

2012

Technical Summary

IFRS 13 *Fair Value Measurement*

as issued at 1 January 2012. Includes IFRSs with an effective date after 1 January 2012 but not the IFRSs they will replace.

This extract has been prepared by IFRS Foundation staff and has not been approved by the IASB. For the requirements reference must be made to International Financial Reporting Standards.

IFRS 13:

- (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 IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

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

- (a) share-based payment transactions within the scope of IFRS 2 *Share-based Payment*;
- (b) leasing transactions within the scope of IAS 17 *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 the IFRS 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.

IFRS 13 defines 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 (ie an exit price). That definition of fair value emphasises that fair value is a market-based measurement, not an entity-specific measurement. When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

The IFRS explains that a fair value measurement requires an entity to determine the following:

- (a) the particular asset or liability being measured;
- (b) for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- (c) the market in which an orderly transaction would take place for the asset or liability; and
- (d) the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

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 (eg 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.

Fair value hierarchy

To increase consistency and comparability in fair value measurements and related disclosures, the IFRS establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 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. 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. Level 3 inputs are unobservable inputs for the asset or liability.

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.