

Technical Accounting Alert

IASB Publishes IFRS 13 Fair Value Measurement

Introduction

The purpose of this alert is to provide a brief summary of the new IASB IFRS standard released in relation to fair value measurement.

Overview

Summary of IFRS 13 Fair Value Measurement

The new IFRS does not affect which items are required to be 'fair-valued', but specifies how an entity should measure fair value and disclose fair value information.

Reasons for issuing IFRS 13

Prior to the publication of IFRS 13, the guidance on measuring fair value was distributed across many IFRSs. Some Standards contained limited guidance and others quite extensive guidance that was not always consistent.

IFRS 13 has been developed to remedy this problem, by:

- establishing a single source of guidance for all fair value measurements;
- clarifying the definition of fair value and related guidance; and
- enhancing disclosures about fair value measurements (new disclosures increase transparency about fair value measurements, including the valuation techniques and inputs used to measure fair value).

The definition of fair value

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).

The Standard clarifies that fair value is based on a transaction taking place in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability.

For liabilities, the Standard provides extensive guidance to deal with the problematic issue of measuring the fair value of a liability in the absence of a quoted price in an active market to transfer an identical liability.

Convergence

The US Financial Accounting Standards Board has also issued updated guidance on fair value measurement. As a result, the IFRS and US GAAP requirements on fair value measurement are now largely identical.

Effective date

The IFRS is to be applied for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

Grant Thornton comment

For financial assets, IFRS 13's guidance is broadly consistent with existing practice. It will however also apply to the measurement of fair value for non-financial assets and will make a significant change to existing guidance in the applicable standards. Preparers will therefore need to pay careful attention to the requirements in the new Standard.

Further information

For further information on any of the information included in this TA alert, please contact your local Grant Thornton Australia contact or a member of the National Audit Support team at NAS@grantthornton.com.au