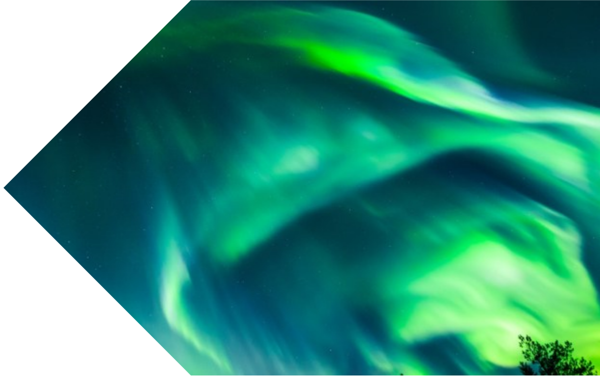

APRIL 2025

IFRS IN BRIEF

IFRS 13 *Fair Value Measurement*

SCOPE

IFRS 13 provides a single definition of fair value, the principle of fair value measurement and the disclosure requirements where fair value is used. It applies only when another standard permits or requires the use of fair value measurement or disclosure.

The standard does not determine whether fair value is required, which is determined by other IFRS standards.

The following items although similar to fair value are <u>not</u> in the scope of IFRS 13

- Share-based payments in the scope of IFRS 2 *Share-based Payments*
- Lease transactions in accordance with IFRS 16 *Leases*
- Net realisable value in accordance with IAS 2 *Inventories*
- Value-in-Use in accordance with IAS 36 *Impairment of Assets*

FAIR VALUE

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. It has the following features:

- It is an exit price, the price it can be sold or transferred at, not necessarily the price it was purchased at.
- It is an orderly transaction with appropriate selling time frames, and not a forced sale or liquidation.
- It is a market-based not entity-based measurement..

It reflects the current market conditions that exist as at the measurement date, from the

perspective of a market participant who holds the asset or owes the liability

- To the extent possible, based on observable price else will rely on valuation techniques
- The transaction should be assumed to occur in the principal market for the item (i.e. the market with the greatest volume of activity) or if there is no principal market the most advantageous market (i.e the market that will maximise the return) after taking into account transaction and transport costs.
- Fair values should not reflect features that are aspects of the entities holding rather than features of the item that would transfer to a third party market participant.

UNIT OF MEASUREMENT

The unit of measurement for determining fair value is not specified in IFRS 13. The valuation should be consistent with the unit of account as determined by the IFRS that is requiring the item to be measured at fair value.

NON-FINANCIAL ASSETS

Specific guidance applies to determining the fair value of non-financial assets, specifically the concept of highest and best use. Fair value should be determined based on the highest and best use that a market participant would use that asset for, not the entity's specific use. This could be on a standalone basis or in combination with other assets. The highest and best use must be:

- Physically possible;
- Legally permissible; and

- Financially viable.

LIABILITIES AND EQUITY

When valuing a liability or equity instrument the valuation assumes that the liability or equity instrument would remain outstanding and the market participant would continue to fulfil the obligations under the liability or equity instrument as they arise, not that it would be settled with the counterparty at the measurement date.

- Where there is a quoted price for the liability or equity for a counterparty holding it as an asset, use that quoted price.
- Where it is not held by a counterparty as an asset, it should be valued as either:
  - The cashflows required to fulfil the obligation; or
  - The amount you would need to pay for a market participant to takeover that obligation.
- The fair value of a liability payable on demand is not less than the amount repayable discounted from when it can first be demanded.

FINANCIAL INSTRUMENTS WITH OFFSETTING POSITIONS

If an entity:

- manages a group of financial assets and liabilities on the basis of a net exposure to credit risk or a market risk;
- that group of assets is carried at fair value in the financial statements; and
- it provides information about that group of assets to its key management personnel;

The fair value of the group of financial instruments may be measured with respect of that market risk or credit risk, on the basis that the entity would settle the entire net position with a market participant.

FAIR VALUE HIERARCHY

Valuation techniques should maximise the use of observable inputs and minimise the use of unobservable inputs. IFRS 13 categorises inputs into the fair value hierarchy as follows

- Level 1
  Observable quoted prices in active markets for identical assets or liabilities
- Level 2
  Observable inputs other than those which are level 1
- Level 3
  Unobservable inputs

Entities are required to disclose where in the fair value hierarchy a valuation sits based on the lowest level of input that is significant to its valuation.

DISCLOSURES

Disclosures requirements depend on the purpose of the fair value measurement and what level of the fair value hierarchy the item sits in. More disclosures are required for Reoccurring valuations, then less for non-reoccurring valuations used for recognition purposes and the least when the fair value is for disclosure purposes only.

For all fair value measurements, the level in the fair value hierarchy must be disclosed. The level of disclosures required increase as the level in the fair value hierarchy decrease.

Refer also to the disclosure requirements of the specific standards that require the fair value to be disclosed.

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