International Financial Reporting Standard

Fair Value Measurement

May 2011

IMPLEMENTATION GUIDANCE – AMENDMENTS

[IFRS 3, 4, 5, 7 & 9 and IAS 34, 36, 39 & 41 and IFRIC 12 & 13]

[Related to AASB 2011-8]

Appendix
Amendments to guidance on other IFRSs

The following amendments to guidance on other IFRSs are necessary in order to ensure consistency with IFRS 13 Fair Value Measurement *and the related amendments to other IFRSs. Amended paragraphs are shown with new text underlined and deleted text struck through.*

IFRS 3 *Business Combinations*

IGA1 In the illustrative examples paragraph IE5 is amended as follows:

IE5 The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted ~~market~~ price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the ~~estimated~~ fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of CU16.

IGA2 The example in paragraph IE72 is amended as follows:

Footnote X: Acquisitions

Paragraph reference	
...	
B64(f)(iv)	The fair value of the 100,000 ordinary shares issued as part of the consideration paid for TC (CU4,000) was ~~determined on the basis of~~ measured using the closing market price of AC's ordinary shares on the acquisition date.
B64(f)(iii)	...
B64(g) B67(b)	The fair value of the contingent consideration arrangement of CU1,000 was estimated by applying the income approach. The fair value ~~estimates are~~ measurement is based on significant inputs that are not observable in the market, which IFRS 13 *Fair Value Measurement* refers to as Level 3 inputs. Key assumptions include a ~~an assumed~~ discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XC of CU10,000–20,000.
	...

...

B64(o) The fair value of the non-controlling interest in TC, an unlisted company, was estimated by applying a market approach and an income approach. The fair value ~~estimates~~ measurements are based on significant inputs that are not observable in the market and thus represent a fair value measurement categorised within Level 3 of the fair value hierarchy as described in IFRS 13. Key assumptions include the following:

(a) ~~an assumed~~ a discount rate range of 20–25 per cent;

(b) ~~an assumed~~ a terminal value based on a range of terminal EBITDA multiples between 3 and 5 times (or, if appropriate, based on long-term sustainable growth rates ranging from 3 to 6 per cent);

(c) ~~assumed~~ financial multiples of companies deemed to be similar to TC; and

(d) ~~assumed~~ adjustments because of the lack of control or lack of marketability that market participants would consider when ~~estimating~~ measuring the fair value of the non-controlling interest in TC.

...

IGA3 In the comparison of IFRS 3 (as revised in January 2008) and SFAS 141(R), in the table below paragraph 3 the definition of fair value and the disclosures about a non-controlling interest in the acquiree are footnoted as follows:

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Definition of fair value*	*Fair value* is defined as …	*Fair value* is defined in paragraph 5 of FASB Statement No. 157 *Fair Value Measurements* as …

* IFRS 13 *Fair Value Measurement* (issued in May 2011) defines fair value and contains the requirements for measuring fair value and for disclosing information about fair value measurements. As a result the definition of fair value in IFRSs is identical to the definition in US GAAP (Topic 820 *Fair Value Measurement* in the *FASB Accounting Standards Codification*® codified FASB Statement No. 157).

Guidance	IFRS 3 (as revised in 2008)	SFAS 141(R)
Non-controlling interest in an acquiree**	**Disclosures** Because an acquirer is permitted to choose …	**Disclosures** SFAS 141(R) requires an acquirer to disclose …

** IFRS 13 (issued in May 2011) defines fair value and contains the requirements for measuring fair value and for disclosing information about fair value measurements. Although the disclosures required by IFRS 13 are not required for IFRS 3, the wording for the disclosures in IFRS 3 has been aligned with the wording in US GAAP (Topic 805 *Business Combinations* in the *FASB Accounting Standards Codification*® codified FASB Statement No. 141(R)).

IFRS 4 *Insurance Contracts*

IGA4 In the guidance on implementing IFRS 4 IG Example 3 is amended as follows:

IG Example 3: Unbundling a deposit component of a reinsurance contract
...   If the reinsurer is required, or elects, to unbundle the contract, it does so as follows. Each payment by the cedant has two components: a loan advance (deposit component) and a payment for insurance cover (insurance component). Applying IAS 39 to the deposit component, the reinsurer is required to measure it initially at fair value. Fair value could be ~~determined~~ measured by discounting the future cash flows from the deposit component using a valuation technique. Assume that an appropriate discount rate is 10 per cent and that the insurance cover is equal in each year, so that the payment for insurance cover is the same in every year. Each payment of CU10 by the cedant is then made up of a loan advance of CU6.7 and an insurance premium of CU3.3.   ...

IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*

IGA5 In the guidance on implementing IFRS 5 Examples 10 and 13 are amended as follows:

Example 10

...

The entity ~~estimates that~~ measures the fair value less costs to sell of the disposal group ~~amounts to~~ as CU13,000. Because an entity measures a disposal group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of CU1,900 (CU14,900 − CU13,000) when the group is initially classified as held for sale.

...

Example 13

...

The ~~estimated~~ fair value less costs to sell of S2 is CU135. A accounts for S2 as follows:

...

IFRS 7 *Financial Instruments: Disclosures* (as amended at October 2009)

IGA6 In the guidance on implementing IFRS 7 paragraphs IG13A and IG13B, and their accompanying tables, are deleted.

IGA7 Paragraph IG14 is amended as follows:

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is ~~determined~~ measured in accordance with IFRS 13 *Fair Value Measurement* and paragraph AG76 of IAS 39. ... Such recognition reflects changes in factors (including time) that market participants would ~~consider in setting a price~~ take into account when pricing the asset or liability (see paragraph ~~AG76A~~ AG76(b) of IAS 39). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to ~~establish~~ measure the financial assets' fair value. This valuation technique ~~includes variables~~ uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at 1 January 20X1.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to ~~determine~~ measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IAS 39, is ~~generally~~ normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IAS 39, the fair value of an instrument at inception is ~~generally~~ normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy]. The differences yet to be recognised in profit or loss are as follows:

...

IFRS 9 *Financial Instruments* (issued November 2009)

IGA8 In the amendments to guidance on other IFRSs, in paragraph IGA6 the amendment to the illustrative disclosure in paragraph IG14 of the Implementation Guidance accompanying IFRS 7 is amended as follows:

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is ~~determined~~ measured in accordance with IFRS 13 *Fair Value Measurement* and paragraph AG76 of IAS 39. ... Such recognition reflects changes in factors (including time) that market participants would ~~consider in setting a price~~ take into account when pricing the asset or liability (see paragraph ~~AG76A~~ AG76(b) of IAS 39). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to ~~establish~~ measure the financial assets' fair value. This valuation technique ~~includes variables~~ uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at 1 January 20X1.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to ~~determine~~ measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IAS 39, is ~~generally~~ normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IAS 39, the fair value of an instrument at inception is ~~generally~~ normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy]. The differences yet to be recognised in profit or loss are as follows:

...

IFRS 9 *Financial Instruments* (issued October 2010)

IGA9 In the amendments to the guidance on other IFRSs, in paragraph IGA14 the amendment to paragraph IG14 in the implementation guidance accompanying IFRS 7 the illustrative disclosure is amended as follows:

IG14 ~~The fair value at~~ At initial recognition an entity measures the fair value of financial instruments that are not traded in active markets ~~is determined in accordance with paragraph B5.4.8 of IFRS 9~~. ... Such recognition reflects changes in factors (including time) that market participants would ~~consider in setting a price~~ take into account when pricing the asset or liability (see paragraph ~~B5.4.9~~ B5.1.2(b) of IFRS 9). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

Background

On 1 January 20X1 an entity purchases for CU15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of CU15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to ~~establish~~ measure the financial assets' fair value. This valuation technique ~~includes variables~~ uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of CU14 million, which differs from fair value by CU1 million.

The entity has existing differences of CU5 million at 1 January 20X1.

Application of requirements

The entity's 20X2 disclosure would include the following:

Accounting policies

The entity uses the following valuation technique to determine the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with IFRS 13 and IAS 39, is ~~generally~~ normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

In the notes to the financial statements

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with IFRS 13 and IAS 39, the fair value of an instrument at inception is ~~generally~~ normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy]. The differences yet to be recognised in profit or loss are as follows:

...

IAS 34 *Interim Financial Reporting*

IGA10 Paragraphs C4 and C7 are amended as follows:

C4 **Pensions:** IAS 19 *Employee Benefits* requires ~~that~~ an entity <u>to</u> determine the present value of defined benefit obligations and the ~~market~~ <u>fair</u> value of plan assets at the end of each reporting period and encourages an entity to involve a professionally qualified actuary in measurement of the obligations. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation.

C7 **Revaluations and fair value accounting:** IAS 16 *Property, Plant and Equipment* allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. Similarly, IAS 40 *Investment Property* requires an entity to ~~determine~~ <u>measure</u> the fair value of investment property. For those measurements, an entity may rely on professionally qualified valuers at annual reporting dates though not at interim reporting dates.

IAS 36 *Impairment of Assets*

IGA11 In the illustrative examples all references to 'fair value less costs to sell' are replaced with 'fair value less costs of disposal'.

IAS 39 *Financial Instruments: Recognition and Measurement*

IGA12 In the guidance on implementing IAS 39 Questions and answers E.2.1 and E.2.2 are deleted.

IAS 41 *Agriculture*

IGA13 In the illustrative examples Example 1 is amended as follows:

...

Notes

1 Operations and principal activities

XYZ Dairy Ltd ('the Company') is engaged in milk production for supply to various customers. At 31 December 20X1, the Company held 419 cows able to produce milk (mature assets) and 137 heifers being raised to produce milk in the future (immature assets). The Company produced 157,584kg of milk with a fair value less costs to sell of 518,240 (~~that is determined~~ at the time of milking) in the year ended 31 December 20X1.

2 Accounting policies

Livestock and milk

Livestock are measured at their fair value less costs to sell. The fair value of livestock is ~~determined~~ based on quoted ~~market~~ prices of livestock of similar age, breed, and genetic merit in the principal (or most advantageous) market for the livestock. Milk is initially measured at its fair value less costs to sell at the time of milking. The fair value of milk is ~~determined~~ based on quoted ~~market~~ prices in the local area in the principal (or most advantageous) market for the milk.

...

IFRIC 12 *Service Concession Arrangements*

IGA14 Paragraphs IE15 and IE31 are amended as follows:

IE15 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (licence to charge users of the infrastructure). The operator ~~estimates~~ measures the fair value of its consideration received ~~to be~~ as equal to the forecast construction costs plus 5 per cent margin, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with IAS 23 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase of the arrangement:

...

IE31 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as a right to receive a licence to charge users of the infrastructure. The operator ~~estimates~~ measures the fair value of its consideration received or receivable as equal to the forecast construction costs plus 5 per cent, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with IAS 23 *Borrowing Costs*, the operator capitalises the borrowing costs, estimated at 6.7 per cent, during the construction phase:

...

IFRIC 13 *Customer Loyalty Programmes*

IGA15 Paragraphs IE1 and IE3 are amended as follows:

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management ~~estimates~~ measures the fair value of groceries for which each loyalty point can be redeemed as 1.25 currency units (CU1.25). This amount takes into account ~~an~~ management's estimate of the discount that ~~management~~ market participants would assume when pricing the award credits. That discount takes into account market participants' expectations of the discount that ~~expects~~ would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management estimates that market participants would expect~~s~~ only 80 of these points to be redeemed. Therefore, the fair value of each point is CU1, being the fair value of the award for each loyalty point granted of CU1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × CU1.25 = CU1). Accordingly, management defers recognition of revenue of CU100. Throughout the example, management determines that non-performance risk has an immaterial effect on the measurement of its obligation under the programme.

IE3 In the second year, management revises its estimate of market participants' expectations. It now expects 90 points to be redeemed altogether.

IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IGA16 In the illustrative examples all references to 'market value' of assets are replaced with 'fair value'.

