Time for Transition: IFRS 13
Fair value measurement

Will IFRS 13 affect your business?
Do you have:
• involvement with derivative instruments?
• hedge accounting relationships?
• transactions for which alternative markets exist?
• portfolios or block holdings measured at fair value?
• fair value measurements based on bid and ask prices?
• the information for disclosure?

The effective date of 1 January 2013 is upon us ...

New fair value definition, new considerations
Some businesses will already have analysed the impact of adopting the new fair value measurement standard\(^1\). Others will have waited until the period of adoption – assuming that no real changes would be required. However, although some of the changes are subtle, the impact on your business may not be – and this is why the issue now requires your immediate attention.

Many old concepts regarding fair value have been changed. Above all, the new standard requires fair value to be measured as an exit price from the perspective of market participants in the ‘principal’ market, even if you normally transact in a different market.

Even if a fair value measurement itself does not change, the new standard includes new disclosure requirements that may require additional data collection: on unobservable inputs used for fair value measurements, sensitivity to these inputs and inter-relationships between them; on unrealised gains and losses; and on the fair value hierarchy.

1 IFRS 13 Fair Value Measurement, issued May 2011
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<th>Question</th>
<th>Description</th>
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<td><strong>Do you have ...</strong></td>
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<tr>
<td>... involvement with derivative instruments?</td>
<td>You might have involvement with derivative instruments, including derivative instruments that are liabilities or might change from being an asset to a liability or vice versa. You are now required to consider both your own credit risk and the counterparty's credit risk when measuring the fair value of derivative instruments, if market participants would do so, and consistent with how they would do it. This may require changes in your systems and processes.</td>
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<td>... hedge accounting relationships?</td>
<td>You might have hedge accounting relationships that will be affected on adoption of the new standard. Changes in the fair value of derivatives could lead to ineffectiveness in hedge accounting relationships that didn’t exist before, or even to the termination of some hedge relationships if they no longer meet the hedge effectiveness requirements.</td>
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<td>... transactions for which alternative markets exist?</td>
<td>You might have transactions that are measured by reference to one market, but alternative markets exist that need to be considered under the new definition of fair value. Under the new standard, you are generally required to assume that the transaction takes place in the ‘principal’ market – i.e. the market with the greatest volume and level of activity; this might be a change from the market you currently use for pricing, which is likely to be the market in which you normally transact. You need to consider all reasonably available information about volumes and levels of activity in the relevant markets when determining whether the principal market is different from your current reference market.</td>
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<td>... portfolios or block holdings measured at fair value?</td>
<td>You might have investments in portfolios of financial assets and financial liabilities with offsetting risks, or a large holding in particular equity instruments, that are measured at fair value. You need to determine whether your portfolio or holding should be measured as a single position or as the sum of the fair values of the individual instruments. This will drive whether adjustments to fair value measurements – e.g. control premiums, or marketability or liquidity discounts – are justified or required, and how they are determined; this may be different from your current practice.</td>
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<td>... fair value measurements based on bid and ask prices?</td>
<td>You might have assets or liabilities measured at fair value that have a bid and an ask price. Under the new standard, you may use the price within the bid-ask spread that is most representative of fair value rather than having to use only bid prices for asset positions and ask prices for liability positions. In some cases, a practical expedient such as mid-market pricing may be appropriate. Therefore, you should reassess how you measure the fair value of assets and liabilities subject to a bid-ask spread.</td>
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<td>... the information for disclosure?</td>
<td>More extensive fair value information needs to be disclosed. You need to disclose more information that may require additional data collection: on unobservable inputs used for fair value measurements, sensitivity to these inputs, and inter-relationships between them; on unrealised gains and losses; and on the fair value measurement levels in the fair value hierarchy. The last is extended to include fair value measurements used only for disclosure purposes. Some of this information may not be captured under your current systems and processes.</td>
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**How can we help?**

KPMG has experience in applying the new requirements across many sectors, and can help you consider the impact on your business from accounting, tax and regulatory perspectives, as well as the impact on your systems and processes, business and people.

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