IFRS 13 Fair Value Measurement

Objective

This Standard:

(a) defines fair value;
(b) sets out in a single IFRS a framework for measuring fair value; and
(c) requires disclosures about fair value measurements.

The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this IFRS shall be applied to an entity's own equity instruments measured at fair value.

Scope

This Standard applies when another Standard requires or permits fair value measurements or disclosures about fair value measurements (and measurements based on fair value, such as fair value less costs to sell, or disclosures about those measurements).

The measurement and disclosure requirements of this Standard do not apply to the following:

(a) share-based payment transactions within the scope of IFRS 2 *Share-based Payment*;
(b) leasing transactions accounted for in accordance with IFRS 16 *Leases*; and
(c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairment of Assets*.

The disclosures required by this Standard are not required for the following:

(a) plan assets measured at fair value in accordance with IAS 19 *Employee Benefits*;
(b) retirement benefit plan investments measured at fair value in accordance with IAS 26 *Accounting and Reporting by Retirement Benefit Plans*; and
(c) assets for which recoverable amount is fair value less costs of disposal in accordance with IAS 36 *Impairment of Assets*.

Effective date

An entity shall apply this Standard for annual periods beginning on or after 1 January 2013. Earlier application is permitted. If an entity applies this Standard for an earlier period, it shall disclose that fact.

This Standard shall be applied prospectively as of the beginning of the annual period in which it is initially applied.

Defined terms

An *active market* is 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.

Entry price refers to the price paid to acquire an asset or received to assume a liability in an exchange transaction.

The *exit price* is the price that would be received to sell an asset or paid to transfer a liability.

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.

Highest and best use refers to 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.

The *income approach* is a valuation technique that converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

The *market approach* is a valuation technique that 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, such as a business.

The *cost approach* is a valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Inputs are the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:

(a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and
(b) the risk inherent in the inputs to the valuation technique.

Inputs may be observable or unobservable.

Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.

Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

A *market participant* is a buyer and seller in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:

(a) They are independent of each other, i.e. they are not related parties, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.
(c) They are able to enter into a transaction for the asset or liability.
(d) They are willing to enter into a transaction for the asset or liability, i.e. they are motivated but not forced or otherwise compelled to do so.

A *principal market* is a market with the greatest volume and level of activity for the asset or liability.

The *most advantageous market* 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.

Measurement

The asset or liability:

A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

Such characteristics include, for example, the following:

(i) the condition and location of the asset; and
(ii) restrictions, if any, on the sale or use of the asset.

The transaction:

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 at the measurement date under current market conditions.

A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

(i) in the principal market for the asset or liability; or
(ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

The price:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Market participants:

An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Application to non-financial assets

Highest and best use for non-financial assets

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (e.g. the location or size of a property).
(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (e.g. the zoning regulations applicable to a property).
(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

Application to liabilities and an entity's own equity instruments

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date.

The transfer of a liability or an entity's own equity instrument assumes the following:

(a) A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.
(b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date

Liabilities and equity instruments held by other parties as assets:

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.

In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

(a) using the quoted price in an active market for the identical item held by another party as an asset, if that price is available.
(b) if that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.
(c) if the observable prices in (a) and (b) are not available, using another valuation technique, such as:

    (i) an income approach;
    (ii) a market approach

Liabilities and equity instruments not held by other parties as assets:

When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.

For example, when applying a present value technique an entity might take into account either of the following:

(a) the future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation; or
(b) the amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (e.g. having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

When measuring the fair value of a liability, an entity shall take into account the effects of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled.

When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the item. The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk (exception)

An entity that holds a group of financial assets and financial liabilities is exposed to market risks and to the credit risk of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this Standard for measuring fair value.

That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

An entity is permitted to use the exception only if the entity does all the following:

(a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;
(b) provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in IAS 24 *Related Party Disclosures*; and
(c) is required or has elected to measure those financial assets and financial liabilities at fair value in the statement of financial position at the end of each reporting period.

The exception applies only to financial assets, financial liabilities and other contracts within the scope of IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*, if IFRS 9 has not yet been adopted).

Fair value at initial recognition

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price).

When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability.

For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

(a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.
(b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.
(c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (e.g. in a business combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IFRS, or the transaction price includes transaction costs.
(d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

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, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

This Standard requires entities to apply valuation techniques consistent with any of the following three methods:

(a) Market approach - 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, such as a business
(b) Cost approach - reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
(c) Income approach - converts future amounts (e.g. cash flows or income and expenses) to a single current (i.e. discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price.

Fair value hierarchy

IFRS 13 introduces a fair value hierarchy that categorises inputs to valuation techniques into three levels. The highest priority is given to Level 1 inputs and the lowest priority to Level 3 inputs. An entity must maximize the use of Level 1 inputs and minimize the use of Level 3 inputs.

Level 1 inputs

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

An entity shall not make adjustments to quoted prices, only under specific circumstances, for example when a quoted price does not represent the fair value (i.e. when a significant event takes place between the measurement date and market closing date).

Level 2 inputs

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. Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability.

Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets.
(b) quoted prices for identical or similar assets or liabilities in markets that are not active.
(c) inputs other than quoted prices that are observable for the asset or liability, for example:

    (i) interest rates and yield curves observable at commonly quoted intervals;
    (ii) implied volatilities; and
    (iii) credit spreads.

(d) market-corroborated inputs.

Level 3 inputs

Level 3 inputs are unobservable inputs for the asset or liability. An entity shall use Level 3 inputs to measure fair value only when relevant observable inputs are not available.

Presentation and disclosure

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.

In the Notes to the financial statement:

(a) An entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value after initial recognition, for recurring and non-recurring fair value measurements:

(i) the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement;
(ii) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3);
(iii) 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.
(iv) 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).
(v) 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.

(b) An entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value after initial recognition, for recurring fair value measurements, categorised within Level 3 of the fair value hierarchy:

(i) a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

- 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.
- 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.
- purchases, sales, issues and settlements (each of those types of changes disclosed separately).
- 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 (linked to para (e)). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

In the Notes to the financial statement:

(ii) the amount of the total gains or losses for the period 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.

(iii) 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.

(iv) 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.

(c) An entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value after initial recognition, for recurring fair value measurements, categorised within Level 1 and Level 2 of the fair value hierarchy:

(i) for assets and liabilities held at the end of the reporting period, 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. Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

(d) An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

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

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

(e) 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. 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:

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

(ii) the beginning of the reporting period.

(iii) the end of the reporting period.

(f) If an entity makes an accounting policy decision to use the exception for financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it shall disclose that fact.

(g) 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 as required by this Standard. 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. For such assets and liabilities, an entity does not need to provide the other disclosures required by this Standard.

(h) 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.

(i) An entity shall present the quantitative disclosures required by this Standard in a tabular format unless another format is more appropriate.