is the first comprehensive standard to deal with the concept of measuring fair value.

The **objectives** of IFRS 13 are to establish **principles** for fair value measurement of assets and liabilities, and set out required **disclosures** about fair value measurement.

★ This standard determines **HOW** to apply fair value if required or permitted by other standards.

NOTE:

IFRS 13 does **NOT** apply to:

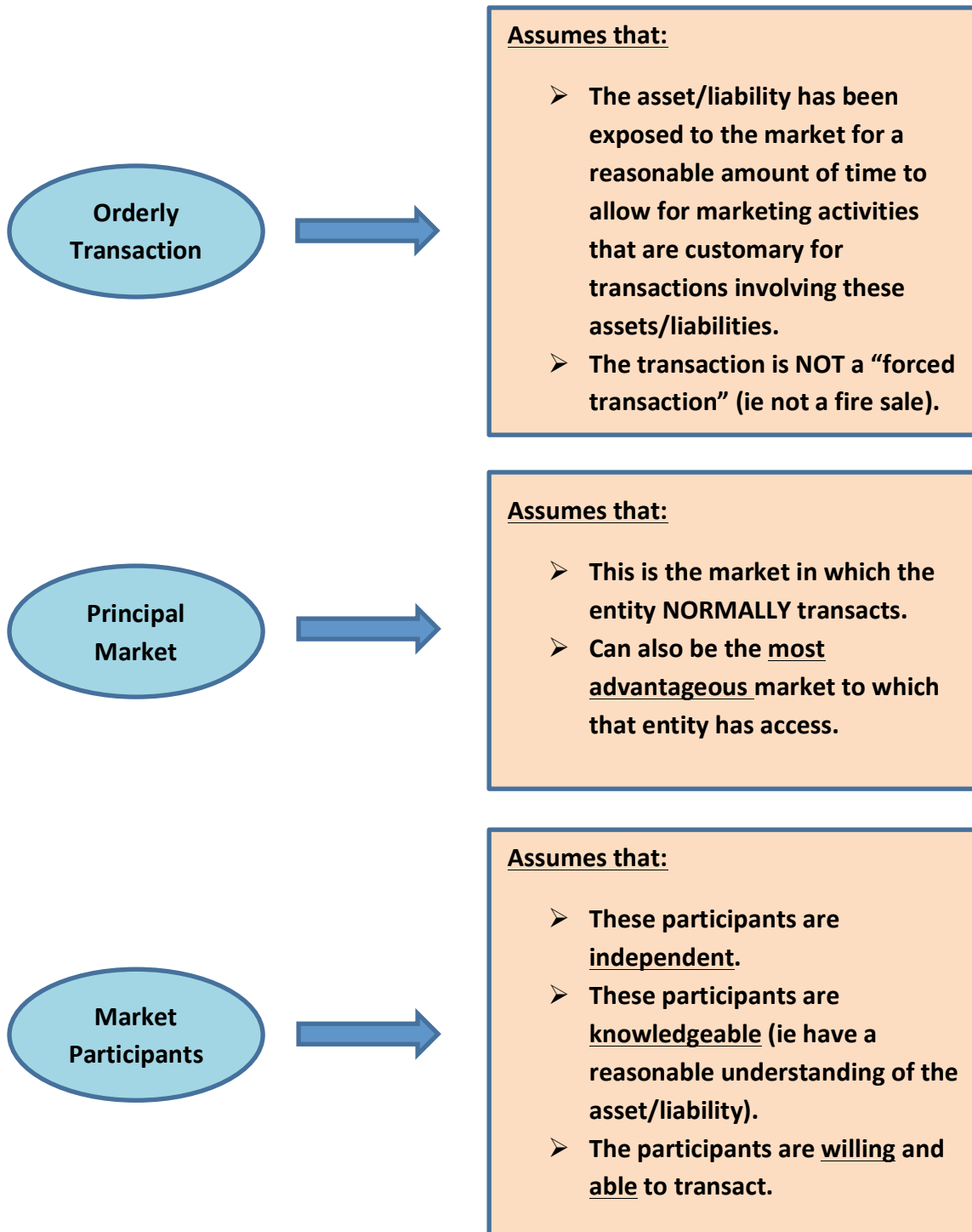
- **Transactions** accounted for under either IFRS 2: Share Based Payments or IAS 17: Leases;
- **Net Realisable Value** (IAS 2: Inventory) and **Value In Use for impairments** (IAS 36: Impairment) which have similar characteristics to fair value, but are not fair value;
- The **disclosure** requirements of **Plan Assets** (IAS 19: Employee Benefits & IAS 26: Accounting and Reporting by Retirement Benefit Plans) and **Assets measured at Fair Value less Costs to Sell** (IAS 36: Impairment).

FAIR VALUE is defined as:

- 1. the price that would be**
- 2. received to sell an asset or paid to transfer a liability**
- 3. in an orderly transaction**
- 4. between market participants**
- 5. at the measurement date.**

In essence this is an EXIT PRICE that would be achieved in a hypothetical transaction between market participants.

The key elements to consider:



Special Considerations when dealing with non-financial assets:

“Highest and Best Use”:

- The fair value of a non-financial asset is the price that would be paid by a market participant given the **best use** that can be made of an asset, *irrespective* of its current use.

However, “highest and best use” must be:

- A use that is **physically** possible
- **Legally** permissible
- Financially **feasible**

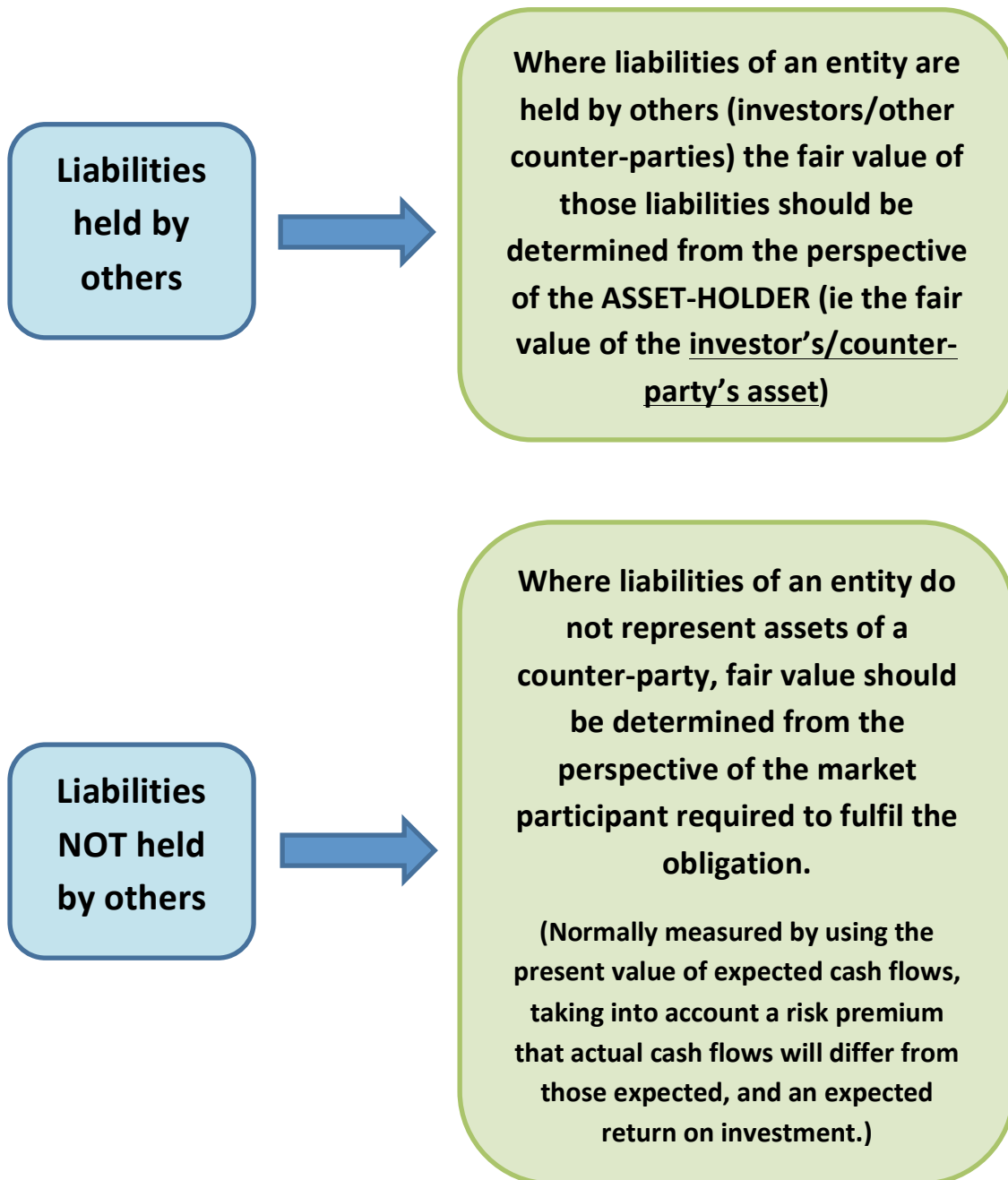
This concept requires that the fair value of a non-financial asset be considered from the perspective of a market participant and NOT based on the entity’s plans/current use!

Fair Value of Liabilities:

IFRS 13 does **NOT** require liabilities to be measured at fair value, but does provide guidance where an entity chooses to measure a liability at fair value.

In addition to the fair value requirements above:

- The fair value for liabilities should assume the liability **remains outstanding** after transfer and the transferee will fulfil the obligations;
- The fair value should take into consideration **non-performance risk** including the entity’s own credit risk.



Initial recognition:

On initial recognition the transaction price is **GENERALLY** equal to the fair value, but the entity will still need to apply the **definition** of fair value to ensure accuracy (ie is the value equal to an *exit price*?).

In certain instances an item requires measurement at fair value upon **initial measurement**, for example the fair value of net assets acquired in a business combination in terms of IFRS3.

→ ***This is therefore an entry price and not an exit price.***



It is therefore sometimes necessary to **adjust** the actual transaction price (being an entry price) on initial recognition to an exit price (fair value).

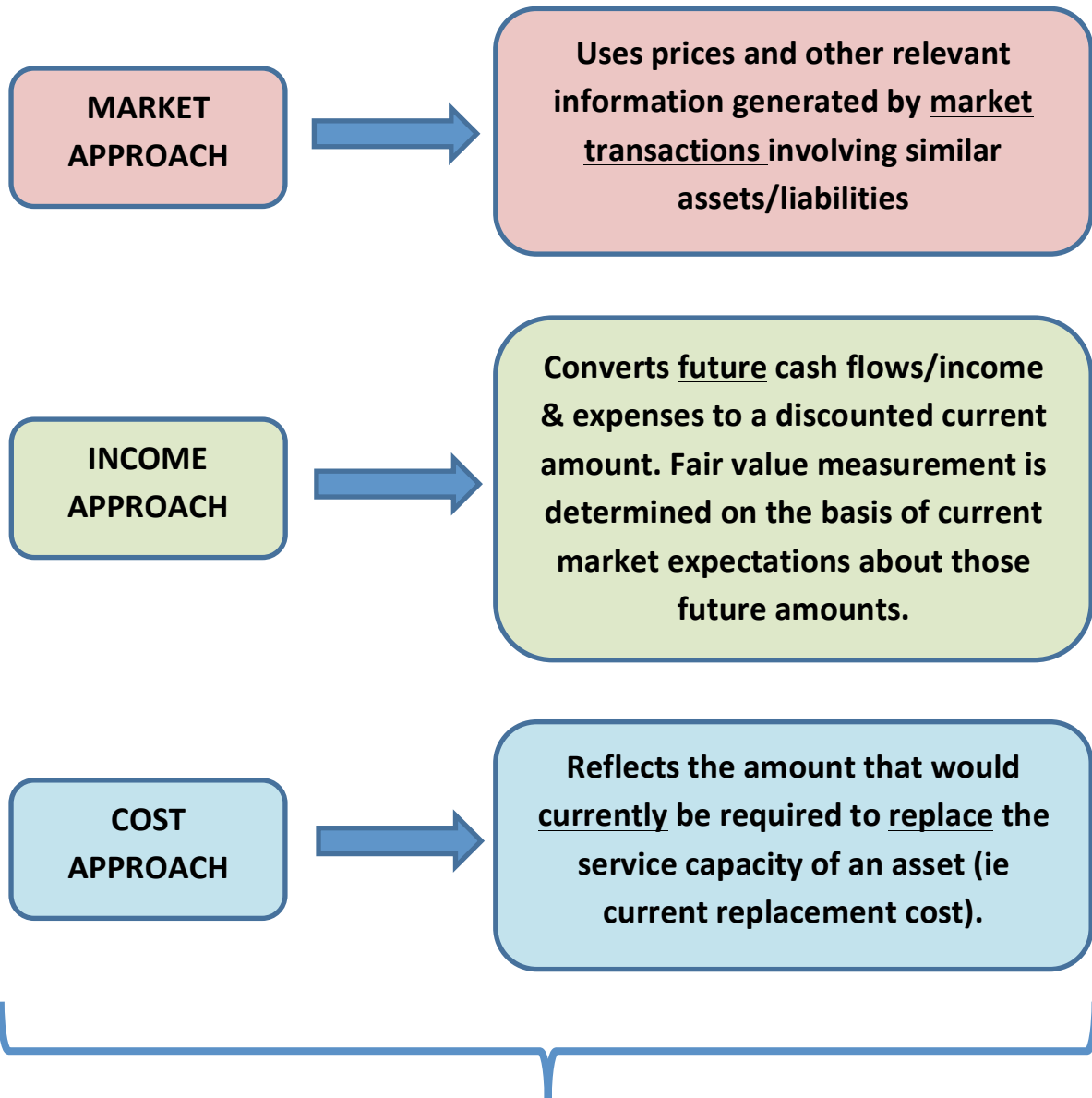


This may result in the immediate recognition of a gain or loss in profit or loss or other comprehensive income.

Short-term items:

The fair value of **short-term receivables and payables** with no stated interest rate may be measured at the invoice amount without discounting when the effect of not discounting is **IMMATERIAL**.

Valuation approaches that may be applied:



Each of these approaches make use of **OBSERVABLE** and **UNOBSERVABLE** inputs.

IFRS 13 proposes a bias towards the use of **OBSERVABLE** inputs whenever possible and appropriate.

A change in valuation technique is treated as a CHANGE IN ESTIMATE in terms of IAS 8: Accounting Policies, Changes in Estimates & Errors.



Such a change will only lead to PROSPECTIVE ADJUSTMENTS, with no restatement of previously reported amounts.

Disclosure:

IFRS 13 requires the fair value **ASSUMPTIONS** and **RELATED INFORMATION** to be disclosed where applicable.

- *The disclosure requirements are largely a copy of the fair value disclosures required by IFRS 7: Disclosure of Financial Instruments.*

IFRS 13 requires the same “3-level” fair value disclosures!



The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the **lowest level input that is significant** to the fair value measurement in its entirety.

