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In depth

A look at current financial reporting issues

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Questions & Answers:

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IFRS 13 disclosure requirements – Questions and answers

At a glance

IFRS 13 expanded the guidance on assessing fair value measurements within the three levels of the fair value hierarchy which was originally introduced in IFRS 7. As a result, the classification as Level 1, Level 2 or Level 3 became required for non-financial assets and liabilities measured at fair value and disclosures of fair values in the notes to the financial statements.

Experience suggests that challenges arise in practice when determining where measurements fall within the fair value hierarchy. This publication sets out our views on some of the key considerations in determining the appropriate classification of fair value measurements, such as:

- a) the meaning of observable and unobservable inputs;
- b) key differences between Level 1 and Level 2 inputs; and
- c) when an unobservable input is significant enough to make the whole fair value measurement Level 3.

For further guidance on IFRS 13, please see our *A Global Guide to Fair Value Measurements* and chapter 5 of our *Manual of accounting* on pwc.com/ifrs and pwcinform.com.

Questions and Answers

1) What is the 'fair value hierarchy'?

IFRS 13 requires a fair value measurement to be categorised within the 3 levels of the fair value hierarchy for disclosure purposes. The categorisation within the fair value hierarchy is based on the inputs to valuation techniques used to measure the fair value. In principle, the observability and market activity determine the categorisation of an input. IFRS 13 notes that valuation techniques should maximise the use of observable inputs and minimise the use of unobservable inputs.

When inputs used to measure the fair value of an asset or a liability are categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. [IFRS 13 para 73].

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Some examples of inputs and their respective categorisation are outlined below:

Hierarchy	Description	Examples
Level 1	Unadjusted quoted prices in active markets for identical assets and liabilities that the entity can access at the measurement date.	<ul style="list-style-type: none"> Financial instruments (for example, shares, exchange traded options and future contracts) traded on active markets. Commodities (for example, corn, soybeans, crude oil, gold and silver) traded on active markets.
Level 2	Other observable inputs not included within Level 1 of the fair value hierarchy.	<ul style="list-style-type: none"> Recently observed prices in markets that are not active (for example, quoted prices in inactive markets). Quoted prices for similar assets or liabilities in active markets (for example, inputs derived from yield curves when observable at commonly quoted intervals). For further information, see example 2 in paragraph 5.102 of <i>Manual of accounting</i>. The unadjusted price per square metre for a building derived from observable market data (for example, prices derived from observed transactions involving comparable buildings in similar locations). Q&A 6 illustrates the application of market approach in order to measure fair value of investment properties.
Level 3	Unobservable inputs for the asset or liability.	<ul style="list-style-type: none"> Credit spread calculated using unobservable internal data. Management's cash flow projections (for example, future revenue level and other financial forecasts). Adjustments to the price per square metre for similar buildings derived from observable market data (for example, adjustments reflecting differences in physical conditions and location of the properties). Q&A 6 illustrates the application of market approach in order to measure fair value of investment properties.



2) Why is the classification within the three levels of the fair value hierarchy important?

Since IFRS 13 came into effect, regulators around the world have turned their attention to some of the disclosures required by the standard, especially regarding the classification between Level 2 and Level 3 in the fair value hierarchy. The attention given to Level 2 and Level 3 is justified because more disclosure is required for Level 3 fair value measurements than for those in Level 2.

The classification within the three levels of the fair value hierarchy is important because it increases the consistency and comparability of fair value measurements among different financial reports.

For many years, financial reporting has been prepared using Level 3 fair value measurements (typical examples include intangible assets acquired in business combinations, unquoted equity instruments and investment properties). The classification within the lowest level of the fair value hierarchy does not suggest that the quality of the fair value measurement is poor. The fair value hierarchy provides users with useful information on the nature of inputs used to develop fair value measurements.

Common issues that arise in practice are discussed in the next Q&As.

3) What is the meaning of observable and unobservable inputs?

Both Level 1 and Level 2 of the fair value hierarchy consider the use of observable inputs, while all unobservable inputs will fall in Level 3. So, the question is how to determine whether an input is observable or unobservable.

Observable inputs are publicly available information about actual events or transactions. Such inputs include those developed using market data.

Unobservable inputs are inputs for which there is no market data available. They are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability. In other words, unobservable inputs reflect the reporting entity's own view on the assumptions that market participants would use.

The table below summarises the main characteristics of observable and unobservable inputs, and it provides illustrative examples of what those could be.

Input	Characteristic	Examples
Observable	Publicly available information about actual events or transactions.	<ul style="list-style-type: none"> • Securities traded on stock exchanges. • Prices for identical or similar assets in markets that are not active (for example, market data for sales of comparable land and buildings). • Quoted prices of future contracts available on commodities exchanges. • Available market data for rentals of properties.

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		<ul style="list-style-type: none"> Interest rates and yield curves observable at commonly quoted intervals.
Unobservable	Management's assumptions that cannot be corroborated with observable market data.	<ul style="list-style-type: none"> Internal forecast of cash flows from intangible assets. Internal historical data used to calculate counterparty's probability of default. Adjustments to current prices for similar properties (for example, physical conditions and location). Estimates of growth expectations and profitability when calculating goodwill impairment test. Profit margin expectations.

4) As both Level 1 and Level 2 inputs consider observable information, what is the difference between them?

IFRS 13 defines Level 1 inputs as quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; while Level 2 inputs are defined as inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. [IFRS 13 App A]. Both definitions consider observable inputs in different ways, and the table below summarises such differences.

	Level 1	Level 2
Characteristic	<ul style="list-style-type: none"> i) The price must be for an asset or liability that is identical to the asset or liability being measured. ii) The price must be unadjusted¹. iii) The price must be quoted in active markets. iv) The entity must have access to the market at the measurement date. 	<ul style="list-style-type: none"> i) The price can be for an asset or liability that is similar to the asset or liability being measured if it is a quoted price. ii) The price can be adjusted². iii) The price can be quoted in inactive markets. iv) The price does not need to be directly observable, but it must be corroborated by observable market data.

¹ Any adjustment to a Level 1 input results in a fair value measurement categorised within a lower level of the fair value hierarchy.

² If the adjustment is significant to the entire fair value measurement, the whole fair value measurement would fall in Level 3 category (see section (ii) *Adjustments to inputs* below and Q&A 5).

i) Identical vs. similar assets or liabilities

In order to be categorised as Level 1, the price must be for an asset or liability that is identical to the asset or liability being measured. One example is when the asset is a share actively traded on a stock exchange – the quoted price is for an identical asset, so it would be categorised as Level 1.

When the price for an identical asset or liability is not available, an entity can use a quoted price for an asset or liability that is similar to the asset or liability being measured. As a result, the input would be classified as Level 2 within the fair value hierarchy.

In these situations, assets or liabilities being compared should be similar enough in order to provide an appropriate starting point for the fair value measurement. It is important to understand the characteristics of the asset or liability being measured when compared to the item being used as a benchmark. Differences between the items can affect the fair value, and adjustments might be required in order to reflect such differences. However, if a Level 2 input requires an adjustment which is unobservable and significant to the entire fair value measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

Adjustments to observable inputs are dealt with in section (ii) below. Level 3 fair value measurements are covered in Q&A 5.

Example of identical financial assets

An entity bought American Depositary Receipts (ADRs) of a Brazilian bank, Itau, on the New York Stock Exchange (NYSE). Itau's ADRs are identified by the code 'ITUB' on NYSE (each ADR traded on NYSE is identified by a unique code). At the closing date, the entity obtains available prices published by NYSE, and the price under the code 'ITUB' represents the fair value for that specific financial asset. Such a price meets the definition of a Level 1 input.

Example of similar non-financial assets

An entity owns a property located in the centre of London which it measures at fair value. At the reporting date, the entity obtains price per square metre information derived from observed transactions involving comparable properties. The comparable properties are similar assets, but not identical. The price per square metre is therefore a Level 2 input. Further adjustments to reflect differences in physical conditions and location of the properties are likely to be needed, which would normally result in the classification of the entire measurement as Level 3. See section (ii) below for further information on adjustments to observable inputs.

See also Q&A 5 and 6 for further information on the categorisation within the fair value hierarchy of investment property fair value measurements.

ii) Adjustments to inputs

Any adjustment to a Level 1 input results in a fair value measurement categorised within a lower level of the fair value hierarchy. [IFRS 13 para 79].

A price must be unadjusted in order to be categorised as Level 1. For example, financial instruments traded on active markets are categorised as Level 1 when no adjustments are made to the publicly available prices.

However, as discussed in section (i) above, Level 2 inputs consider prices for items that are similar (but not identical) to those being measured. Therefore, an entity should consider which adjustments to a price for a similar asset or liability are necessary to reflect the differences between the items being compared. Adjustments to Level 2 inputs might vary depending on factors specific to each asset or liability. Those factors include the following:

- a) the condition or location of the asset (for example, adjustments to price per square metre data in order to reflect differences in the location and physical conditions of properties); and
- b) the level of activity in the markets within which the inputs are observable (see section (iii) for adjustments to prices traded on inactive markets).

Please note that, if a Level 2 input requires an adjustment which is unobservable and significant to the entire fair value measurement, the measurement would be categorised within Level 3 of the fair value hierarchy. Q&A 5 deals with situations where an unobservable input is significant enough to make the whole fair value measurement Level 3.

Example of adjustments to observable inputs: non-financial assets

An entity owns an office building which is classified as investment property and is measured at fair value. Some similar properties in close proximity have been traded during the year, providing a reasonable starting point in order to determine the fair value of the building owned by the entity. Management concluded that the average price per square metre should be adjusted to reflect differences in physical characteristics (for example, location, physical conditions and size). The judgement as to whether such adjustments are significant or not will drive the conclusion on whether the whole fair value measurement should be categorised in Level 2 or Level 3 (see Q&A 5 for further information on how to assess whether an unobservable input is significant enough to make the whole fair value measurement Level 3).

Example of adjustments to observable inputs: financial instruments

An entity uses discounted cash flow analysis to measure the fair value of a cross-currency interest rate swap (CCIRS). Management determines the appropriate discount rate based on yield curves observed at commonly quoted intervals, which meets the definition of a Level 2 input (see section (iv) below). At the reporting date, the CCIRS is in a liability position (assume that there are no significant credit enhancements related to the CCIRS).



Management must take into account credit risk when measuring the fair value of financial instruments, including derivatives in liability position. [IFRS 13 para 42]. However, public information on the entity's own credit risk (for example, credit default swaps, bond spreads, external ratings and other comparable instruments) is not available. Therefore, management uses internal assumptions in order to determine its own credit spread, which meets the definition of a Level 3 input.

The computation of the discount rate included two variables: yield curves, which are observed at commonly quoted intervals (Level 2); and the entity's own credit risk (Level 3). The judgement as to whether the entity's own credit spread is a significant input will drive the conclusion on whether the whole fair value measurement should be categorised within Level 2 or Level 3. See Q&A 5 for further information on how to assess whether an unobservable input is significant enough to make the whole fair value measurement Level 3.

iii) Active vs. inactive market

A price must be quoted in active markets in order to be categorised as Level 1 within the fair value hierarchy. An active market is defined as a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. [IFRS 13 App A].

When the price is quoted in a market that is not active, quoted prices might not be indicative of fair value, because they could include transactions that are not orderly (for example, forced liquidations or distress sales). Some common indicators of inactive markets include low volume of recent transactions and when price quotations are not based on current information. In this situation, the price should be adjusted in order to reflect the assumptions that market participants would use in pricing an asset or liability in an orderly transaction at the reporting date.

Example of prices quoted in inactive markets

An entity holds a 1% equity interest in a public company. The equity interest is classified as available for sale. The volume of trading for this equity instrument on the stock exchange was relatively low during the reporting period (for example, there were only a few widely dispersed transactions during the year). There is a wide bid-ask spread, and price quotations vary substantially among market-makers. The most recent trade happened two months before the closing date. Management has concluded that the effects due to passage of time over the last months are not significant and uses the available quoted price as the best estimation for the fair value of the non-controlling equity interest at the closing date.

Because the information relates to a quoted price in an inactive market, the price does not meet the definition of Level 1 input.



iv) Access to the market at the measurement date and observability

Under IFRS 13, management determines fair value based on a transaction that would take place in the principal market or, in its absence, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability.

An entity must have access to the market at the measurement date in order to categorise the measurement as Level 1 within the fair value hierarchy. An entity would have access to the market if: a) it has the ability to transact at that quoted price in an exchange market; or b) there are dealers standing ready to transact with the entity at that price.

The definition of Level 2 inputs includes inputs that are not directly observable but are corroborated by market data. Such market-corroborated inputs could be determined through mathematical or statistical techniques, such as correlation and interpolation. IFRS 13 does not provide specific guidance on the application of such techniques.

Example of access to a market at the measurement date

A commodities trader holds commodity X for which it has access to a wholesale market. The retail and wholesale markets have similar volume and level of activity for the commodity. However, the retail market selling prices are usually higher. The commodities trader cannot use the higher retail price as the fair value of commodity X, because the commodities trader cannot access the retail market.

Example of input corroborated by observable market data

An entity entered into a two-year interest rate swap (IRS). The IRS pays LIBOR + 1% and receives 5%. At the reporting date, the fair value of the IRS is positive and the counterparty's credit risk is considered insignificant (assume significant amount deposited as collateral and high-quality credit risk of the counterparty). The IRS is not exchange traded and there are no other transaction prices available, so management uses discounted cash flow analysis to measure fair value. The contractual cash flows of the IRS are discounted at rates provided by a yield curve observed at commonly quoted intervals.

The yield curve is built based on yields on instruments linked to LIBOR, such as future contracts traded on an active market. Future contracts have standardised maturity dates (for example, the first working day of each month). Because future contracts are limited to specific maturities, an interpolation methodology must be applied in order to find the market rate for all other maturities. For example, in the case of two future contracts expiring on 1 October 20X1 and 1 November 20X1, an interpolation methodology would need to be applied in order to determine the market rates for all dates between 1 October 20X1 and 1 November 20X1.

As the intervals of the yield curve can be corroborated by observable market data (in this example, future contracts quoted on active markets are the market evidence), such inputs meet the definition of Level 2 input.



5) *When is an unobservable input significant enough to make the whole fair value measurement Level 3?*

There is no specific guidance in IFRS 13 regarding how to assess the significance of unobservable inputs. The absence of bright lines allows an entity to develop an internal methodology for determining significance, which should be applied consistently.

Either a qualitative or a quantitative approach, or a combination of both, could be applied for this purpose. Developing a qualitative approach will require judgement and consideration of facts specific to the asset or liability being measured. For example, projected cash flows are generally a key input in an income approach measurement; so, where those cash flows are unobservable and cannot be corroborated by market data, the whole fair value measurement will be categorised as Level 3.

The determination of which inputs are significant to a fair value measurement depends on facts and circumstances. However, the table below provides a number of inputs which might be considered significant to fair value measurements:

Input	Description	Fair value hierarchy
i) Future rental cash inflows	i) Based on the actual location, type and quality of the properties and supported by the terms of any existing lease, other contracts or external evidence (such as current market rents for similar properties).	i) Typically Level 3
ii) Discount rates	ii) Reflecting current market assessments of the uncertainty in the amount and timing of cash flows.	ii) Can be either Level 2 or Level 3
iii) Growth expectations	iii) Considering market expectations on future performance of the entity's industry sector.	iii) Can be either Level 2 or Level 3
iv) Credit spread	iv) Considering any credit enhancements related to the financial instrument.	iv) Can be either Level 2 or Level 3

i) Future rental cash inflows

The fair value of an investment property can be measured using discounted cash flow projections based on reliable estimates of future rental income and expenditure, supported by the terms of existing lease contracts. When practicable, external evidence should also be used, such as current market rents for properties of a similar nature, condition and location. The use of the income approach to measure the fair value of investment properties is likely to result in a Level 3 measurement, because the most significant inputs to the valuation technique will be the projected rental income and expenditure which are unobservable inputs.

ii) Discount rates

Discount rates that reflect current market participant assessments of uncertainty regarding the amount and timing of cash flows should be used to discount the projected future cash flows. Whether the inputs used in computing the discount rate are significant will depend on specific facts and circumstances.

For example, when applying discounted cash flow analysis to measure fair value of derivatives (for example, swaps and forwards), future cash flows are usually estimated based on contractual terms, and the discount rate computation typically includes a yield curve observable at commonly quoted intervals (which is a common example of a Level 2 input).

In other circumstances, the determination of the appropriate discount rate might be more complex. For example, discounted cash flow analysis could be applied in measuring the fair value of unquoted equity instruments. It would require estimating the future expected cash flows of an investee and discounting them to present value at a rate of return that accounts for the time value of money and the relative risks of the investment. Unlike the derivatives example in the previous paragraph, where future cash flows are estimated on a contractual basis, the future cash flows from an equity instrument are estimated based on possible future cash flows and their respective probabilities. Such input is one of the most significant inputs to the valuation technique and it would trigger, by itself, the classification as Level 3 within the fair value hierarchy. With respect to the discount rate, the weighted-average cost of capital (WACC) is generally an appropriate starting point for valuing unquoted equity instruments. In certain circumstances, the WACC might need to be adjusted if the cash flows do not represent market participant assumptions (for example, because the information needed to adjust the cash flows is not available). In this case, the WACC might need to be adjusted for premiums and discounts in order to reflect the relative risk associated with the particular business. These are key inputs to the valuation technique and, therefore, would result in classification as Level 3 within the fair value hierarchy.

The determination of a discount rate that adequately reflects all of the relevant risks (for example, projection risk, share price return estimation risk and an entity's own credit risk) involves judgement and will often require the use of unobservable inputs. The use of unobservable inputs to determine a discount rate is likely to result in a Level 3 fair value measurement.



iii) Growth expectations

An entity is applying the income approach to estimate the fair value of a non-controlling interest in an unlisted company. Management estimates the terminal value based on long-term sustainable growth rates ranging from 2% to 4%. Growth rates are applied in order to extrapolate cash flow projections. Management's assumption is supported by the expected relevant average industry growth rate, which is based on observable market data.

The growth rate meets the definition of a Level 2 input, as it can be corroborated by observable market data. Another example of a Level 2 input is inflation, which is used as a starting point when developing growth expectation of some industry sectors. However, the expected future cash flows are one of the most significant inputs to the valuation technique. These are unobservable inputs and meet the definition of a Level 3 input. Therefore, the whole fair value measurement will often be categorised within Level 3 of the fair value hierarchy when applying discounted cash flow analysis to measure fair value of unquoted equity instruments.

iv) Credit spread

IFRS 13 requires disclosure of the fair value of financial instruments measured at amortised cost and its corresponding level within the fair value hierarchy (see Q&A 7).

An entity entered into a fixed long-term borrowing which is measured at amortised cost. The entity is not listed, and public information on its own credit risk (for example, credit default swaps, bond spreads, external ratings and other comparable instruments) is not available. The borrowing is uncollateralised and credit enhancements are considered immaterial.

At the reporting date, management applies discounted cash flow analysis in order to measure the fair value of the borrowing. The discount rate computation included two key inputs:

- a) time value of money, based on a yield curve observable at commonly quoted intervals (Level 2 input); and
- b) credit risk, supported by management's assumptions on the entity's own credit risk (Level 3 input, because the input cannot be corroborated by market evidence).

In this example, the credit spread is an unobservable input, because it is based on management's internal assumptions. The credit risk is likely to have a significant impact on the fair value measurement. Therefore, management concludes that the whole fair value should be categorised as Level 3.

This example explores the consideration of credit risk when determining the fair value of a borrowing. However, IFRS 13 requires the non-performance risk to be incorporated in the fair value of financial instruments, including derivatives. The absence of credit enhancements (such as master netting arrangements effective upon default, collateral arrangements and termination provisions) could increase the credit risk and significantly impact the fair value of the derivative.

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Please note that there are a number of methods that an entity can apply to determine credit spread and this example illustrates only one of them. In measuring credit risk, an entity might consider including credit ratings, market credit spreads, credit default swap rates, other public information with respect to a particular or similar entity, and historical default rates (for further information, see *A Global Guide to Fair Value Measurements*). Some of these inputs might meet the definition of a Level 2 input.

6) What are examples of Level 3 fair value measurements?

i) Investment property

The fair value of an investment property could be measured using the market approach or the income approach. The example below illustrates the use of market approach.

An entity is measuring the fair value of its investment property as at 31 December 20X1 (the reporting and measurement date). The investment property is an office building in Dublin. Properties with comparable facilities and interiors in close proximity have been traded during the reporting period, providing a reasonable starting point for measuring the fair value of the office building.

The property is a relatively new office building. The common areas, including the reception and lifts, were recently refurbished. Furthermore, the office building is one of the tallest buildings in the area and has a considerably bigger parking area when compared to other similar office buildings. Therefore, management concluded that the average price per square metre should be adjusted to reflect specific differences in physical characteristics, as demonstrated below:

	<u>Currency unit (CU) per square metre</u>
Average price per square metre of comparable properties in close proximity	15.0
Quality of interior fittings ^(a)	XX
Property size and parking area ^(a)	<u>YY</u>
Adjusted CU for use in valuation	ZZ

^(a) The valuation process described above is not the only possible method that an entity could apply to measure the fair value of investment properties. Necessary adjustments will depend on the specific facts and circumstances.

In addition, before applying the approach above, management evaluated the circumstances of each transaction to ensure that the average price per square metre was a valid benchmark reference. For instance, management confirmed that prices were not affected by the terms of lease agreements or other commercial relationships with the tenants, which would give rise to additional differences between the properties.



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On the basis of that analysis, management concluded that the price per square metre of CU ZZ is most representative of fair value for the office building at the measurement date.

Because the average price per square metre of CU 15.0 can be corroborated by market data, it would meet the definition of Level 2. However, management needed to adjust the price in order to reflect differences in physical characteristics of the properties. Adjustments such as quality of interior fittings, size and parking area are unobservable inputs and can significantly impact a property's market price. Therefore, management concluded that the whole fair value measurement should be categorised as Level 3 within the fair value hierarchy.

ii) Unquoted equity instruments

(the fact pattern has been adapted from 'Education Material on Fair Value Measurement', published by the IFRS Foundation)

An entity holds 5% of non-controlling equity interest in a private company. Management measures the private company's fair value of equity by deducting the fair value of debt (in this case, assumed to be CU 240.0 million) from the enterprise value of CU 1,121.8 million as shown in the table below. The private company's enterprise value was computed by discounting the free cash flows by an assumed WACC of 8.9%.

	YEAR					
	0	1	2	3	4	5
Free cash flows ^(a)		100.0	100.0	100.0	100.0	100.0
Terminal value ^(b)						1,123.4
Discounted cash flow analysis						
Discount factors ^(c)		0.918	0.843	0.774	0.711	0.653
Present value of free cash flows (PVFCF)+ terminal value (PVTV)		91.8	84.3	77.4	71.1	798.8
Enterprise value = Σ PVFCF + PVTV	1,123.4					
(-) Fair value of debt	(240.0)					
(=) Fair value of equity	883.4					
Share value of 5%	44.2					

(a) Free cash flows represent cash flows before interest expense and debt movements. The tax charge has been computed considering no deduction for interest expense.

(b) The terminal value has been computed assuming the yearly cash flows amounting to CU 100.0 million would grow in perpetuity at a rate of zero (that is, assuming that the impact of inflation on future cash flows is expected to be offset by market shrinkage).

(c) The discount factors have been computed using the formula: $1/(1 + \text{WACC})^{\text{year}}$.

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However, management considers that the fair value of equity calculated above (CU 44.2 million) must be further adjusted to consider:

- A non-controlling interest discount, because management has concluded that there is a benefit associated with control. For the purposes of this example, it has been assumed that the non-controlling interest discount is CU 8.0 million.
- A discount for the lack of liquidity, because the entity's interest in the private company is unquoted. For the purposes of this example, it has been assumed that the discount for the lack of liquidity amounts to CU 4.1 million.

As a result, management concludes that CU 32.1 million is the price that is most representative of the fair value of its 5% non-controlling equity interest in the private company at the measurement date, as shown below:

	CU (million)
Indicated fair value of equity x 5% (CU 881.8 x 5%)	44.2
Non-controlling interest discount	(8.0)
Discount for the lack of liquidity	<u>(4.1)</u>
Fair value of 5% non-controlling equity interest	32.1

In this example, there are significant unobservable inputs, which are: i) estimated free cash flows; ii) discount rate; iii) non-controlling interest discount; and iv) discount for lack of liquidity. Therefore, the fair value measurement is classified as Level 3.

7) What are examples of IFRS 13 disclosures?

IFRS 13 requires extensive disclosures related to fair value measurements. However, the measurement requirements of IFRS 13 apply for the following items, but the disclosure requirements do not:

- defined benefit plan assets measured at fair value under IAS 19;
- retirement benefit plan investments measured at fair value under IAS 26; and
- assets tested for impairment using fair value less costs to sell under IAS 36.

Some examples of key disclosure requirements include:

- fair value at end of reporting period;
- level within hierarchy;
- description of valuation technique;
- reconciliation of opening and closing balances;
- quantitative information about significant unobservable inputs;
- sensitivity to changes in unobservable inputs; and
- unrealised gains/losses from remeasurement.



Entities should also disclose the fair value hierarchy, valuation techniques and inputs for each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed.

For a comprehensive list of the required disclosures, refer to our most up-to-date *IFRS disclosure checklist*. For examples of the required disclosures, refer to our most up-to-date *Illustrative IFRS consolidated financial statements*.

Questions?

PwC clients who have questions about this *In depth* should contact their engagement partner.

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