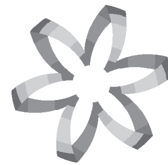

SUPPLEMENTARY

IND AS 113

PAPER - 17

Ind AS 113: Fair Value Measurement

1. Objectives:

a) To define fair value;
b) To set up a framework for measurement of fair value;
c) To specify requirements of disclosure of fair value measurement.

2. Scope:

It applies when another Ind AS requires or permits fair value measurements or disclosures about fair value measurements except cases under Ind AS 17, Ind AS 19, and Ind AS 102. It does not apply to values similar to fair value, such as 'net realizable value' in Ind AS 2 or Recoverable amount in Ind AS 36.

3. Definition:

Fair value is defined 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.

3.1. Fair value is a market-based measurement, not an entity-specific measurement. The use value or entry value to the entity is not relevant; rather the exit value in the market is important. It is the exit price to the holder of asset or bearer of liability. That exit price may be directly observed in the market or it may be estimated from the market information or by using a valuation technique. Fair value in any circumstance remains to be the exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability. Thus, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

4. Measurement :

4.1. The asset or liability:

a) The measurement is affected by the characteristics of assets or liabilities that are relevant for the market participants, such as —
- the condition and location of the asset; and
- restrictions, if any, on the sale or use of the asset.

b) The asset or liability measured at fair value might be either of the following:
(i) a stand-alone asset or liability (e.g. a financial instrument or a non-financial asset); or
(ii) a group of assets, a group of liabilities or a group of assets and liabilities (e.g. a cash-generating unit or a business).

4.2. The transaction:

a) The transaction of exchange of the asset or liability is not an actual but an assumed transaction. It is required that the transaction must be an **orderly transaction (it is not a forced transaction, forced liquidation or distress sale)**.

b) 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.

c) In the absence of evidence to the contrary, the market in which the entity would normally enter into a transaction to sell the asset or to transfer the liability is presumed to be the principal market or, in the absence of a principal market, the most advantageous market.

d) If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or estimated using another valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.

e) The principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity.

4.3. The **market participants** are assumed to act in their economic best interest.

4.4. **The price** in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs but shall be adjusted for transport costs.

4.5. Application to non-financial assets.

a) 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.
b) Highest and best use is determined from the perspective of market participants, even if the entity intends a different use. However, an entity's current use of a non-financial asset is presumed to be its highest and best use unless market or other factors suggest that a different use by market participants would maximise the value of the asset.
c) If the highest and best use of the asset is to use the asset in combination with other assets or with other assets and liabilities, the fair value of the asset is the price that would be received in a current transaction to sell the asset assuming that the market participant already holds the complementary assets and the associated liabilities.
d) If the highest and best use of the asset is to use it on a stand-alone basis, the fair value of the asset is the price that would be received in a current transaction to sell the asset to market participants that would use the asset on a stand-alone basis.

4.6. Application to liabilities and an entity's own equity instruments

a) The transfer of a liability or an entity's own equity instrument assumes that

(i) A liability would remain outstanding and the market participant transferee would be required to fulfill the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.
(ii) 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.

4.7. Non-performance risk

The fair value of a liability reflects the effect of non-performance risk. Nonperformance risk includes, but may not be limited to, an entity's own credit risk (as defined in Ind AS 107, Financial Instruments: Disclosures). Non-performance risk is assumed to be the same before and after the transfer of the liability.

4.8. Fair value at initial recognition:

If another Ind AS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price differs from fair value, the entity shall recognise the resulting gain or loss in profit or loss unless that Ind AS specifies otherwise.

4.9. Valuation techniques:

a) 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.

b) Three widely used valuation techniques are the market approach, the cost approach and the income approach.
   (i) The 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.
   (ii) The 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). From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence.
   (iii) The income approach converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts. From the perspective of a market participant seller, the current market expectation is the price that would be received for the asset based on the expected income to a market participant buyer from that asset.

4.10. Fair value hierarchy:

This Ind AS establishes a fair value hierarchy that categorises into three levels of the inputs to valuation techniques for measuring fair value.

(i) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
(ii) 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.
(iii) Level 3 inputs are unobservable inputs for the asset or liability.

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).

5. Disclosure of fair value measurement:

a) An entity shall disclose information that helps users of its financial statements assess both of the following:

   (i) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the balance sheet after initial recognition, the valuation techniques and inputs used to develop those measurements.
   (ii) 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.

b) An entity shall disclose, at a minimum, the following information for each class of assets and liabilities measured at fair value in the balance sheet after initial recognition:

   (i) for recurring and non-recurring fair value measurements, the fair value measurement at the end of the reporting period, and for non-recurring fair value measurements, the reasons for the measurement.
   (ii) for recurring and non-recurring fair value measurements, the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3).
   (iii) for recurring fair value measurement, the detail about the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy.
   (iv) for recurring and non-recurring fair value measurements 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.
   (v) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances.
   (vi) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, 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.
   (vii) for recurring and non-recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a description of the valuation processes used by the entity.

c) An entity shall present the quantitative disclosures required by this Ind AS in a tabular format unless another format is more appropriate.