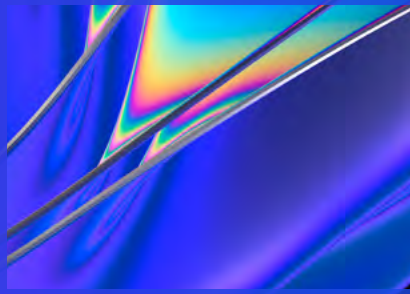
Summary on IFRS 13 Information Requests Considerations

KPMG Financial Instruments (KFI) April 2023



IAASA has released a publication on IFRS 13 information requests to assist the preparers, users and auditors of financial statements gain a clearer understanding as to whether or not the issuers have sufficiently considered the requirements of IFRS 13 Fair Value Measurement in preparing periodic financial statements.

General Requirements of IFRS 13

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. Fair value must be a market-based measurement, not an entity-specific measurement. It is a requirement that when a price for an identical asset or liability is not observable, the entity measures fair value using another valuation technique.

The fair value of a non-financial asset must consider 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. Highest and best use of a non-financial asset establishes the valuation premise used to determine the fair value of the asset. The fair value of a liability must reflect the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk.

It is a requirement of IFRS 13 that an entity shall use valuation techniquess 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.' In some cases, a single valuation technique will be appropriate while, in other cases, multiple valuation techniques will be appropriate.

Aspects of IFRS 13 that future IAASA examinations will focus on

a. The measurement basis and valuation techniques used for each class of asset or liability measured at fair value,
b. Evaluation as to whether the valuation techniques employed in measuring fair values maximise the use of observable inputs and minimise the use of unobservable inputs,
c. Examination of fair value adjustments within the measurement period after initial measurement and the reasons for same,
d. The consistency of the key assumptions with other elements of the financial statements
e. The use of independent valuation experts in fair value measurements, and
f. For Level 3 prices, issuers' disclosure of reasonably possible alternative assumptions that would change fair values significantly.

Key Takeaways – We are here for you

To comply with the new release, we can help you:

- Assess and manage valuation techniques associated with fair value determinations
- Apply and test fair value adjustments with consistent assumptions
- Oversee and evaluate inputs and methodologies used for determining fair value

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