

# Exposure Draft

## Indian Accounting Standard (Ind AS) 113

### *Fair Value Measurement*

(Last date for Comments: December 05, 2011)



*Issued by*  
Accounting Standards Board

**The Institute of Chartered Accountants of India**

# Exposure Draft

## Indian Accounting Standards (Ind AS ) 113 Fair Value Measurement

---

<b>Contents</b>	<b>paragraphs</b>
<b>OBJECTIVE</b>	<b>1-4</b>
<b>SCOPE</b>	<b>5-8</b>
<b>MEASUREMENT</b>	<b>9-90</b>
<b>Definition of Fair Value</b>	<b>9-10</b>
<b>The assets or liability</b>	<b>11-14</b>
<b>The Transaction</b>	<b>15-21</b>
<b>Market Participants</b>	<b>22-23</b>
<b>The Price</b>	<b>24-26</b>
<b>Application to non-financial assets</b>	<b>27-33</b>
<b>Application to liabilities and an entity's own equity instruments</b>	<b>34-47</b>
<b>Application to financial assets and financial liabilities with offsetting     positions in market risks or counterparty credit risk</b>	<b>48-56</b>
<b>Fair value at initial recognition</b>	<b>57-60</b>
<b>Valuation techniques</b>	<b>61-66</b>
<b>Inputs to valuation techniques</b>	<b>67-71</b>
<b>Fair value hierarchy</b>	<b>72-90</b>
<b>DISCLOSURE</b>	<b>91-99</b>
<b>APPENDICES</b>	
<b>A Defined terms</b>	
<b>B Application guidance</b>	
<b>C Effective date and transition</b>	
<b>D Amendments to other Ind ASs</b>	
<b>ILLUSTRATIVE EXAMPLES</b>	
<b>1 Comparison with IFRS 13, Fair Value Measurement</b>	

# Exposure Draft

## Indian Accounting Standard (Ind AS) 113

### *Fair Value Measurement*

*Following is the Exposure Draft of the Indian Accounting Standard (Ind AS) 113 Fair Value Measurement, issued by the Accounting Standards Board of the Institute of Chartered Accountants of India, for comments. The Board invites comments on any aspect of this Exposure Draft. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*Comments should be submitted in writing to the Secretary, Accounting Standards Board. The Institute of Chartered Accountants of India, ICAI Bhawan, Post Box No. 7100, Indraprastha Marg, New Delhi – 110 002, so as to be received not later than **December 05, 2011**. Comments can also be sent by e-mail at [edcommentsasb@icai.org](mailto:edcommentsasb@icai.org) or [asb@icai.org](mailto:asb@icai.org). The Board would particularly welcome answers to the questions set out below. The Board would particularly welcome answers to the questions set out below. Comments are most helpful if they indicate the specific paragraph or group of paragraphs to which they relate, contain a clear rationale and, where applicable, provide a suggestion for alternative wording.*

*(This Exposure Draft of the Indian Accounting Standard includes paragraphs set in **bold** type and plain type, which have equal authority. Paragraphs in bold type indicate the main principles. This Exposure Draft of the Indian Accounting Standard should be read in the context of its objective and the Preface to the Statements of Accounting Standards<sup>1</sup>)*

#### **Question:**

*The Exposure Draft of Ind AS 113, Fair Value Measurement, proposes that the 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. Do you agree with the proposal that highest and best use is appropriate for fair value measurement in case land is to be measured at fair value under an Ind AS?*

#### **Objective**

- 1 **This Ind AS:**
  - a. **defines fair value;**
  - b. **sets out in a single Ind AS a framework for measuring fair value; and**
  - c. **requires disclosures about fair value measurements.**

---

<sup>1</sup> Attention is specifically drawn to paragraph 4.3 of the Preface, according to which accounting standards are intended to apply only to items which are material.

2. Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same—to estimate the price at which an *orderly transaction* to sell the asset or to transfer the liability would take place between *market participants* at the measurement date under current market conditions (ie an *exit price* at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

3. When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximises the use of relevant *observable inputs* and minimises the use of *unobservable inputs*. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfil a liability is not relevant when measuring fair value.

4. The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. In addition, this Ind AS shall be applied to an entity's own equity instruments measured at fair value.

## Scope

**5 This Ind AS applies when another Ind AS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except as specified in paragraphs 6 and 7.**

6 The measurement and disclosure requirements of this Ind AS do not apply to the following:

- (a) share-based payment transactions within the scope of Ind AS 102 *Share-based Payment*;
- (b) leasing transactions within the scope of Ind AS 17 *Leases*; and
- (c) measurements that have some similarities to fair value but are not fair value, such as net realisable value in Ind AS 2 *Inventories* or value in use in Ind AS 36 *Impairment of Assets*.

7 The disclosures required by this Ind AS are not required for the following:

- (a) plan assets measured at fair value in accordance with Ind AS 19 *Employee Benefits*;
- (b) (Refer to Appendix 1); and

- (c) assets for which recoverable amount is fair value less costs of disposal in accordance with Ind AS 36.

8 The fair value measurement framework described in this Ind AS applies to both initial and subsequent measurement if fair value is required or permitted by other Ind ASs.

## Measurement

### Definition of fair value

9 This Ind AS 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.

10 Paragraph B2 describes the overall fair value measurement approach.

### The asset or liability

11 A fair value measurement is for a particular asset or liability. Therefore, when measuring fair value an entity shall take into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Such characteristics include, for example, the following:

- (a) the condition and location of the asset; and
- (b) restrictions, if any, on the sale or use of the asset.

12 The effect on the measurement arising from a particular characteristic will differ depending on how that characteristic would be taken into account by market participants.

13 The asset or liability measured at fair value might be either of the following:

- (a) a stand-alone asset or liability (eg a financial instrument or a non-financial asset);  
or
- (b) a group of assets, a group of liabilities or a group of assets and liabilities (eg a cash-generating unit or a business).

14 Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its *unit of account*. The unit of account for the asset or liability shall be determined in accordance with the Ind AS that requires or permits the fair value measurement, except as provided in this Ind AS.

## The transaction

15 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

16 A fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- (a) in the *principal market* for the asset or liability; or
- (b) in the absence of a principal market, in the *most advantageous market* for the asset or liability.

17 An entity need not undertake an exhaustive search of all possible markets to identify the principal market or, in the absence of a principal market, the most advantageous market, but it shall take into account all information that is reasonably available. 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.

18 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.

19 The entity must have access to the principal (or most advantageous) market at the measurement date. Because different entities (and businesses within those entities) with different activities may have access to different markets, the principal (or most advantageous) market for the same asset or liability might be different for different entities (and businesses within those entities). Therefore, the principal (or most advantageous) market (and thus, market participants) shall be considered from the perspective of the entity, thereby allowing for differences between and among entities with different activities.

20 Although an entity must be able to access the market, the entity does not need to be able to sell the particular asset or transfer the particular liability on the measurement date to be able to measure fair value on the basis of the price in that market.

21 Even when there is no observable market to provide pricing information about the sale of an asset or the transfer of a liability at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That assumed transaction establishes a basis for estimating the price to sell the asset or to transfer the liability.

## **Market participants**

22 **An entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.**

23 In developing those assumptions, an entity need not identify specific market participants. Rather, the entity shall identify characteristics that distinguish market participants generally, considering factors specific to all the following:

- (a) the asset or liability;
- (b) the principal (or most advantageous) market for the asset or liability; and
- (c) market participants with whom the entity would enter into a transaction in that market.

## **The price**

24 **Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.**

25 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*. Transaction costs shall be accounted for in accordance with other Ind ASs. Transaction costs are not a characteristic of an asset or a liability; rather, they are specific to a transaction and will differ depending on how an entity enters into a transaction for the asset or liability.

26 Transaction costs do not include *transport costs*. If location is a characteristic of the asset (as might be the case, for example, for a commodity), the price in the principal (or most advantageous) market shall be adjusted for the costs, if any, that would be incurred to transport the asset from its current location to that market.

## **Application to non-financial assets**

### **Highest and best use for non-financial assets**

27 **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.**

28 The highest and best use of a non-financial asset takes into account the use of the asset that is physically possible, legally permissible and financially feasible, as follows:

(a) A use that is physically possible takes into account the physical characteristics of the asset that market participants would take into account when pricing the asset (eg the location or size of a property).

(b) A use that is legally permissible takes into account any legal restrictions on the use of the asset that market participants would take into account when pricing the asset (eg the zoning regulations applicable to a property).

(c) A use that is financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into account the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

29 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.

30 To protect its competitive position, or for other reasons, an entity may intend not to use an acquired non-financial asset actively or it may intend not to use the asset according to its highest and best use. For example, that might be the case for an acquired intangible asset that the entity plans to use defensively by preventing others from using it. Nevertheless, the entity shall measure the fair value of a non-financial asset assuming its highest and best use by market participants.

### **Valuation premise for non-financial assets**

31 The highest and best use of a non-financial asset establishes the valuation premise used to measure the fair value of the asset, as follows:

(a) The highest and best use of a non-financial asset might provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (eg a business).

(i) 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 asset would be used with other assets or with other assets and liabilities and that those assets and liabilities (ie its complementary assets and the associated liabilities) would be available to market participants.

(ii) Liabilities associated with the asset and with the complementary assets include liabilities that fund working capital, but do not include liabilities used to fund assets other than those within the group of assets.



(iii) Assumptions about the highest and best use of a non-financial asset shall be consistent for all the assets (for which highest and best use is relevant) of the group of assets or the group of assets and liabilities within which the asset would be used.

(b) The highest and best use of a non-financial asset might provide maximum value to market participants on a stand-alone basis. 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.

32 The fair value measurement of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other Ind ASs (which may be an individual asset). That is the case even when that fair value measurement assumes that the highest and best use of the asset is to use it in combination with other assets or with other assets and liabilities because a fair value measurement assumes that the market participant already holds the complementary assets and the associated liabilities.

33 Paragraph B3 describes the application of the valuation premise concept for non-financial assets.

## **Application to liabilities and an entity's own equity instruments**

### **General principles**

34 **A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (eg equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:**

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

(b) **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.**

35 Even when there is no observable market to provide pricing information about the transfer of a liability or an entity's own equity instrument (eg because contractual or other legal restrictions prevent the transfer of such items), there might be an observable market for such items if they are held by other parties as assets (eg a corporate bond or a call option on an entity's shares).

36 In all cases, an entity shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs to meet the objective of a fair value measurement, which is to estimate the price at which an orderly transaction to transfer the liability or equity instrument would take place between market participants at the measurement date under current market conditions.

*Liabilities and equity instruments held by other parties as assets*

**37 When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument from the perspective of a market participant that holds the identical item as an asset at the measurement date.**

38 In such cases, an entity shall measure the fair value of the liability or equity instrument as follows:

(a) using the quoted price in an *active market* for the identical item held by another party as an asset, if that price is available.

(b) if that price is not available, using other observable inputs, such as the quoted price in a market that is not active for the identical item held by another party as an asset.

(c) if the observable prices in (a) and (b) are not available, using another valuation technique, such as:

(i) an *income approach* (eg a present value technique that takes into account the future cash flows that a market participant would expect to receive from holding the liability or equity instrument as an asset; see paragraphs B10 and B11).

(ii) a *market approach* (eg using quoted prices for similar liabilities or equity instruments held by other parties as assets; see paragraphs B5-B7).

39 An entity shall adjust the quoted price of a liability or an entity's own equity instrument held by another party as an asset only if there are factors specific to the asset that are not applicable to the fair value measurement of the liability or equity instrument. An entity shall ensure that the price of the asset does not reflect the effect of a restriction preventing the sale of that asset. Some factors that may indicate that the quoted price of the asset should be adjusted include the following:

(a) The quoted price for the asset relates to a similar (but not identical) liability or equity instrument held by another party as an asset. For example, the liability or equity instrument may have a particular characteristic (eg the credit quality of the issuer) that is different from that reflected in the fair value of the similar liability or equity instrument held as an asset.

(b) The unit of account for the asset is not the same as for the liability or equity instrument. For example, for liabilities, in some cases the price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. If the unit of account for the liability is not for

the combined package, the objective is to measure the fair value of the issuer's liability, not the fair value of the combined package. Thus, in such cases, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement.

#### *Liabilities and equity instruments not held by other parties as assets*

**40 When a quoted price for the transfer of an identical or a similar liability or entity's own equity instrument is not available and the identical item is not held by another party as an asset, an entity shall measure the fair value of the liability or equity instrument using a valuation technique from the perspective of a market participant that owes the liability or has issued the claim on equity.**

41 For example, when applying a present value technique an entity might take into account either of the following:

(a) the future cash outflows that a market participant would expect to incur in fulfilling the obligation, including the compensation that a market participant would require for taking on the obligation (see paragraphs B31-B33).

(b) the amount that a market participant would receive to enter into or issue an identical liability or equity instrument, using the assumptions that market participants would use when pricing the identical item (eg having the same credit characteristics) in the principal (or most advantageous) market for issuing a liability or an equity instrument with the same contractual terms.

#### **Non-performance risk<sup>2</sup>**

**42 The fair value of a liability reflects the effect of *non-performance risk*. Non performance 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.**

43 When measuring the fair value of a liability, an entity shall take into account the effect of its credit risk (credit standing) and any other factors that might influence the likelihood that the obligation will or will not be fulfilled. That effect may differ depending on the liability, for example:

(a) whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability).

(b) the terms of credit enhancements related to the liability, if any.

44 The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account. The issuer of a liability issued with an inseparable third-party credit

---

<sup>2</sup> Paragraph 48 of Ind AS 39 requires that any change in fair value caused by changes in own credit risk in case of financial liabilities that, on initial recognition, are designated at fair value through profit or loss, shall be ignored. However, Ind AS 107, in paragraph 10 requires disclosures in respect of changes in fair value of such financial liabilities. This standard is, thus, applicable for measuring fair value for the purpose of disclosures in that standard as well as those contained in this standard.

enhancement that is accounted for separately from the liability shall not include the effect of the credit enhancement (eg a third-party guarantee of debt) in the fair value measurement of the liability. If the credit enhancement is accounted for separately from the liability, the issuer would take into account its own credit standing and not that of the third party guarantor when measuring the fair value of the liability.

### **Restriction preventing the transfer of a liability or an entity's own equity instrument**

45 When measuring the fair value of a liability or an entity's own equity instrument, an entity shall not include a separate input or an adjustment to other *inputs* relating to the existence of a restriction that prevents the transfer of the item. The effect of a restriction that prevents the transfer of a liability or an entity's own equity instrument is either implicitly or explicitly included in the other inputs to the fair value measurement.

46 For example, at the transaction date, both the creditor and the obligor accepted the transaction price for the liability with full knowledge that the obligation includes a restriction that prevents its transfer. As a result of the restriction being included in the transaction price, a separate input or an adjustment to an existing input is not required at the transaction date to reflect the effect of the restriction on transfer. Similarly, a separate input or an adjustment to an existing input is not required at subsequent measurement dates to reflect the effect of the restriction on transfer.

### **Financial liability with a demand feature**

47 The fair value of a financial liability with a demand feature (eg a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

### **Application to financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk**

48 An entity that holds a group of financial assets and financial liabilities is exposed to market risks (as defined in Ind AS 107) and to the credit risk (as defined in Ind AS 107 7) of each of the counterparties. If the entity manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risk, the entity is permitted to apply an exception to this Ind AS for measuring fair value. That exception permits an entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (ie an asset) for a particular risk exposure or to transfer a net short position (ie a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions. Accordingly, an entity shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

49 An entity is permitted to use the exception in paragraph 48 only if the entity does all the following:

(a) manages the group of financial assets and financial liabilities on the basis of the entity's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy;

(b) provides information on that basis about the group of financial assets and financial liabilities to the entity's key management personnel, as defined in Ind AS 24 *Related Party Disclosures*; and

(c) is required or has elected to measure those financial assets and financial liabilities at fair value in the balance sheet at the end of each reporting period.

50 The exception in paragraph 48 does not pertain to financial statement presentation. In some cases the basis for the presentation of financial instruments in the balance sheet differs from the basis for the measurement of financial instruments, for example, if an Ind AS does not require or permit financial instruments to be presented on a net basis. In such cases an entity may need to allocate the portfolio-level adjustments (see paragraphs 53-56) to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity's net risk exposure. An entity shall perform such allocations on a reasonable and consistent basis using a methodology appropriate in the circumstances.

51 An entity shall make an accounting policy decision in accordance with Ind AS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to use the exception in paragraph 48. An entity that uses the exception shall apply that accounting policy, including its policy for allocating bid-ask adjustments (see paragraphs 53-55) and credit adjustments (see paragraph 56), if applicable, consistently from period to period for a particular portfolio.

52 The exception in paragraph 48 applies only to financial assets and financial liabilities within the scope of Ind AS 39 *Financial Instruments: Recognition and Measurement*

### **Exposure to market risks**

53 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities managed on the basis of the entity's net exposure to a particular market risk (or risks), the entity shall apply the price within the bid-ask spread that is most representative of fair value in the circumstances to the entity's net exposure to those market risks (see paragraphs 70 and 71).

54 When using the exception in paragraph 48, an entity shall ensure that the market risk (or risks) to which the entity is exposed within that group of financial assets and financial liabilities is substantially the same. For example, an entity would not combine the interest rate risk associated with a financial asset with the commodity price risk associated with a financial liability because doing so would not mitigate the entity's exposure to interest

rate risk or commodity price risk. When using the exception in paragraph 48, any basis risk resulting from the market risk parameters not being identical shall be taken into account in the fair value measurement of the financial assets and financial liabilities within the group.

55 Similarly, the duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities shall be substantially the same. For example, an entity that uses a 12-month futures contract against the cash flows associated with 12 months' worth of interest rate risk exposure on a five-year financial instrument within a group made up of only those financial assets and financial liabilities measures the fair value of the exposure to 12-month interest rate risk on a net basis and the remaining interest rate risk exposure (ie years 2-5) on a gross basis.

### **Exposure to the credit risk of a particular counterparty**

56 When using the exception in paragraph 48 to measure the fair value of a group of financial assets and financial liabilities entered into with a particular counterparty, the entity shall include the effect of the entity's net exposure to the credit risk of that counterparty or the counterparty's net exposure to the credit risk of the entity in the fair value measurement when market participants would take into account any existing arrangements that mitigate credit risk exposure in the event of default (eg a master netting agreement with the counterparty or an agreement that requires the exchange of collateral on the basis of each party's net exposure to the credit risk of the other party). The fair value measurement shall reflect market participants' expectations about the likelihood that such an arrangement would be legally enforceable in the event of default.

### **Fair value at initial recognition**

57 When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an *entry price*). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an *exit price*). Entities do not necessarily sell assets at the prices paid to acquire them. Similarly, entities do not necessarily transfer liabilities at the prices received to assume them.

58 In many cases the transaction price will equal the fair value (eg that might be the case when on the transaction date the transaction to buy an asset takes place in the market in which the asset would be sold).

59 When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. Paragraph B4 describes situations in which the transaction price might not represent the fair value of an asset or a liability at initial recognition.

60 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.

## Valuation techniques

61 **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.**

62 The objective of using a valuation technique is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. Three widely used valuation techniques are the market approach, the *cost approach* and the income approach. The main aspects of those approaches are summarised in paragraphs B5-B11. An entity shall use valuation techniques consistent with one or more of those approaches to measure fair value.

63 In some cases a single valuation technique will be appropriate (eg when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (eg that might be the case when valuing a cash-generating unit). If multiple valuation techniques are used to measure fair value, the results (ie respective indications of fair value) shall be evaluated considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

64 If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price. Calibration ensures that the valuation technique reflects current market conditions, and it helps an entity to determine whether an adjustment to the valuation technique is necessary (eg there might be a characteristic of the asset or liability that is not captured by the valuation technique). After initial recognition, when measuring fair value using a valuation technique or techniques that use unobservable inputs, an entity shall ensure that those valuation techniques reflect observable market data (eg the price for a similar asset or liability) at the measurement date.

65 Valuation techniques used to measure fair value shall be applied consistently. However, a change in a valuation technique or its application (eg a change in its weightage when multiple valuation techniques are used or a change in an adjustment applied to a valuation technique) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, any of the following events take place:

- (a) new markets develop;
- (b) new information becomes available;
- (c) information previously used is no longer available;
- (d) valuation techniques improve; or
- (e) market conditions change.

66 Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with Ind AS 8. However, the disclosures in Ind AS 8 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.

## **Inputs to valuation techniques**

### **General principles**

67 **Valuation techniques used to measure fair value shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs.**

68 Examples of markets in which inputs might be observable for some assets and liabilities (eg financial instruments) include exchange markets, dealer markets, brokered markets and principal-to-principal markets (see paragraph B34).

69 An entity shall select inputs that are consistent with the characteristics of the asset or liability that market participants would take into account in a transaction for the asset or liability (see paragraphs 11 and 12). In some cases those characteristics result in the application of an adjustment, such as a premium or discount (eg a control premium or non-controlling interest discount). However, a fair value measurement shall not incorporate a premium or discount that is inconsistent with the unit of account in the Ind AS that requires or permits the fair value measurement (see paragraphs 13 and 14). Premiums or discounts that reflect size as a characteristic of the entity's holding (specifically, a blockage factor that adjusts the quoted price of an asset or a liability because the market's normal daily trading volume is not sufficient to absorb the quantity held by the entity, as described in paragraph 80) rather than as a characteristic of the asset or liability (eg a control premium when measuring the fair value of a controlling interest) are not permitted in a fair value measurement. In all cases, if there is a quoted price in an active market (ie a *Level 1 input*) for an asset or a liability, an entity shall use that price without adjustment when measuring fair value, except as specified in paragraph 79.

### **Inputs based on bid and ask prices**

70 If an asset or a liability measured at fair value has a bid price and an ask price (eg an input from a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorised within the fair value hierarchy (ie Level 1, 2 or 3; see paragraphs 72-90). The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.



71 This Ind AS does not preclude the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread.

### **Fair value hierarchy**

72 To increase consistency and comparability in fair value measurements and related disclosures, this Ind AS establishes a fair value hierarchy that categorises into three levels (see paragraphs 76-90), the inputs to valuation techniques used to measure fair value. 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*).

73 In some cases, the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy. In those cases, 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. Assessing the significance of a particular input to the entire measurement requires judgement, taking into account factors specific to the asset or liability. Adjustments to arrive at measurements based on fair value, such as costs to sell (which are not significant as input for fair valuation) when measuring fair value less costs to sell, shall not be taken into account when determining the level of the fair value hierarchy within which a fair value measurement is categorised.

74 The availability of relevant inputs and their relative subjectivity might affect the selection of appropriate valuation techniques (see paragraph 61). However, the fair value hierarchy prioritises the inputs to valuation techniques, not the valuation techniques used to measure fair value. For example, a fair value measurement developed using a present value technique might be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement and the level of the fair value hierarchy within which those inputs are categorised.

75 If an observable input requires an adjustment using an unobservable input and that adjustment results in a significantly higher or lower fair value measurement, the resulting measurement would be categorised within Level 3 of the fair value hierarchy. For example, if a market participant would take into account the effect of a restriction on the sale of an asset when estimating the price for the asset, an entity would adjust the quoted price to reflect the effect of that restriction. If that quoted price is a *Level 2 input* and the adjustment is an unobservable input that is significant to the entire measurement, the measurement would be categorised within Level 3 of the fair value hierarchy.

### **Level 1 inputs**

76 Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

77 A quoted price in an active market provides the most reliable evidence of fair value and shall be used without adjustment to measure fair value whenever available, except as specified in paragraph 79.

78 A Level 1 input will be available for many financial assets and financial liabilities, some of which might be exchanged in multiple active markets (eg on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:

- (a) the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability; and
- (b) whether the entity can enter into a transaction for the asset or liability at the price in that market at the measurement date.

79 An entity shall not make an adjustment to a Level 1 input except in the following circumstances:

(a) when an entity holds a large number of similar (but not identical) assets or liabilities (eg debt securities) that are measured at fair value and a quoted price in an active market is available but not readily accessible for each of those assets or liabilities individually (ie given the large number of similar assets or liabilities held by the entity, it would be difficult to obtain pricing information for each individual asset or liability at the measurement date). In that case, as a practical expedient, an entity may measure fair value using an alternative pricing method that does not rely exclusively on quoted prices (eg matrix pricing). However, the use of an alternative pricing method results in a fair value measurement categorised within a lower level of the fair value hierarchy.

(b) when a quoted price in an active market does not represent fair value at the measurement date. That might be the case if, for example, significant events (such as transactions in a principal-to-principal market, trades in a brokered market or announcements) take place after the close of a market but before the measurement date. An entity shall establish and consistently apply a policy for identifying those events that might affect fair value measurements. However, if the quoted price is adjusted for new information, the adjustment results in a fair value measurement categorised within a lower level of the fair value hierarchy.

(c) when measuring the fair value of a liability or an entity's own equity instrument using the quoted price for the identical item traded as an asset in an active market and that price needs to be adjusted for factors specific to the item or the asset (see paragraph 39). If no adjustment to the quoted price of the asset is required, the result is a fair value measurement categorised within Level 1 of the fair value hierarchy. However, any adjustment to the quoted price of the asset results in a fair value measurement categorised within a lower level of the fair value hierarchy.

80 If an entity holds a position in a single asset or liability (including a position comprising a large number of identical assets or liabilities, such as a holding of financial instruments) and the asset or liability is traded in an active market, the fair value of the asset or liability shall be measured within Level 1 as the product of the quoted price for the individual asset or liability and the quantity held by the entity. That is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

## **Level 2 inputs**

81 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.

82 If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- (a) quoted prices for similar assets or liabilities in active markets.
- (b) quoted prices for identical or similar assets or liabilities in markets that are not active.
- (c) inputs other than quoted prices that are observable for the asset or liability, for example:
  - (i) interest rates and yield curves observable at commonly quoted intervals;
  - (ii) implied volatilities; and
  - (iii) credit spreads.
- (d) *market-corroborated inputs*.

83 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability. Those factors include the following:

- (a) the condition or location of the asset;
- (b) the extent to which inputs relate to items that are comparable to the asset or liability (including those factors described in paragraph 39); and
- (c) the volume or level of activity in the markets within which the inputs are observed.

84 An adjustment to a Level 2 input that is significant to the entire measurement might result in a fair value measurement categorised within Level 3 of the fair value hierarchy if the adjustment uses significant unobservable inputs.

85 Paragraph B35 describes the use of Level 2 inputs for particular assets and liabilities.

## **Level 3 inputs**

86 Level 3 inputs are unobservable inputs for the asset or liability.

87 Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, ie an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability.

Therefore, unobservable inputs shall reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

88 Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and the risk inherent in the inputs to the valuation technique. A measurement that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one when pricing the asset or liability. For example, it might be necessary to include a risk adjustment when there is significant measurement uncertainty (eg when there has been a significant decrease in the volume or level of activity when compared with normal market activity for the asset or liability, or similar assets or liabilities, and the entity has determined that the transaction price or quoted price does not represent fair value, as described in paragraphs B37-B47).

89 An entity shall develop unobservable inputs using the best information available in the circumstances, which might include the entity's own data. In developing unobservable inputs, an entity may begin with its own data, but it shall adjust those data if reasonably available information indicates that other market participants would use different data or there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy). An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall take into account all information about market participant assumptions that is reasonably available. Unobservable inputs developed in the manner described above are considered market participant assumptions and meet the objective of a fair value measurement.

90 Paragraph B36 describes the use of Level 3 inputs for particular assets and liabilities.

## **Disclosure**

91 **An entity shall disclose information that helps users of its financial statements assess both of the following;**

- (a) 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.**
- (b) 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.**

92 To meet the objectives in paragraph 91, an entity shall consider all the following:

- (a) the level of detail necessary to satisfy the disclosure requirements;
- (b) how much emphasis to place on each of the various requirements;
- (c) how much aggregation or disaggregation to undertake; and

(d) whether users of financial statements need additional information to evaluate the quantitative information disclosed.

If the disclosures provided in accordance with this Ind AS and other Ind ASs are insufficient to meet the objectives in paragraph 91, an entity shall disclose additional information necessary to meet those objectives.

93 To meet the objectives in paragraph 91, an entity shall disclose, at a minimum, the following information for each class of assets and liabilities (see paragraph 94 for information on determining appropriate classes of assets and liabilities) measured at fair value (including measurements based on fair value within the scope of this Ind AS) in the balance sheet after initial recognition:

(a) 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. Recurring fair value measurements of assets or liabilities are those that other Ind ASs require or permit in the balance sheet at the end of each reporting period. Non-recurring fair value measurements of assets or liabilities are those that other Ind ASs require or permit in the balance sheet in particular circumstances (eg when an entity measures an asset held for sale at fair value less costs to sell in accordance with Ind AS 105 *Non-current Assets Held for Sale and Discontinued Operations* because the asset's fair value less costs to sell is lower than its carrying amount).

(b) 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).

(c) for assets and liabilities held at the end of the reporting period that are measured at fair value on a recurring basis, the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into each level shall be disclosed and discussed separately from transfers out of each level.

(d) 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. If there has been a change in valuation technique (eg changing from a market approach to an income approach or the use of an additional valuation technique), the entity shall disclose that change and the reason(s) for making it. For fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall provide quantitative information about the significant unobservable inputs (eg a market multiple or future cash flows) used in the fair value measurement. An entity is not required to create quantitative information to comply with this disclosure requirement if quantitative unobservable inputs are not developed by the entity when measuring fair value (eg when an entity uses prices from prior transactions or third-party pricing information without adjustment). However, when providing this disclosure an entity cannot ignore quantitative unobservable inputs that are significant to the fair value measurement and are reasonably available to the entity.

(e) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following:

(i) total gains or losses for the period recognised in profit or loss, and the line item(s) in profit or loss in which those gains or losses are recognised.

(ii) total gains or losses for the period recognised in other comprehensive income, and the line item(s) in other comprehensive income in which those gains or losses are recognised.

(iii) purchases, sales, issues and settlements (each of those types of changes disclosed separately).

(iv) the amounts of any transfers into or out of Level 3 of the fair value hierarchy, the reasons for those transfers and the entity's policy for determining when transfers between levels are deemed to have occurred (see paragraph 95). Transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3.

(f) 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 in (e)(i) 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.

(g) 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 (including, for example, how an entity decides its valuation policies and procedures and analyses changes in fair value measurements from period to period).

(h) for recurring fair value measurements categorised within Level 3 of the fair value hierarchy:

(i) for all such measurements, a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs if a change in those inputs to a different amount might result in a significantly higher or lower fair value measurement. If there are interrelationships between those inputs and other unobservable inputs used in the fair value measurement, an entity shall also provide a description of those interrelationships and of how they might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement. To comply with that disclosure requirement, the narrative description of the sensitivity to changes in unobservable inputs shall include, at a minimum, the unobservable inputs disclosed when complying with 93(d).

(ii) for financial assets and financial liabilities, if changing one or more of the unobservable inputs to reflect reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. The entity shall disclose how the effect of a change to reflect a reasonably possible alternative assumption was calculated. For that purpose, significance shall be judged with respect to

profit or loss, and total assets or total liabilities, or, when changes in fair value are recognised in other comprehensive income, total equity.

(i) for recurring and non-recurring fair value measurements, if the highest and best use of a non-financial asset differs from its current use, an entity shall disclose that fact and why the non-financial asset is being used in a manner that differs from its highest and best use.

94 An entity shall determine appropriate classes of assets and liabilities on the basis of the following:

- (a) the nature, characteristics and risks of the asset or liability; and
- (b) the level of the fair value hierarchy within which the fair value measurement is categorised.

The number of classes may need to be greater for fair value measurements categorised within Level 3 of the fair value hierarchy because those measurements have a greater degree of uncertainty and subjectivity. Determining appropriate classes of assets and liabilities for which disclosures about fair value measurements should be provided requires judgement. A class of assets and liabilities will often require greater disaggregation than the line items presented in the balance sheet. However, an entity shall provide information sufficient to permit reconciliation to the line items presented in the balance sheet. If another Ind AS specifies the class for an asset or a liability, an entity may use that class in providing the disclosures required in this Ind AS if that class meets the requirements in this paragraph.

95 An entity shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred in accordance with paragraph 93(c) and (e)(iv). The policy about the timing of recognising transfers shall be the same for transfers into the levels as for transfers out of the levels. Examples of policies for determining the timing of transfers include the following:

- (a) the date of the event or change in circumstances that caused the transfer.
- (b) the beginning of the reporting period.
- (c) the end of the reporting period.

96 If an entity makes an accounting policy decision to use the exception in paragraph 48, it shall disclose that fact.

97 For each class of assets and liabilities not measured at fair value in the balance sheet but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i). However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorised within Level 3 of the fair value hierarchy required by paragraph 93(d). For such assets and liabilities, an entity does not need to provide the other disclosures required by this Ind AS.

98 For a liability measured at fair value and issued with an inseparable third-party credit enhancement, an issuer shall disclose the existence of that credit enhancement and whether it is reflected in the fair value measurement of the liability.

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



## Appendix A

### Defined terms

*This appendix is an integral part of the Ind AS.*

<b>active market</b>	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.
<b>cost approach</b>	A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).
<b>entry price</b>	The price paid to acquire an asset or received to assume a liability in an exchange transaction.
<b>exit price</b>	The price that would be received to sell an asset or paid to transfer a liability.
<b>expected cash flow</b>	The probability-weighted average (ie mean of the distribution) of possible future cash flows.
<b>fair value</b>	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.
<b>highest and best use</b>	The use of a non-financial asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.
<b>income approach</b>	Valuation techniques that convert future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
<b>inputs</b>	<p>The assumptions that market participants would use when pricing the asset or liability, including assumptions about risk, such as the following:</p> <p>(a) the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model); and</p> <p>(b) the risk inherent in the inputs to the valuation technique.</p> <p>Inputs may be observable or unobservable.</p>
<b>Level 1 inputs</b>	Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
<b>Level 2 inputs</b>	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
<b>Level 3 inputs</b>	Unobservable inputs for the asset or liability.

<b>market approach</b>	A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.
<b>market-corroborated inputs</b>	Inputs that are derived principally from or corroborated by observable market data by correlation or other means.
<b>market participants</b>	<p>Buyers and sellers in the principal (or most advantageous) market for the asset or liability that have all of the following characteristics:</p> <p>(a) They are independent of each other, ie they are not related parties as defined in Ind AS 24, although the price in a related party transaction may be used as an input to a fair value measurement if the entity has evidence that the transaction was entered into at market terms.</p> <p>(b) They are knowledgeable, having a reasonable understanding about the asset or liability and the transaction using all available information, including information that might be obtained through due diligence efforts that are usual and customary.</p> <p>(c) They are able to enter into a transaction for the asset or liability.</p> <p>(d) They are willing to enter into a transaction for the asset or liability, ie they are motivated but not forced or otherwise compelled to do so.</p>
<b>most advantageous market</b>	The market that maximises the amount that would be received to sell the asset or minimises the amount that would be paid to transfer the liability, after taking into account transaction costs and transport costs.
<b>non-performance risk</b>	The risk that an entity will not fulfill an obligation, Non-performance risk includes, but may not be limited to, the entity's own credit risk.
<b>observable inputs</b>	Inputs that are developed using market data, such as publicly available information about actual events or transactions, and that reflect the assumptions that market participants would use when pricing the asset or liability.
<b>orderly transaction</b>	A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).
<b>principal market</b>	The market with the greatest volume and level of activity for the asset or liability.

<b>risk premium</b>	Compensation sought by risk-averse market participants for bearing the uncertainty inherent in the cash flows of an asset or a liability. Also referred to as a 'risk adjustment'
<b>transaction costs</b>	<p>The costs to sell an asset or transfer a liability in the principal (or most advantageous) market for the asset or liability that are directly attributable to the disposal of the asset or the transfer of the liability and meet both of the following criteria:</p> <p>(a) They result directly from and are essential to that transaction.</p> <p>(b) They would not have been incurred by the entity had the decision to sell the asset or transfer the liability not been made (similar to costs to sell, as defined in Ind AS 105).</p>
<b>transport costs</b>	The costs that would be incurred to transport an asset from its current location to its principal (or most advantageous) market.
<b>unit of account</b>	The level at which an asset or a liability is aggregated or disaggregated in an Ind AS for recognition purposes.
<b>unobservable inputs</b>	Inputs for which market data are not available and that are developed using the best information available about the assumptions that market participants would use when pricing the asset or liability.

## **Appendix B**

### **Application guidance**

*This appendix is an integral part of the Ind AS. It describes the application of paragraphs 1-99 and has the same authority as the other parts of the Ind AS.*

B1 The judgements applied in different valuation situations may be different. This appendix describes the judgements that might apply when an entity measures fair value in different valuation situations.

### **The fair value measurement approach**

B2 The objective of a fair value measurement is to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions. A fair value measurement requires an entity to determine all the following:

- (a) the particular asset or liability that is the subject of the measurement (consistently with its unit of account).
- (b) for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
- (c) the principal (or most advantageous) market for the asset or liability.
- (d) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorised.

### **Valuation premise for non-financial assets (paragraphs 31-33)**

B3 When measuring the fair value of a non-financial asset used in combination with other assets as a group (as installed or otherwise configured for use) or in combination with other assets and liabilities (eg a business), the effect of the valuation premise depends on the circumstances. For example:

- (a) the fair value of the asset might be the same whether the asset is used on a stand-alone basis or in combination with other assets or with other assets and liabilities. That might be the case if the asset is a business that market participants would continue to operate. In that case, the transaction would involve valuing the business in its entirety. The use of the assets as a group in an ongoing business would generate synergies that would be available to market participants (ie market participant synergies that, therefore, should affect the fair value of the asset on either a stand-alone basis or in combination with other assets or with other assets and liabilities).
- (b) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through adjustments

to the value of the asset used on a stand-alone basis. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

(c) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the fair value measurement through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work in progress inventory that is unique and market participants would convert the inventory into finished goods, the fair value of the inventory would assume that market participants have acquired or would acquire any specialised machinery necessary to convert the inventory into finished goods.

(d) an asset's use in combination with other assets or with other assets and liabilities might be incorporated into the valuation technique used to measure the fair value of the asset. That might be the case when using the multi-period excess earnings method to measure the fair value of an intangible asset because that valuation technique specifically takes into account the contribution of any complementary assets and the associated liabilities in the group in which such an intangible asset would be used.

(e) in more limited situations, when an entity uses an asset within a group of assets, the entity might measure the asset at an amount that approximates its fair value when allocating the fair value of the asset group to the individual assets of the group. That might be the case if the valuation involves real property and the fair value of improved property (ie an asset group) is allocated to its component assets (such as land and improvements).

## **Fair value at initial recognition (paragraphs 57-60)**

B4 When determining whether fair value at initial recognition equals the transaction price, an entity shall take into account factors specific to the transaction and to the asset or liability. For example, the transaction price might not represent the fair value of an asset or a liability at initial recognition if any of the following conditions exist:

a) The transaction is between related parties, although the price in a related party transaction may be used as an input into a fair value measurement if the entity has evidence that the transaction was entered into at market terms.

b) The transaction takes place under duress or the seller is forced to accept the price in the transaction. For example, that might be the case if the seller is experiencing financial difficulty.

c) The unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction (eg in a business combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another Ind AS, or the transaction price includes transaction costs.

d) The market in which the transaction takes place is different from the principal market (or most advantageous market). For example, those markets might be different if the entity is a dealer that enters into transactions with customers in the retail market, but the principal (or most advantageous) market for the exit transaction is with other dealers in the dealer market.

## **Valuation techniques (paragraphs 61-66)**

### **Market approach**

B5 The market approach uses prices and other relevant information generated by market transactions involving identical or comparable (ie similar) assets, liabilities or a group of assets and liabilities, such as a business.

B6 For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might be in ranges with a different multiple for each comparable. The selection of the appropriate multiple within the range requires judgement, considering qualitative and quantitative factors specific to the measurement.

B7 Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value some types of financial instruments, such as debt securities, without relying exclusively on quoted prices for the specific securities, but rather relying on the securities' relationship to other benchmark quoted securities.

### **Cost approach**

B8 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).

B9 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. That is because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. Obsolescence encompasses physical deterioration, functional (technological) obsolescence and economic (external) obsolescence and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (using specified service lives). In many cases the current replacement cost method is used to measure the fair value of tangible assets that are used in combination with other assets or with other assets and liabilities.

### **Income approach**

B10 The income approach converts future amounts (eg cash flows or income and expenses) to a single current (ie discounted) amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

B11 Those valuation techniques include, for example, the following:

- (a) present value techniques (see paragraphs B12-B30);
- (b) option pricing models, such as the Black-Scholes-Merton formula or a binomial model (ie a lattice model), that incorporate present value techniques and reflect both the time value and the intrinsic value of an option; and
- (c) the multi-period excess earnings method, which is used to measure the fair value of some intangible assets.

## **Present value techniques**

B12 Paragraphs B13-B30 describe the use of present value techniques to measure fair value. Those paragraphs focus on a discount rate adjustment technique and an *expected cashflow* (expected present value) technique. Those paragraphs neither prescribe the use of a single specific present value technique nor limit the use of present value techniques to measure fair value to the techniques discussed. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (eg whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

## **The components of a present value measurement**

B13 Present value (ie an application of the income approach) is a tool used to link future amounts (eg cash flows or values) to a present amount using a discount rate. A fair value measurement of an asset or a liability using a present value technique captures all the following elements from the perspective of market participants at the measurement date:

- (a) an estimate of future cash flows for the asset or liability being measured.
- (b) expectations about possible variations in the amount and timing of the cash flows representing the uncertainty inherent in the cash flows.
- (c) the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (ie a risk-free interest rate).
- (d) the price for bearing the uncertainty inherent in the cash flows (ie a risk premium).
- (e) other factors that market participants would take into account in the circumstances.
- (f) for a liability, the non-performance risk relating to that liability, including the entity's (ie the obligor's) own credit risk.

## *General principles*

B14 Present value techniques differ in how they capture the elements in paragraph B13. However, all the following general principles govern the application of any present value technique used to measure fair value:

- (a) Cash flows and discount rates should reflect assumptions that market participants would use when pricing the asset or liability.
- (b) Cash flows and discount rates should take into account only the factors attributable to the asset or liability being measured.
- (c) To avoid double-counting or omitting the effects of risk factors, discount rates should reflect assumptions that are consistent with those inherent in the cash flows. For example, a discount rate that reflects the uncertainty in expectations about future defaults is appropriate if using contractual cash flows of a loan (ie a discount rate adjustment technique). That same rate should not be used if using expected (ie probability-weighted) cash flows (ie an expected present value technique) because the expected cash flows already reflect assumptions about the uncertainty in future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.
- (d) Assumptions about cash flows and discount rates should be internally consistent. For example, nominal cash flows, which include the effect of inflation, should be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows, which exclude the effect of inflation, should be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows should be discounted using an after-tax discount rate. Pre-tax cash flows should be discounted at a rate consistent with those cash flows.
- (e) Discount rates should be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

## *Risk and uncertainty*

B15 A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain. Even contractually fixed amounts, such as the payments on a loan, are uncertain if there is risk of default.

B16 Market participants generally seek compensation (ie a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.



B17 Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example:

- (a) The discount rate adjustment technique (see paragraphs B18-B22) uses a risk-adjusted discount rate and contractual, promised or most likely cash flows.
- (b) Method 1 of the expected present value technique (see paragraph B25) uses risk-adjusted expected cash flows and a risk-free rate.
- (c) Method 2 of the expected present value technique (see paragraph B26) uses expected cash flows that are not risk-adjusted and a discount rate adjusted to include the risk premium that market participants require. That rate is different from the rate used in the discount rate adjustment technique.

### *Discount rate adjustment technique*

B18 The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (eg contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised or most likely cash flows are discounted at an observed or estimated market rate for such conditional cash flows (ie a market rate of return).

B19 The discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (eg whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (eg credit standing, collateral, duration, restrictive covenants and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (ie using a 'build-up' approach).

B20 To illustrate a build-up approach, assume that Asset A is a contractual right to receive Rs. 800 in one year (ie there is no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

- (a) Asset B is a contractual right to receive Rs. 1,200 in one year and has a market price of Rs. 1,083. Thus, the implied annual rate of return (ie a one-year market rate of return) is 10.8 percent  $[(Rs. 1,200 / Rs. 1,083) - 1]$ .
- (b) Asset C is a contractual right to receive Rs. 700 in two years and has a market price of Rs. 566. Thus, the implied annual rate of return (ie a two-year market rate of return) is 11.2 per cent  $[(Rs. 700 / Rs. 566)^{0.5} - 1]$ .
- (c) All three assets are comparable with respect to risk (ie dispersion of possible pay-offs and credit).

B21 On the basis of the timing of the contractual payments to be received for Asset A relative to the timing for Asset B and Asset C (ie one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (Rs. 800) and the one-year market rate derived from Asset B (10.8 per cent), the fair value of Asset A is Rs. 722 (Rs. 800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case the two-year market rate indicated by Asset C (11.2 per cent) would be adjusted to a one-year market rate using the term structure of the risk-free yield curve. Additional information and analysis might be required to determine whether the risk premiums for one-year and two-year assets are the same. If it is determined that the risk premiums for one-year and two-year assets are not the same, the two-year market rate of return would be further adjusted for that effect.

B22 When the discount rate adjustment technique is applied to fixed receipts or payments, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are not fixed receipts or payments, an adjustment to the cash flows may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

#### *Expected present value technique*

B23 The expected present value technique uses as a starting point a set of cash flows that represents the probability-weighted average of all possible future cash flows (ie the expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a discrete random variable's possible values with the respective probabilities as the weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (unlike the cash flows used in the discount rate adjustment technique).

B24 In making an investment decision, risk-averse market participants would take into account the risk that the actual cash flows may differ from the expected cash flows. Portfolio theory distinguishes between two types of risk:

- (a) unsystematic (diversifiable) risk, which is the risk specific to a particular asset or liability.
- (b) systematic (non-diversifiable) risk, which is the common risk shared by an asset or a liability with the other items in a diversified portfolio.

Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

B25 Method 1 of the expected present value technique adjusts the expected cash flows of an asset for systematic (ie market) risk by subtracting a cash risk premium (ie risk-

adjusted expected cash flows). Those risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk so that a market participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if a market participant was willing to trade an expected cash flow of Rs. 1,200 for a certain cash flow of Rs.1,000, the Rs.1,000 is the certainty equivalent of the Rs. 1,200 (ie the Rs. 200 would represent the cash risk premium). In that case the market participant would be indifferent as to the asset held.

B26 In contrast, Method 2 of the expected present value technique adjusts for systematic (ie market) risk by applying a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (ie an expected rate of return). Models used for pricing risky assets, such as the capital asset pricing model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

B27 To illustrate Methods 1 and 2, assume that an asset has expected cash flows of Rs. 780 in one year determined on the basis of the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a one-year horizon is 5 per cent, and the systematic risk premium for an asset with the same risk profile is 3 per cent.

<b>Possible cash flows</b>	<b>Probability</b>	<b>Probability-weighted cash flows</b>
Rs. 500	15%	Rs. 75
Rs. 800	60%	Rs. 480
Rs. 900	25%	Rs. 225
<b>Expected Cash Flow</b>		<b>Rs. 780</b>

B28 In this simple illustration, the expected cash flows (Rs. 780) represent the probability-weighted average of the three possible outcomes. In more realistic situations, there could be many possible outcomes. However, to apply the expected present value technique, it is not always necessary to take into account distributions of all possible cash flows using complex models and techniques. Rather, it might be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, an entity might use realised cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (eg changes in external factors, including economic or market conditions, industry trends and competition as well as changes in internal factors affecting the entity more specifically), taking into account the assumptions of market participants.

B29 In theory, the present value (ie the fair value) of the asset's cash flows is the same whether determined using Method 1 or Method 2, as follows:

(a) Using Method 1, the expected cash flows are adjusted for systematic (ie market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (ie the cash risk premium of Rs. 22) could be determined using the systematic risk premium of 3 per cent ( $\text{Rs. } 780 - [\text{Rs. } 780 \times (1.05/1.08)]$ ), which results in risk-adjusted expected cash flows of Rs. 758 ( $\text{Rs. } 780 - \text{Rs. } 22$ ). The Rs. 758 is the certainty equivalent of Rs. 780 and is discounted at the risk-free interest rate (5 per cent). The present value (ie the fair value) of the asset is Rs. 722 ( $\text{Rs. } 758/1.05$ ).

(b) Using Method 2, the expected cash flows are not adjusted for systematic (ie market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected rate of return of 8 per cent (ie the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (ie the fair value) of the asset is Rs. 722 ( $\text{Rs. } 780/1.08$ ).

B30 When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available and the judgements applied.

## **Applying present value techniques to liabilities and an entity's own equity instruments not held by other parties as assets (paragraphs 40 and 41)**

B31 When using a present value technique to measure the fair value of a liability that is not held by another party as an asset (eg a decommissioning liability), an entity shall, among other things, estimate the future cash outflows that market participants would expect to incur in fulfilling the obligation. Those future cash outflows shall include market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation. Such compensation includes the return that a market participant would require for the following:

- (a) undertaking the activity (ie the value of fulfilling the obligation; eg by using resources that could be used for other activities); and
- (b) assuming the risk associated with the obligation (ie a *risk premium* that reflects the risk that the actual cash outflows might differ from the expected cash outflows; see paragraph B33).

B32 For example, a non-financial liability does not contain a contractual rate of return and there is no observable market yield for that liability. In some cases the components of the return that market participants would require will be indistinguishable from one another (eg when using the price a third party contractor would charge on a fixed fee basis). In other cases an entity needs to estimate those components separately (eg when using the

price a third party contractor would charge on a cost plus basis because the contractor in that case would not bear the risk of future changes in costs).

B33 An entity can include a risk premium in the fair value measurement of a liability or an entity's own equity instrument that is not held by another party as an asset in one of the following ways:

- (a) by adjusting the cash flows (ie as an increase in the amount of cash outflows); or
- (b) by adjusting the rate used to discount the future cash flows to their present values (ie as a reduction in the discount rate).

An entity shall ensure that it does not double-count or omit adjustments for risk. For example, if the estimated cash flows are increased to take into account the compensation for assuming the risk associated with the obligation, the discount rate should not be adjusted to reflect that risk.

## **Inputs to valuation techniques (paragraphs 67-71)**

B34 Examples of markets in which inputs might be observable for some assets and liabilities (eg financial instruments) include the following:

- a) *Exchange markets.* In an exchange market, closing prices are both readily available and generally representative of fair value. An example of such a market is the National Stock Exchange.
- b) *Dealer markets.* In a dealer market, dealers stand ready to trade (either buy or sell for their own account), thereby providing liquidity by using their capital to hold an inventory of the items for which they make a market. Typically bid and ask prices (representing the price at which the dealer is willing to buy and the price at which the dealer is willing to sell, respectively) are more readily available than closing prices. Over-the-counter markets (for which prices are publicly reported) are dealer markets. Dealer markets also exist for some other assets and liabilities, including some financial instruments, commodities and physical assets (eg used equipment).
- c) *Brokered markets.* In a brokered market, brokers attempt to match buyers with sellers but do not stand ready to trade for their own account. In other words, brokers do not use their own capital to hold an inventory of the items for which they make a market. The broker knows the prices bid and asked by the respective parties, but each party is typically unaware of another party's price requirements. Prices of completed transactions are sometimes available. Brokered markets include electronic communication networks, in which buy and sell orders are matched, and commercial and residential real estate markets.
- d) *Principal-to-principal markets.* In a principal-to-principal market, transactions, both originations and resales, are negotiated independently with no intermediary. Little information about those transactions may be made available publicly.

## Fair value hierarchy (paragraphs 72-90)

### Level 2 inputs (paragraphs 81-85)

B35 Examples of Level 2 inputs for particular assets and liabilities include the following:

(a) *Receive-fixed, pay-variable interest rate swap based on the Mumbai Interbank Offered Rate (MIBOR) swap rate.* A Level 2 input would be the MIBOR swap rate if that rate is observable at commonly quoted intervals for substantially the full term of the swap.

(b) *Receive-fixed, pay-variable interest rate swap based on a yield curve denominated in a foreign currency.* A Level 2 input would be the swap rate based on a yield curve denominated in a foreign currency that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for year 10 would not be significant to the fair value measurement of the swap in its entirety.

(c) *Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate.* A Level 2 input would be the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.

(d) *Three-year option on exchange-traded shares.* A Level 2 input would be the implied volatility for the shares derived through extrapolation to year 3 if both of the following conditions exist:

- (i) Prices for one-year and two-year options on the shares are observable.
- (ii) The extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option.

In that case the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

(e) *Licensing arrangement.* For a licensing arrangement that is acquired in a business combination and was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would be the royalty rate in the contract with the unrelated party at inception of the arrangement.

(f) *Finished goods inventory at a retail outlet.* For finished goods inventory that is acquired in a business combination, a Level 2 input would be either a price to customers in a retail market or a price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (ie similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the

least amount of subjective adjustments should be used for the fair value measurement.

(g) *Building held and used.* A Level 2 input would be the price per square metre for the building (a valuation multiple) derived from observable market data, eg multiples derived from prices in observed transactions involving comparable (ie similar) buildings in similar locations.

(h) *Cash-generating unit.* A Level 2 input would be a valuation multiple (eg a multiple of earnings or revenue or a similar performance measure) derived from observable market data, eg multiples derived from prices in observed transactions involving comparable (ie similar) businesses, taking into account operational, market, financial and non-financial factors.

### **Level 3 inputs (paragraphs 86-90)**

B36 Examples of Level 3 inputs for particular assets and liabilities include the following:

(a) *Long-dated currency swap.* A Level 3 input would be an interest rate in a specified currency that is not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

(b) *Three-year option on exchange-traded shares.* A Level 3 input would be historical volatility, ie the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participants' expectations about future volatility, even if it is the only information available to price an option.

(c) *Interest rate swap.* A Level 3 input would be an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and cannot otherwise be corroborated by observable market data.

(d) *Decommissioning liability assumed in a business combination.* A Level 3 input would be a current estimate using the entity's own data about the future cash outflows to be paid to fulfill the obligation (including market participants' expectations about the costs of fulfilling the obligation and the compensation that a market participant would require for taking on the obligation to dismantle the asset) if there is no reasonably available information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, eg a current risk-free interest rate or a credit-adjusted risk-free rate if the effect of the entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the estimate of future cash outflows.

(e) *Cash-generating unit.* A Level 3 input would be a financial forecast (eg of cash flows or profit or loss) developed using the entity's own data if there is no reasonably available information that indicates that market participants would use different assumptions.

## **Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased**

B37 The fair value of an asset or a liability might be affected when there has been a significant decrease in the volume or level of activity for that asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). To determine whether, on the basis of the evidence available, there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate the significance and relevance of factors such as the following:

- (a) There are few recent transactions.
- (b) Price quotations are not developed using current information.
- (c) Price quotations vary substantially either over time or among market-makers (eg some brokered markets).
- (d) Indices that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.
- (e) There is a significant increase in implied liquidity risk premiums, yields or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the entity's estimate of expected cash flows, taking into account all available market data about credit and other non-performance risk for the asset or liability.
- (f) There is a wide bid-ask spread or significant increase in the bid-ask spread.
- (g) There is a significant decline in the activity of, or there is an absence of, a market for new issues (ie a primary market) for the asset or liability or similar assets or liabilities.
- (h) Little information is publicly available (eg for transactions that take place in a principal-to-principal market).

B38 If an entity concludes that there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities), further analysis of the transactions or quoted prices is needed. A decrease in the volume or level of activity on its own may not indicate that a transaction price or quoted price does not represent fair value or that a transaction in that market is not orderly. However, if an entity determines that a transaction or quoted price does not represent fair value (eg there may be transactions that are not orderly), an adjustment to the transactions or quoted prices will be necessary if the entity uses those prices as a basis for measuring fair value and that adjustment may be significant to the fair value measurement in its entirety. Adjustments also may be necessary in other circumstances (eg when a price for a similar asset requires significant adjustment to make it comparable to the asset being measured or when the price is stale).

B39 This Ind AS does not prescribe a methodology for making significant adjustments to transactions or quoted prices. See paragraphs 61-66 and B5-B11 for a discussion of the use of valuation techniques when measuring fair value. Regardless of the valuation



technique used, an entity shall include appropriate risk adjustments, including a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows of an asset or a liability (see paragraph B17). Otherwise, the measurement does not faithfully represent fair value. In some cases determining the appropriate risk adjustment might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk adjustment shall be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

B40 If there has been a significant decrease in the volume or level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate (eg the use of a market approach and a present value technique). When applying weighting indications of fair value resulting from the use of multiple valuation techniques, an entity shall consider the reasonableness of the range of fair value measurements. The objective is to determine the point within the range that is most representative of fair value under current market conditions. A wide range of fair value measurements may be an indication that further analysis is needed.

B41 Even when there has been a significant decrease in the volume or level of activity for the asset or liability, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (ie not a forced liquidation or distress sale) between market participants at the measurement date under current market conditions.

B42 Estimating the price at which market participants would be willing to enter into a transaction at the measurement date under current market conditions if there has been a significant decrease in the volume or level of activity for the asset or liability depends on the facts and circumstances at the measurement date and requires judgement. An entity's intention to hold the asset or to settle or otherwise fulfill the liability is not relevant when measuring fair value because fair value is a market-based measurement, not an entity-specific measurement.

## **Identifying transactions that are not orderly**

B43 The determination of whether a transaction is orderly (or is not orderly) is more difficult if there has been a significant decrease in the volume or level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities). In such circumstances it is not appropriate to conclude that all transactions in that market are not orderly (ie forced liquidations or distress sales). Circumstances that may indicate that a transaction is not orderly include the following:

- (a) There was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.
- (b) There was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.
- (c) The seller is in or near bankruptcy or receivership (ie the seller is distressed).

(d) The seller was required to sell to meet regulatory or legal requirements (ie the seller was forced).

(e) The transaction price is an outlier when compared with other recent transactions for the same or a similar asset or liability.

An entity shall evaluate the circumstances to determine whether, on the weight of the evidence available, the transaction is orderly.

B44 An entity shall consider all the following when measuring fair value or estimating market risk premiums:

(a) If the evidence indicates that a transaction is not orderly, an entity shall place little, if any, weight (compared with other indications of fair value) on that transaction price.

(b) If the evidence indicates that a transaction is orderly, an entity shall take into account that transaction price. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances, such as the following:

(i) the volume of the transaction.

(ii) the comparability of the transaction to the asset or liability being measured.

(iii) the proximity of the transaction to the measurement date.

(c) If an entity does not have sufficient information to conclude whether a transaction is orderly, it shall take into account the transaction price. However, that transaction price may not represent fair value (ie the transaction price is not necessarily the sole or primary basis for measuring fair value or estimating market risk premiums). When an entity does not have sufficient information to conclude whether particular transactions are orderly, the entity shall place less weight on those transactions when compared with other transactions that are known to be orderly.

An entity need not undertake exhaustive efforts to determine whether a transaction is orderly, but it shall not ignore information that is reasonably available. When an entity is a party to a transaction, it is presumed to have sufficient information to conclude whether the transaction is orderly.

### **Using quoted prices provided by third parties**

B45 This Ind AS does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, if an entity has determined that the quoted prices provided by those parties are developed in accordance with this Ind AS.

B46 If there has been a significant decrease in the volume or level of activity for the asset or liability, an entity shall evaluate whether the quoted prices provided by third parties are developed using current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risk). In weighting a quoted price as an input to a fair value measurement, an entity places less weight (when compared with other indications of fair value that reflect the results of transactions) on quotes that do not reflect the result of transactions.

B47 Furthermore, the nature of a quote (eg whether the quote is an indicative price or a binding offer) shall be taken into account when weighting the available evidence, with more weight given to quotes provided by third parties that represent binding offers.

## **Appendix C**

**Effective date and transition**

**[ Refer to Appendix 1 ]**

## Appendix D

### Amendments to other Ind ASs

*This appendix sets out amendments to other Ind ASs that are a consequence of the issuing Ind AS 113. Amended paragraphs are shown with new text underlined and deleted text struck through.*

### Change in definition

D1 In Ind AS 101, 103,104 and 105 the definition of fair value is replaced with:

*Fair value* is 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. (See Ind AS 113.)

In Ind ASs 2,16,18-21,32 and 40 the definition of fair value is replaced with:

*Fair value* is 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. (See Ind AS 113 *Fair Value Measurement*.)

### Ind AS 101 *First-time Adoption of Indian Accounting Standards*

D2 Paragraph 19<sup>3</sup> is deleted.

D3 (Refer to Appendix 1).

D4 Paragraphs D15 and D20 are amended as follows:

D15 If a first-time adopter measures such an investment at cost in accordance with Ind AS 27, it shall measure that investment at one of the following amounts in its separate opening Ind AS balance sheet:

...

(b) deemed cost. The deemed cost of such an investment shall be its:

(i) fair value (~~determined in accordance with Ind AS 39~~) at the entity's date of transition to Ind ASs in its separate financial statements; or

D20 Notwithstanding the requirements of paragraphs 7 and 9, an entity may apply the requirements in ~~the last sentence paragraph AG76(a)~~ of Ind AS 39 ~~paragraph AG 76 and in paragraph AG76A~~ prospectively to transactions entered into after financial years beginning on or after date of transition to Ind-ASs

---

<sup>3</sup> Paragraph 19 has been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of Ind AS 113. As a consequence to this deletion, Appendix 1 to Ind AS 101 shall be modified indicating the aforesaid deletion.

## Ind AS102 *Share-based Payment*

D5 Paragraph 6A is added as follows:

6A This Ind AS uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113 *Fair Value Measurement*. Therefore, when applying Ind AS 102 an entity measures fair value in accordance with this Ind AS, not Ind AS 113.

## Ind AS 103 *Business Combinations*

D6 Paragraphs 20,29, 33 and 47 are amended as follows:

20 ~~Paragraphs B41-B45 provide guidance on measuring the fair value of particular identifiable assets and a non-controlling interest in an acquiree.~~ Paragraphs 24-31 specify the types of identifiable assets and liabilities that include items for which this Indian Accounting Standard provides limited exceptions to the measurement principle.

29 The acquirer shall measure the value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals ~~in determining~~ when measuring its fair value. Paragraphs B35 and B36 provide related application guidance.

33 ... To determine the amount of goodwill in a business combination in which no consideration is transferred, the acquirer shall use the acquisition-date fair value of the acquirer's interest in the acquiree ~~determined using a valuation technique~~ in place of the acquisition-date fair value of the consideration transferred (paragraph 32(a)(i))....

47 ... For example, unless an intervening event that changed its fair value can be identified, the sale of an asset to a third party shortly after the acquisition date for an amount that differs significantly from its provisional fair value ~~determined~~ measured at that date is likely to indicate an error in the provisional amount.

D7 (Refer to Appendix 1)

D8 In Appendix B paragraphs B22 and B40, B43-B46, B49 and B64 are amended as follows:

B22 Because the consolidated financial statements represent the continuation of the financial statements of the legal subsidiary except for its capital structure, the consolidated financial statements reflect:

.....

(d) the amount recognised as issued equity interests in the consolidated financial statements determined by adding the issued equity interest of the legal subsidiary (the accounting acquirer) outstanding immediately before the

business combination to the fair value of the legal parent (accounting acquiree) ~~determined in accordance with this Indian Accounting Standard.~~ However,...

...

- B40 The identifiability criteria determine whether an intangible asset is recognised separately from goodwill. However, the criteria neither provide guidance for measuring the fair value of an intangible asset nor restrict the assumptions used in ~~estimating~~ measuring the fair value of an intangible asset. For example, the acquirer would take into account the assumptions that market participants would ~~consider~~ use when pricing the intangible asset, such as expectations of future contract renewals, in measuring fair value....
- B43 ~~For~~ To protect its competitive position, or ~~for~~ other reasons, the acquirer may intend not to use an acquired non-financial asset actively, ~~for example, a research and development intangible asset~~, or it may not intend to use the asset in a way that is ~~different from the way in which other market participants would use it~~ according to its highest and best use. For example, that might be the case for an acquired research and development intangible asset that the acquirer plans to use defensively by preventing others from using it. Nevertheless, the acquirer shall measure the fair value of the non-financial asset at fair value determined in accordance with assuming its highest and best use by other market participants in accordance with the appropriate valuation premise, both initially and when measuring fair value less costs of disposal for subsequent impairment testing.
- B44 This Indian Accounting Standard allows the acquirer to measure a non-controlling interest in the acquiree at its fair value at the acquisition date. Sometimes an acquirer will be able to measure the acquisition-date fair value of a non-controlling interest on the basis of a quoted price in an active market ~~prices~~ for the equity shares (ie those not held by the acquirer). In other situations, however, a quoted price in an active market ~~price~~ for the equity shares will not be available. In those situations, the acquirer would measure the fair value of the non-controlling interest using another valuation techniques.
- B45 The fair values of the acquirer's interest in the acquiree and the non-controlling interest on a per-share basis might differ. The main difference is likely to be the inclusion of a control premium in the per-share fair value of the acquirer's interest in the acquiree or, conversely, the inclusion of a discount for lack of control (also referred to as a ~~minority~~ non-controlling interest discount) in the per-share fair value of the non-controlling interest if market participants would take into account such a premium or discount when pricing the non-controlling interest.
- B46 In a business combination achieved without the transfer of consideration, the acquirer must substitute the acquisition-date fair value of its interest in the acquiree for the acquisition-date fair value of the consideration transferred to measure goodwill or a gain on a bargain purchase (see paragraphs 32-34 and 36A). ~~The acquirer should measure the acquisition date fair value of its interest in the acquiree using one or more valuation techniques that are appropriate in the circumstances and for which~~

~~sufficient data are available. If more than one valuation technique is used, the acquirer should evaluate the results of the techniques, considering the relevance and reliability of the inputs used and the extent of the available data.~~

B49 A fair value measurement of a mutual entity should include the assumptions that market participants would make about future member benefits as well as any other relevant assumptions market participants would make about the mutual entity. For example, ~~an estimated cash flow model~~ a present value technique may be used to ~~determine~~ measure the fair value of a mutual entity. The cash flows used as inputs to the model should be based on the expected cash flows of the mutual entity, which are likely to reflect reductions for member benefits, such as reduced fees charged for goods and services.

B64 To meet the objective in paragraph 59, the acquirer shall disclose the following information for each business combination that occurs during the reporting period:

...

- (f) the acquisition-date fair value of the total consideration transferred and the acquisition-date fair value of each major class of consideration, such as:
  - (iv) equity interests of the acquirer, including the number of instruments or interests issued or issuable and the method of ~~determining~~ measuring the fair value of those instruments or interests.

...

- (o) for each business combination in which the acquirer holds less than 100 per cent of the equity interests in the acquiree at the acquisition date:

...

- (ii) for each non-controlling interest in an acquiree measured at fair value, the valuation technique(s) and ~~key model~~ significant inputs used ~~for determining~~ to measure that value.

...

## **Ind AS104 Insurance Contracts**

D9 (Refer to Appendix 1)

## **Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations**

D10 (Refer to Appendix 1)

## **Ind AS 107 Financial Instruments: Disclosures**

D 11 (Refer to Appendix 1)

D12 Paragraph 3 is amended as follows:



3 This Indian Accounting Standard shall be applied by all entities to all types of financial instruments, except:

- (a) ... in those cases, entities shall apply the requirements of this Indian Accounting Standard and, for those interests measured at fair value, the requirements of Ind AS 113 *Fair Value Measurement*. -

D13 Paragraphs 27-27B are deleted<sup>4</sup>.

D14 Paragraph 28 is amended as follows:

28 ~~If the market for a financial instrument is not active, an entity establishes its fair value using a valuation technique (see paragraphs AG74-AG79 of Ind AS 39). Nevertheless, the best evidence of fair value at initial recognition is the transaction price (ie the fair value of the consideration given or received), unless conditions described in paragraph AG 76 of Ind AS 39 are met. It follows that there could be a difference between the fair value at initial recognition and the amount that would be determined at that date using the valuation technique. If such a difference exists, an entity shall disclose, by class of financial instrument: In some cases, an entity does not recognise a gain or loss on initial recognition of a financial asset or financial liability because the fair value is neither evidenced by a quoted price in an active market for an identical asset or liability (ie a Level 1 input) nor based on a valuation technique that uses only data from observable markets (see paragraph AG76 of Ind AS 39). In such cases, the entity shall disclose by class of financial asset or financial liability:~~

- (a) its accounting policy for recognising in profit or loss the that difference between the fair value at initial recognition and the transaction price in profit or loss to reflect a change in factors (including time) that market participants would consider in setting a price take into account when pricing the asset or liability (see paragraph AG76A AG76(b) of Ind AS 39);and

...

- (c) why the entity concluded that the transaction price was not the best evidence of fair value, including a description of the evidence that supports the fair value.

D15 Paragraph 29 is amended as follows:

29 Disclosures of fair value are not required:

...

- (b) for an investment in equity instruments that do not have a quoted market price in an active market for an identical instrument (ie a Level 1 input), or derivatives linked to such equity instruments, that is measured at cost in accordance with Ind AS 39 because its fair value cannot otherwise be measured reliably; or

---

<sup>4</sup> Paragraphs 27 - 27B have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13.. As a consequence to this deletion, Appendix 1 to Ind AS 107 shall be modified indicating the aforesaid deletion.

D16 (Refer to Appendix 1)

D17 In Appendix A the definition of other price risk is amended as follows:

**other price risk** The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from **interest rate risk** or **currency risk**), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

## Ind AS 109 *Financial Instruments*

D18 –D46 (Refer to Appendix 1)

## Ind AS 1 *Presentation of Financial Statements*

D47 Paragraphs 128 and 133 are amended as follows:

128 The disclosures in paragraph 125 are not required for assets and liabilities with a significant risk that their carrying amounts might change materially within the next financial year if, at the end of the reporting period, they are measured at fair value based on ~~recently observed market prices~~ a quoted price in an active market for an identical asset or liability. Such fair values might change materially within the next financial year but these changes would not arise from assumptions or other sources of estimation uncertainly at the end of the reporting period.

133 Other Ind ASs require the disclosure of some of the assumptions that would otherwise be required in accordance with paragraph 125. For example, Ind AS 37 requires disclosure, in specified circumstances, of major assumptions concerning future events affecting classes of provisions. ~~Ind AS 107~~ Ind AS 113 *Fair Value Measurement* requires disclosure of significant assumptions (including the valuation technique(s) and inputs) the entity uses when measuring in estimating the fair values of ~~financial~~ assets and ~~financial~~ liabilities that are carried at fair value. ~~Ind AS 16 requires disclosure of significant assumptions that the entity uses in estimating the fair values of revalued items of property, plant and equipment.~~

D48 (Refer to Appendix 1)

## Ind AS 2 *Inventories*

D49 Paragraph 7 is amended as follows:

7 Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. ~~Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the market price.~~ Fair Value reflects the price at which an orderly

transaction to sell the same inventory in the principal (or most advantageous) market for that inventory would take place between market participants at the measurement date. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell.

D50 (Refer to Appendix 1)

## **Ind AS 8 Accounting Policies, Changes in Accounting Estimates and Errors**

D51 Paragraph 52 is amended as follows:

52 Therefore, retrospectively applying a new accounting policy or correcting a prior period error requires distinguishing information that

- (a) provides evidence of circumstances that existed on the date(s) as at which the transaction, other event or condition occurred, and
- (b) would have been available when the financial statements for that prior period were approved for issue.

from other information. For some types of estimates (eg ~~an estimate of a fair value measurement that uses significant unobservable not based on an observable price or observable inputs~~), it is impracticable to distinguish these types of information. When retrospective application or retrospective restatement would require making a significant estimate for which it is impossible to distinguish these two types of information, it is impracticable to apply the new accounting policy or correct the prior period error retrospectively.

D52 (Refer to Appendix 1).

## **Ind AS 10 Events after the Reporting Period**

D53 Paragraph 11 is amended as follows:

11 An example of a non-adjusting event after the reporting period is a decline in ~~market~~ fair value of investments between the end of the reporting period and the date when the financial statements are approved for issue. The decline in ~~market~~ fair value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently....

D54 (Refer to Appendix 1).

## **Ind AS 16 Property, Plant and Equipment**

D55 Paragraph 26 is amended as follows:

26 The fair value of an asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset or (b) the probabilities of the various

estimates within the range can be reasonably assessed and used in ~~estimating~~ when measuring fair value. If an entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

D56 Paragraphs 32 and 33 are deleted<sup>5</sup>.

D57 Paragraphs 35 and 77 are amended as follows:

35 When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

(a) restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

This method is often used when an asset is revalued by means of applying an index to determine its ~~depreciated~~-replacement cost (see Ind AS 113).

...

**77 If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed in addition to the disclosures required by Ind AS 113:**

...

**(c) ~~[deleted]~~<sup>5</sup> the ~~methods and significant assumptions applied in estimating the items' fair values~~;**

**(d) ~~[deleted]~~<sup>6</sup> the ~~extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques~~;**

D58 (Refer to Appendix 1)

...

## Ind AS 17 Leases

D59 Paragraph 6A is added as follows:

6A Ind AS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113 *Fair Value Measurement*. Therefore, when applying Ind AS 17 an entity measures fair value in accordance with Ind AS 17, not Ind AS 113.

---

<sup>5</sup> Paragraphs 32 and 33 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 16 shall be modified indicating the aforesaid deletion.

<sup>6</sup> Paragraphs 77(c), and 77 (d) have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 16 shall be modified indicating the aforesaid deletion.

## **Ind AS 18 Revenue**

D60 (Refer to Appendix 1)

## **Ind AS 19 Employee Benefits**

D61 (Refer to Appendix 1)

D62 Paragraphs 50 and 102 are amended as follows:

50 Accounting by an entity for defined benefit plans involves the following steps:

...

(c) ~~determining~~ measuring the fair value of any plan assets (see paragraphs 102-104);

...

102 The fair value of any plan assets is deducted in determining the amount recognised in the balance sheet in accordance with ~~under~~ paragraph 54. ~~When no market price is available, the fair value of plan assets is estimated; for example, by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligation).~~

D63 (Refer to Appendix 1)

## **Ind AS 20 Accounting for Government Grants and Disclosure of Government Assistance**

D64 (Refer to Appendix 1)

## **Ind AS 21 The Effects of Changes in Foreign Exchange Rates**

D65 Paragraph 23 is amended as follows:

**23 At the end of each reporting period:**

...

(c) **non-monetary items that are measured at fair value in a foreign currency shall be translated using the exchange rates at the date when the fair value was ~~determined~~ measured.**

D66 (Refer to Appendix 1)

## Ind AS 28 *Investments in Associates*

D67 Paragraphs 1 and 37 are amended as follows:

- 1 This Standard shall be applied in accounting for investments in associates. However, it does not apply to investments in associates held by:**

- (a) venture capital organisations,
- (b) (Deleted in Ind AS 28)

that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement*. For such ~~Such~~ investments ~~shall be measured at fair value in accordance with Ind AS 39,~~ an entity shall recognise with changes in fair value ~~recognised~~ in profit or loss in the period of the change. An entity holding such an investment shall make the disclosures required by paragraph 37(f).

**37 The following disclosures shall be made:**

- (a) the fair value of investments in associates for which there are ~~published price quotations~~ quoted market prices;

...

D68 (Refer to Appendix 1)

## Ind AS 31 *Interests in Joint Ventures*

D69 Paragraph 1 is amended as follows:

- 1 This Standard shall be applied in accounting for interests in joint ventures and the reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors, regardless of the structures or forms under which the joint venture activities take place. However, it does not apply to venturers' interests in jointly controlled entities held by:**

- (a) venture capital organisations, or
- (b) (Deleted in Ind AS 31)

~~that upon initial recognition are designated as at fair value through profit or loss or are classified as held for trading and accounted for in accordance with Ind AS 39 *Financial Instruments: Recognition and Measurement*. For such~~ Such investments ~~shall be measured at fair value in accordance with Ind AS 39,~~ an entity shall recognise ~~with~~ changes in fair value ~~recognised~~ in profit or loss in the period of the change. A venturer holding such an interest shall make the disclosures required by paragraphs 55 and 56.

D70 (Refer to Appendix 1).

## **Ind AS 32 *Financial Instruments; Presentation***

D71 Paragraph 23 is amended as follows:

- 23 ... ~~When the~~ The financial liability is recognised initially ~~under Ind AS 39, its fair value (at the present value of the redemption amount), and~~ is reclassified from equity. ....

D72 (Refer to Appendix 1).

D73 In the Application Guidance paragraph AG31 is amended as follows:

AG31 A common form of compound financial instrument is a debt instrument with an embedded conversion option, such as a bond convertible into ordinary shares of the issuer, and without any other embedded derivative features. Paragraph 28 requires the issuer of such a financial instrument to present the liability component and the equity component separately in the balance sheet, as follows:

...

- (b) The equity instrument is an embedded option to convert the liability into equity of the issuer. ~~The fair value of the option comprises its time value and its intrinsic value, if any.~~ This option has value on initial recognition even when it is out of the money.

## **Ind AS 33 *Earnings per Share***

D74 Paragraphs 8 and 47A are amended as follows:

- 8 Terms defined in Ind AS 32 *Financial Instruments: Presentation* are used in this Standard with the meanings specified in paragraph 11 of Ind AS 32, unless otherwise noted. Ind AS 32 defines financial instrument, financial asset, financial liability, ~~and~~ equity instrument and fair value, and provides guidance on applying those definitions. Ind AS 113 *Fair Value Measurement* defines fair value and sets out requirements for applying that definition.

- 47A For share options and other share-based payment arrangements to which Ind AS 102 *Share-based Payment* applies, the issue price referred to in paragraph 46 and the exercise price referred to in paragraph 47 shall include the fair value (measured in accordance with Ind AS 102) of any goods or services to be supplied to the entity in the future under the share option or other share-based payment arrangement.

D75 (Refer to Appendix 1)

D76 In Appendix A paragraph A2 is amended as follows:

- A2 The issue of ordinary shares at the time of exercise or conversion of potential ordinary shares does not usually give rise to a bonus element. This is because the potential ordinary shares are usually issued for ~~full-~~ fair value, resulting in a

proportionate change in the resources available to the entity. In a rights issue, however, the exercise price is often less than the fair value of the shares. ... The theoretical ex-rights fair value per share is calculated by adding the aggregate ~~market-fair~~ value of the shares immediately before the exercise of the rights to the proceeds from the exercise of the rights, and dividing by the number of shares outstanding after the exercise of the rights. Where the rights are to be publicly traded separately from the shares before the exercise date, fair value ~~for the purposes of this calculation is established~~ measured at the close of the last day on which the shares are traded together with the rights.

## **Ind AS 34 *Interim Financial Reporting***

D77 (Refer to Appendix 1)

D78 Paragraph 16A(j) is added as follows:

**16A In addition to disclosing significant events and transactions in accordance with paragraphs 15-15C, an entity shall include the following information, in the notes to its interim financial statements, if not disclosed elsewhere in the interim financial report. The information shall normally be reported on a financial year-to-date basis.**

...

**(j) for financial instruments, the disclosures about fair value required by paragraphs 91-93(h), 94-96, 98 and 99 of Ind AS 113 *Fair Value Measurement* and paragraphs 25, 26 and 28-30 of Ind AS 107 *Financial Instruments: Disclosures*.**

D79 (Refer to Appendix 1).

## **Ind AS 36 *Impairment of Assets***

D80 Paragraph 5 is amended as follows:

5 This Standard does not apply to financial assets within the scope of Ind AS 39, investment property measured at fair value ~~in accordance with~~ within the scope of Ind AS 40, or biological assets related to agricultural activity measured at fair value less costs to sell ~~in accordance with~~ within the scope of Ind AS 41. However, this Standard applies to assets that are carried at revalued amount (ie fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses) in accordance with other Ind ASs , such as the revaluation models in Ind AS 16 *Property, Plant and Equipment* and Ind AS 38 *Intangible Assets*. The only difference between an asset's fair value and its fair value less costs of disposal is the direct incremental costs attributable to the disposal of the asset. ~~Identifying whether a revalued asset may be impaired depends on the basis used to determine fair value:~~

(a) ~~if the asset's fair value is its market value, the only difference between the asset's fair value and its fair value less costs to sell is the direct incremental costs to dispose of the asset:~~



- (i) ~~if the disposal costs are negligible, the recoverable amount of the revalued asset is necessarily close to, or greater than, its revalued amount (ie fair value). In this case, after the revaluation requirements have been applied, it is unlikely that the revalued asset is impaired and recoverable amount need not be estimated.~~
  - (ii) ~~if the disposal costs are not negligible, the fair value less costs to sell of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount (ie fair value). In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.~~
- (b) ~~[deleted]<sup>7</sup> if the asset's fair value is determined on a basis other than its market value, its revalued amount (ie fair value) may be greater or lower than its recoverable amount. Hence, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.~~
- (c) If the disposal costs are not negligible, the fair value less costs of disposal of the revalued asset is necessarily less than its fair value. Therefore, the revalued asset will be impaired if its value in use is less than its revalued amount. In this case, after the revaluation requirements have been applied, an entity applies this Standard to determine whether the asset may be impaired.

D81 Paragraph 6 is amended as follows (as a consequence of the amendment to the definition of fair value less costs to sell, all references to 'fair value less costs to sell' in Ind AS 36 are replaced with 'fair value less costs of disposal'):

**6 The following terms are used in this Standard with the meanings specified:**

~~An active market is a market where all the following conditions exists:~~

- ~~(a) the items traded within the market are homogeneous;~~
- ~~(b) willing buyers and sellers can normally be found at any time; and~~
- ~~(c) prices are available to the public~~

~~Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal~~ is 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. (See Ind AS 113 Fair Value Measurement)

D82 Paragraphs 12, 20 and 22 are amended as follows:

**12 In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum the following indications:**

External sources of information

<sup>7</sup> Paragraphs 5(b) has been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 36 shall be modified indicating the aforesaid deletion.

- (a) ~~during the period, there are observable indications that the an asset's market value has declined during the period significantly more than would be expected as a result of the passage of time or normal use.~~

...

- 20 It may be possible to ~~determine measure~~ fair value less costs ~~to sell of disposal~~, even if ~~there is not a quoted price in an active market for an identical asset is not traded in an active market~~. However, sometimes it will not be possible to ~~determine measure~~ fair value less costs ~~to sell of disposal~~ because there is no basis for making a reliable estimate of the ~~amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties price at which an orderly transaction to sell the asset would take place between market participants at the measurement date under current market conditions~~. In this case, the entity may use the asset's value in use as its recoverable amount.

- 22 Recoverable amount is determined for an individual asset ... unless either:

...

- (b) the asset's value in use can be estimated to be close to its fair value less costs ~~to sell of disposal~~ and fair value less costs ~~to sell of disposal~~ can be ~~determined measured~~.

D83 Paragraphs 25-27 are deleted<sup>8</sup>.

D84 Paragraph 28 is amended as follows:

- 28 Costs of disposal, other than those that have been recognised as liabilities, are deducted in ~~determining measuring~~ fair value less costs ~~to sell of disposal~~. Examples...

D85 Paragraph 53A is added as follows:

53A Fair value differs from value in use. Fair value reflects the assumptions market participants would use when pricing the asset. In contrast, value in use reflects the effects of factors that maybe specific to the entity and not applicable to entities in general. For example, fair value does not reflect any of the following factors to the extent that they would not be generally available to market participants:

- (a) additional value derived from the grouping of assets (such as the creation of a portfolio of investment properties in different locations);
- (b) synergies between the asset being measured and other assets;
- (c) legal rights or legal restrictions that are specific only to the current owner of the asset; and
- (d) tax benefits or tax burdens that are specific to the current owner of the asset.

D86 Paragraphs 78,105, 111, 130 and 134 are amended as follows:

---

<sup>8</sup> Paragraphs 25-27 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 36 shall be modified indicating the aforesaid deletion.

- 78 It may be necessary to consider some recognised liabilities to determine the recoverable amount of a cash-generating unit. This may occur if the disposal of a cash-generating unit would require the buyer to assume the liability. In this case, the fair value less costs ~~to sell~~ of disposal (or the estimated cash flow from ultimate disposal) of the cash-generating unit is the ~~estimated selling price to sell~~ for the assets of the cash-generating unit and the liability together, less the costs of disposal. To perform a meaningful comparison between the carrying amount of the cash-generating unit and its recoverable amount, the carrying amount of the liability is deducted in determining both the cash-generating unit's value in use and its carrying amount.
- 105 In allocating an impairment loss in accordance with paragraph 104, an entity shall not reduce the carrying amount of an asset below the highest of:**
- (a) **its fair value less costs ~~to sell~~ of disposal (if ~~determinable~~ measurable);**
- ...
- 111 **In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, an entity shall consider, as a minimum, the following indications:**
- External sources of information
- (a) **there are observable indications that the asset's market value has increased significantly during the period.**
- ...
- 130 **An entity shall disclose the following for each material impairment loss recognised or reversed during the period for an individual asset, including goodwill, or a cash-generating unit:**
- ...
- (f) **if recoverable amount is fair value less costs ~~to sell~~ of disposal, the basis used to ~~determine~~ measure fair value less costs ~~to sell~~ of disposal (such as whether fair value was ~~determined~~ measured by reference to a quoted price in an active market for an identical asset). An entity is not required to provide the disclosures required by Ind AS 113.**
- 134 **An entity shall disclose the information required by (a)-(f) for each cash generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit (group of units) is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives:**
- ....
- (c) **the recoverable amount of the unit (or group of units) and the basis on which the unit's (group of units') recoverable amount has been determined (ie value in use or fair value less costs ~~to sell~~ of disposal).**
- (d) **if the unit's (group of units') recoverable amount is based on value in use:**
- (i) **~~a description~~ of each key assumption on which management has based its cash flow projections for the period covered by the most**

recent budgets/ forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive.

...

- (e) if the unit's (group of units') recoverable amount is based on fair value less cost ~~to sell of disposal~~, the methodology valuation technique(s) used to ~~determine~~ measure fair value less costs ~~to sell of disposal~~. An entity is not required to provide the disclosures required by Ind AS 113. If fair value less costs to sell of disposal is not determined measured using an observable market a quoted price for the an identical unit (group of units), an entity shall disclose the following information shall also be disclosed:

- (i) ~~a description of~~ each key assumption on which management has based its determination of fair value less costs ~~to sell of disposal~~. Key assumptions are those to which the unit's (group of units) recoverable amount is most sensitive.

...

(iiA) the level of the fair value hierarchy (see Ind AS 113 within which the fair value measurement is categorised in its entirety (without giving regard to the observability of costs of disposal').

(iiB) if there has been a change in valuation technique, the change and the reason(s) for making it.

If fair value less costs ~~to sell of disposal~~ is determined measured using discounted cash flow projections, an entity shall disclose the following information shall also be disclosed:

- (iii) the period over which management has projected cash flows.  
(iv) the growth rate used to extrapolate cash flow projections.  
(v) the discount rate(s) applied to the cash flow projections.

...

D87 (Refer to Appendix 1)

## **Ind AS 38 Intangible Assets**

D88 Paragraph 8 is amended as follows:

- 8 The following terms are used in this Standard with the meanings specified:**

~~An active market is a market in which all the following conditions exist:~~

- ~~(a) the items traded in the market are homogeneous;  
(b) willing buyers and sellers can normally be found at any time; and  
(c) prices are available to the public.~~

...

**Fair value of an asset is the amount for which that asset could be exchanged between knowledgeable, willing parties in an arm's length transaction is 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. (See Ind AS 113 Fair Value Measurement).**

D89 Paragraph 33 is amended as follows:

- 33** In accordance with Ind AS 103 *Business Combinations*, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. The fair value of an intangible asset will reflect market participants' expectations at the acquisition date about the probability that the expected future economic benefits embodied in the asset will flow to the entity. ...

D90 The heading above paragraph 35 is amended as follows:

**Measuring the fair value of an i Intangible asset acquired in a business combination**

D91 Paragraphs 39-41<sup>9</sup> are deleted.

D92 Paragraphs 47, 50, 75, 78, 82, 84 and 100 are amended as follows:

- 47** Paragraph 21(b) specifies that a condition for the recognition of an intangible asset is that the cost of the asset can be measured reliably. The fair value of an intangible asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value. If an entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.
- 50** Differences between the ~~market~~ fair value of an entity and the carrying amount of its identifiable net assets at any time may capture a range of factors that affect the fair value of the entity. However, such differences do not represent the cost of intangible assets controlled by the entity.
- 75** ... **For the purpose of revaluations under this Standard, fair value shall be determined measured by reference to an active market....**
- 78** It is uncommon for an active market ~~with the characteristics described in paragraph 8~~ to exist for an intangible asset, although this may happen. ...
- 82** **If the fair value of a revalued intangible asset can no longer be determined measured by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference**

---

<sup>9</sup> Paragraphs 39-41 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 38 shall be modified indicating the aforesaid deletion.

**to the active market less any subsequent accumulated amortisation and any subsequent accumulated impairment losses.**

84 If the fair value of the asset can be ~~determined~~ measured by reference to an active market at a subsequent measurement date, the revaluation model is applied from that date.

**100 The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:**

...

**(b) there is an active market (as defined in Ind AS 113) for the asset and:**

...

D93 Paragraph 124 is amended as follows:

**124 If intangible assets are accounted for at revalued amounts, an entity shall disclose the following:**

**(a) by class of intangible assets:**

...

**(iii) the carrying amount... paragraph 74; and**

**(b) the amount of... shareholders; ~~and~~**

**(c) [deleted]<sup>10</sup> ~~the methods and significant assumptions applied in estimating the assets' fair values.~~**

D94 (Refer to Appendix 1).

D95 (Refer to Appendix 1)

## **Ind AS 39 *Financial Instruments: Recognition and Measurement***

D96 (Refer to Appendix 1)

D97 Paragraph 9 is amended as follows:

**9 The following terms are used in this Standard with the meanings specified:**

...

**It should be noted that Ind AS 113 *Fair Value Measurement* paragraphs ~~48, 48A, 40 and Appendix A paragraphs AG69-AG82, which sets out the requirements for determining a reliable measure of measuring the fair value of a financial asset or financial liability, apply equally to all items that are measured at fair value, whether by designation or otherwise, or whose fair value is disclosed.~~**

---

<sup>10</sup> Paragraphs 124(c) has been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 38 shall be modified indicating the aforesaid deletion.

...

**Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction<sup>4</sup>. 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. (See Ind AS113.)**

...

The footnote to the definition of fair value is deleted.

D98 Paragraphs 13 and 28 are amended as follows:

- 13 If an entity is unable to ~~determine~~ measure reliably the fair value of an embedded derivative on the basis of its terms and conditions (for example, because the embedded derivative is based on an ~~unquoted~~ equity instrument that does not have a quoted price in an active market for an identical instrument, ie a level 1 input), the fair value of the embedded derivative is the difference between the fair value of the hybrid (combined) instrument and the fair value of the host contract, ~~if those can be determined under this Standard~~. If the entity is unable to ~~determine~~ measure the fair value of the embedded derivative using this method, paragraph 12 applies and the hybrid (combined) instrument is designated as at fair value through profit or loss.
- 28 When an entity allocates the previous carrying amount of a larger financial asset between the part that continues to be recognised and the part that is derecognised, the fair value of the part that continues to be recognised needs to be ~~determined~~ measured. ...

D99 Paragraph 43A is added.

**43A However, if the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, an entity shall apply paragraph AG76.**

D100 Paragraph 47 is amended as follows:

- 47 After initial recognition, an entity shall measure all financial liabilities at amortised cost using the effective interest method, except for:**
- (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) whose fair value cannot otherwise be reliably measured, which shall be measured at cost.**

...

D101 Paragraph 48 is amended as follows and paragraph 49<sup>11</sup> is deleted.

**48** ~~In determining the fair value of a financial asset or a financial liability for the purpose of applying this Standard, Ind AS 32 or Ind AS 107, an entity shall apply paragraphs AG69-AG82 of Appendix A.~~

~~Provided that in determining the fair value of the financial liabilities which upon initial recognition are designated at fair value through profit or loss, any change in fair value consequent to changes in the entity's own credit risk shall be ignored.~~

D102 Paragraph 88 is amended as follows:

**88** A hedging relationship qualifies for hedge accounting under paragraphs 89-102 if, and only if, all of the following conditions are met.

...

(d) The effectiveness of the hedge can be reliably measured, ie the fair value or cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured (see paragraphs 16 and 17 and Appendix A paragraphs AG80 and AG81 for guidance on determining fair value).

...

D103 (Refer to Appendix 1)

...

D104 In Appendix A paragraphs AG46, AG52 and AG64 are amended as follows:

AG46 ~~In estimating~~ When measuring the fair values of the part that continues to be recognised and the part that is derecognised for the purposes of applying paragraph 27, an entity applies the fair value measurement requirements in Ind AS 113 and paragraphs 48-49 and ~~AG69-AG82~~ in addition to paragraph 28.

AG52 This paragraph illustrates the application of the continuing involvement approach when the entity's continuing involvement is in a part of a financial asset.

Assume an entity has a portfolio of prepayable loans... The fair value of the loans at the date of the transaction is Rs 10,100 and the ~~estimated~~ fair value of the excess spread of 0.5 per cent is Rs 40.

...

The entity calculates the gain or loss on the sale of the 90 percent share of cash flows. Assuming that separate fair values of the 90 per cent part transferred and the 10 per cent part retained are not available at the date of the transfer, the entity

<sup>11</sup> Paragraphs 49 has been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 39 shall be modified indicating the aforesaid deletion.



allocates the carrying amount of the asset in accordance with paragraph 28 as follows:

	<del>Estimated</del> fair <u>Fair</u> value	Percentage	Allocated carrying amount
Portion transferred	9,090	90%	9,000
Portion retained	<u>1,010</u>	10%	<u>1,000</u>
<b>Total</b>	<b><u>10,100</u></b>		<b><u>10,000</u></b>
...			

D105 Paragraph AG64 is amended as follows:

AG64 The fair value of a financial instrument on initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also Ind AS 113 and paragraph AG76). However, if part of the consideration given or received is for something other than the financial instrument, an entity shall measure the fair value of the financial instrument ~~is estimated using a valuation technique (see paragraphs AG74-AG79)~~. For example, the fair value of a long-term loan or receivable that carries no interest can be ~~estimated~~ measured as the present value of all future cash receipts discounted using the prevailing market rate(s) of interest for a similar instrument (similar as to currency, term, type of interest rate and other factors) with a similar credit rating. Any additional amount lent is an expense or a reduction of income unless it qualifies for recognition as some other type of asset.

D106 Paragraphs AG69-AG75<sup>12</sup> and their related headings are deleted.

D107 Paragraph AG76 is amended as follows:

AG76 ~~Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments.— Periodically, an entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (ie without modification or repackaging) or based on any available observable market data. An entity obtains market data consistently in the same market where the instrument was originated or purchased. The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price (ie the fair value of the consideration given or received, see also Ind AS 113). If an entity determines that the fair value at initial recognition differs from the~~

<sup>12</sup> Paragraphs AG69- AG75 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 39 shall be modified indicating the aforesaid deletion.

transaction price as mentioned in paragraph 43A. the entity shall account for ~~unless the fair value~~ of that instrument at that date as follows:

(a) at the measurement required by paragraph 43 if that fair value is evidenced by ~~comparison with other observable current market transactions in the same instrument (ie without modification or repackaging)~~ a quoted price in an active market for an identical asset or liability (ie a Level 1 input) or based on a valuation technique ~~whose variables include that uses~~ only data from observable markets. An entity shall recognise the difference between the fair value at initial recognition and the transaction price as a gain or loss.

(b) in all other cases, at the measurement required by paragraph 43, adjusted to defer the difference between the fair value at initial recognition and the transaction price. After initial recognition, the entity shall recognise that deferred difference as a gain or loss only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

D108 Paragraph AG76A is amended as follows:

AG76A The subsequent measurement of the financial asset or financial liability and the subsequent recognition of gains and losses shall be consistent with the requirements of this Standard. ~~The application of paragraph AG76 may result in no gain or loss being recognised on the initial recognition of a financial asset or financial liability. In such a case, Ind AS 39 requires that a gain or loss shall be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.~~

D109 Paragraphs AG77-AG79<sup>13</sup> are deleted.

D110 Paragraphs AG80 and AG81 are amended as follows:

AG80 The fair value of investments in equity instruments that do not have a quoted ~~market~~ price in an active market for an identical instrument (ie a level 1 input) and derivatives that are linked to and must be settled by delivery of such an ~~unquoted~~ equity instrument (see paragraphs 46(c) and 47) is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that instrument or (b) the probabilities of the various estimates within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value.

AG81 There are many situations in which the variability in the range of reasonable fair value ~~estimates~~ measurements of investments in equity instruments that do not have a quoted ~~market~~ price in an active market for an identical instrument (ie a Level 1 input) and derivatives that are linked to and must be settled by delivery of

---

<sup>13</sup> Paragraphs AG77-AG79 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 39 shall be modified indicating the aforesaid deletion.

such an ~~unquoted~~ equity instrument (see paragraphs 46(c) and 47) is likely not to be significant. Normally it is possible to ~~estimate~~ measure the fair value of a financial asset that an entity has acquired from an outside party. However, if the range of reasonable fair value ~~estimates~~ measurements is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the instrument at fair value.

D111 The heading above paragraph AG82 and paragraph AG82 are deleted.

D112 Paragraph AG96 is amended as follows:

AG96 An investment in an ~~unquoted~~ equity instrument that does not have a quoted price in an active market for an identical instrument (ie a Level 1 input) is not carried at fair value because its fair value cannot otherwise be reliably measured or a derivative that is linked to and must be settled by delivery of such an ~~unquoted~~ equity instrument (see paragraphs 46(c) and 47) cannot be designated as a hedging instrument.

## **Ind AS 40 Investment Property**

D113 (Refer to Appendix 1)\_

D114 Paragraphs 26, 29 and 32 are amended as follows:

- 26 ... Guidance on ~~determining~~ measuring the fair value of a property interest is set out in paragraphs 33-52 and Ind AS 113. That guidance is also relevant to the ~~determination~~ measurement of fair value when that value is used as cost for initial recognition purposes.
- 29 The fair value of an asset ~~for which comparable market transactions do not exist~~ is reliably measurable if (a) the variability in the range of reasonable fair value ~~estimates~~ measurements is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used ~~in estimating~~ when measuring fair value. If the entity is able to ~~determine~~ measure reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure cost unless the fair value of the asset received is more clearly evident.
- 32 This Standard requires all entities to ~~determine~~ measure the fair value of investment property, for the purpose of disclosure even though they are required to follow the cost model. An entity is encouraged, but not required, to ~~determine~~ measure the fair value of investment property on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

D115 Paragraphs 36-39<sup>14</sup> are deleted.

D116 Paragraph 40 is amended as follows:

40 ~~When measuring the~~ The fair value of investment property in accordance with Ind AS 113, an entity shall ensure that the fair value reflects, among other things, rental income from current leases and ~~reasonable and supportable other~~ assumptions that ~~represent what knowledgeable, willing parties~~ market participants would ~~assume~~ use when pricing the investment property ~~about rental income from future leases in the light of~~ under current market conditions. It also reflects, on a similar basis, any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Some of those outflows are reflected in the liability whereas others relate to outflows that are not recognised in the financial statements until a later date (eg periodic payments such as contingent rents).

D117 Paragraphs 42-47,49, 51 and 75(d) are deleted<sup>15</sup>.

D118 Paragraph 48 is amended as follows:

48 In exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the variability in the range of reasonable fair value ~~estimates~~ measurements will be so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single ~~estimate~~ measure of fair value is negated. This may indicate that the fair value of the property will not be reliably ~~determinable~~ measurable on a continuing basis (see paragraph 53).

D119 The heading above paragraph 53 and paragraphs 53 and 53B are amended as follows:

### **Inability to determine measure fair value reliably**

53 **There is a rebuttable presumption that an entity can reliably ~~determine~~ measure the fair value of an investment property on a continuing basis. However, in exceptional cases, there is clear evidence when an entity first acquires an investment property (or when an existing property first becomes investment property after a change in use) that the fair value of the investment property is not reliably ~~determinable~~ measurable on a continuing basis. This arises when, and only when, the market for comparable market properties is inactive (eg there are few recent**

---

<sup>14</sup> Paragraphs 36-39 have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 40 shall be modified indicating the aforesaid deletion.

<sup>15</sup> Paragraphs 42-47,49, 51 and 75(d) have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of IFRS 13. As a consequence to this deletion, Appendix 1 to Ind AS 39 shall be modified indicating the aforesaid deletion.

transactions, price quotations are not current or observed transaction prices indicate that the seller was forced to sell) ~~are infrequent~~ and alternative reliable ~~estimates~~ measurements of fair value (for example, based on discounted cash flow projections) are not available. If an entity determines that the fair value of an investment property under construction is not reliably ~~determinable~~ measurable but expects the fair value of the property to be reliably ~~determinable~~ measurable when construction is complete, it shall ~~determine~~ measure the fair value of that investment property either when its fair value becomes reliably ~~determinable~~ measurable or construction is completed (whichever is earlier). If an entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably ~~determinable~~ measurable on a continuing basis, the entity shall make the disclosures required by paragraph 79(e)(i), (ii) and (iii).

53B ... An entity that has determined the fair value of an item of investment property under construction may not conclude that the fair value of the completed investment property cannot be ~~determined~~ measured reliably.

D120 (Refer to Appendix 1).

D121 Paragraphs 79 is amended as follows:

**79 In addition to the disclosures required by paragraph 75, an entity shall disclose:**

...

(e) the fair value of investment property. In the exceptional cases described in paragraph 53, when an entity cannot ~~determine~~ measure the fair value of the investment property reliably, it shall disclose:

...

(ii) an explanation of why fair value cannot be ~~determined~~ measured reliably; and

...

D122- D123 (Refer to Appendix 1)

## **Ind AS 41 Agriculture**

D124 –D130 (Refer to Appendix 1)

## **IFRIC 2 Members' Shares in Co-operative Entities and Similar Instruments**

D131-D134 (Refer to Appendix 1)

## **Appendix C to Ind AS 17 *Determining whether an Arrangement contains a Lease***

D135 (Refer to Appendix 1).

D136 In paragraph 15(a) 'fair value' is footnoted as follows:

\* Ind AS 17 uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Ind AS 113. Therefore, when applying Ind AS 17 an entity measures fair value in accordance with Ind AS 17, not Ind AS 113.

## **Appendix B to Ind AS 18 *Customer Loyalty Programmes***

D137 (Refer to Appendix 1)

D138 Paragraph 6 is amended as follows:

- 6 The consideration allocated to the award credits shall be measured by reference to their fair value, ~~ie the amount for which the award credits could be sold separately.~~

D139 (Refer to Appendix 1)

D140 In the Application Guidance paragraphs AG1-AG3 are amended as follows:

AG1 Paragraph 6 of the consensus requires the consideration allocated to award credits to be measured by reference to their fair value, ~~ie the amount for which the award credits could be sold separately.~~ If the fair value there is not directly observable a quoted market price for an identical award credit, its fair value must be estimated measured using another valuation technique.

AG2 An entity may ~~estimate~~ measure the fair value of award credits by reference to the fair value of the awards for which they could be redeemed. The fair value of the award credits takes into account, as appropriate:

- (a) the amount of the discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale; ~~and~~
- (b) the proportion of award credits that are not expected to be redeemed by customers-; and
- (c) non-performance risk.

If customers can choose from a range of different awards, the fair value of the award credits ~~will reflect~~ reflects the fair values of the range of available awards, weighted in proportion to the frequency with which each award is expected to be selected.

AG3 In some circumstances, other ~~estimation~~ valuation techniques may be ~~available~~ used. For example, if a third party will supply the awards and the entity pays the

third party for each award credit it grants, it could ~~estimate~~ measure the fair value of the award credits by reference to the amount it pays the third party, adding a reasonable profit margin. Judgement is required to select and apply the ~~estimation~~ valuation technique that satisfies the requirements of paragraph 6 of the consensus and is most appropriate in the circumstances.

## **Appendix A to Ind AS 10 *Distributions of Non-cash Assets to Owners***

D141-D142 (Refer to Appendix 1)

D143 Paragraph 17 is amended as follows:

- 17 If, after the end of a reporting period but before the financial statements are approved for issue, an entity declares a dividend to distribute a non-cash asset, it shall disclose:

...

- (c) the ~~estimated~~ fair value of the asset to be distributed as of the end of the reporting period, if it is different from its carrying amount, and the information about the method(s) used to ~~determine~~ measure that fair value required by ~~Ind AS 107 paragraph 27-27B(a)~~ paragraphs 93(b), (d), (g) and (i) and 99 of Ind AS 113.

D144 (Refer to Appendix 1)

## **Appendix E to Ind AS 32 *Extinguishing Financial Liabilities with Equity Instruments***

D145-D146 (Refer to Appendix 1).

D147 Paragraph 7 is amended as follows:

- 7 If the fair value of the equity instruments issued cannot be reliably measured then the equity instruments shall be measured to reflect the fair value of the financial liability extinguished. In measuring the fair value of a financial liability extinguished that includes a demand feature (eg a demand deposit), paragraph ~~49-47~~ of Ind AS ~~39~~ 113 is not applied.

D148 (Refer to Appendix 1)

# Ind AS 113 *FAIR VALUE MEASUREMENT* ILLUSTRATIVE EXAMPLES

CONTENTS	<i>paragraph</i>
HIGHEST AND BEST USE AND VALUATION PREMISE	IE2–IE9
Example 1—Asset group	IE3–IE6
Example 2—Land	IE7–IE8
Example 3—Research and development project	IE9
USE OF MULTIPLE VALUATION TECHNIQUES	IE10–IE17
Example 4—Machine held and used	IE11–IE14
Example 5—Software asset	IE15–IE17
PRINCIPAL (OR MOST ADVANTAGEOUS) MARKET	IE18–IE22
Example 6—Level 1 principal (or most advantageous) market	IE19–IE22
TRANSACTION PRICES AND FAIR VALUE AT INITIAL RECOGNITION	IE23–IE26
Example 7—Interest rate swap at initial recognition	IE24–IE26
RESTRICTED ASSETS	IE27–IE29
Example 8—Restriction on the sale of an equity instrument	IE28
Example 9—Restrictions on the use of an asset	IE29
MEASURING LIABILITIES	IE30–IE47
Example 10—Structured note	IE34
Example 11—Decommissioning liability	IE35–IE39
Example 12—Debt obligation: quoted price	IE40–IE42
Example 13—Debt obligation: present value technique	IE43–IE47
MEASURING FAIR VALUE WHEN THE VOLUME OR LEVEL OF ACTIVITY FOR AN ASSET OR A LIABILITY HAS SIGNIFICANTLY DECREASED	IE48–IE58
Example 14—Estimating a market rate of return when the volume or level of activity for an asset has significantly decreased	IE49–IE58
FAIR VALUE DISCLOSURES	IE59–IE66
Example 15—Assets measured at fair value	IE60
Example 16—Reconciliation of fair value measurements categorized within Level 3 of the fair value hierarchy	IE61–IE62
Example 17—Valuation techniques and inputs	IE63–IE64
Example 18—Valuation processes	IE65
Example 19—Information about sensitivity to changes in significant unobservable inputs	IE66
APPENDIX	
Amendments to the guidance on other Ind ASs	



# Ind AS 113 *Fair Value Measurement*

## Illustrative examples

*These examples accompany, but are not part of, Ind AS 113. They illustrate aspects of Ind AS 113 but are not intended to provide interpretative guidance.*

- IE1 These examples portray hypothetical situations illustrating the judgements that might apply when an entity measures assets and liabilities at fair value in different valuation situations. Although some aspects of the examples may be present in actual fact patterns, all relevant facts and circumstances of a particular fact pattern would need to be evaluated when applying Ind AS 113.

## **Highest and best use and valuation premise**

---

- IE2 Examples 1–3 illustrate the application of the highest and best use and valuation premise concepts for non-financial assets.

### **Example 1—Asset group**

- IE3 An entity acquires assets and assumes liabilities in a business combination. One of the groups of assets acquired comprises Assets A, B and C. Asset C is billing software integral to the business developed by the acquired entity for its own use in conjunction with Assets A and B (ie the related assets). The entity measures the fair value of each of the assets individually, consistently with the specified unit of account for the assets. The entity determines that the highest and best use of the assets is their current use and that each asset would provide maximum value to market participants principally through its use in combination with other assets or with other assets and liabilities (ie its complementary assets and the associated liabilities). There is no evidence to suggest that the current use of the assets is not their highest and best use.
- IE4 In this situation, the entity would sell the assets in the market in which it initially acquired the assets (ie the entry and exit markets from the perspective of the entity are the same). Market participant buyers with whom the entity would enter into a transaction in that market have characteristics that are generally representative of both strategic buyers (such as competitors) and financial buyers (such as private equity or venture capital firms that do not have complementary investments) and include those buyers that initially bid for the assets. Although market participant buyers might be broadly classified as strategic or financial buyers, in many cases there will be differences among the market participant buyers within each of those groups, reflecting, for example, different uses for an asset and different operating strategies.
- IE5 As discussed below, differences between the indicated fair values of the individual assets relate principally to the use of the assets by those market participants within different asset groups:
- (a) Strategic buyer asset group. The entity determines that strategic buyers have related assets that would enhance the value of the group within which the assets would be used (ie market participant synergies). Those assets include a substitute asset for Asset C (the billing software), which would be used for only a limited transition period and could not be sold on its own at the end of that period. Because strategic buyers have substitute assets, Asset C would not be used for its full remaining economic life. The indicated fair values of Assets A, B and C within the strategic buyer asset group (reflecting the synergies resulting from the use of the assets within that group) are Rs 360, Rs 260 and Rs 30, respectively.

The indicated fair value of the assets as a group within the strategic buyer asset group is Rs 650.

- (b) Financial buyer asset group. The entity determines that financial buyers do not have related or substitute assets that would enhance the value of the group within which the assets would be used. Because financial buyers do not have substitute assets, Asset C (ie the billing software) would be used for its full remaining economic life. The indicated fair values of Assets A, B and C within the financial buyer asset group are Rs 300, Rs 200 and Rs 100, respectively. The indicated fair value of the assets as a group within the financial buyer asset group is Rs 600.

IE6 The fair values of Assets A, B and C would be determined on the basis of the use of the assets as a group within the strategic buyer group (Rs 360, Rs 260 and Rs 30). Although the use of the assets within the strategic buyer group does not maximise the fair value of each of the assets individually, it maximises the fair value of the assets as a group (Rs 650).

### **Example 2—Land**

IE7 An entity acquires land in a business combination. The land is currently developed for industrial use as a site for a factory. The current use of land is presumed to be its highest and best use unless market or other factors suggest a different use. Nearby sites have recently been developed for residential use as sites for high-rise apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the entity determines that the land currently used as a site for a factory could be developed as a site for residential use (ie for high-rise apartment buildings) because market participants would take into account the potential to develop the site for residential use when pricing the land.

IE8 The highest and best use of the land would be determined by comparing both of the following:

- (a) the value of the land as currently developed for industrial use (ie the land would be used in combination with other assets, such as the factory, or with other assets and liabilities).
- (b) the value of the land as a vacant site for residential use, taking into account the costs of demolishing the factory and other costs (including the uncertainty about whether the entity would be able to convert the asset to the alternative use) necessary to convert the land to a vacant site (ie the land is to be used by market participants on a stand-alone basis).

The highest and best use of the land would be determined on the basis of the higher of those values. In situations involving real estate appraisal, the determination of highest and best use might take into account factors relating to the factory operations, including its assets and liabilities.

### **Example 3—Research and development project**

IE9 An entity acquires a research and development (R&D) project in a business combination. The entity does not intend to complete the project. If completed, the project would compete with one of its own projects (to provide the next generation of the entity's commercialized technology). Instead, the entity intends to hold (ie lock up) the project to prevent its competitors from obtaining access to the technology. In doing this the project is expected to provide defensive value, principally by improving the

prospects for the entity's own competing technology. To measure the fair value of the project at initial recognition, the highest and best use of the project would be determined on the basis of its use by market participants. For example:

- (a) The highest and best use of the R&D project would be to continue development if market participants would continue to develop the project and that use would maximise the value of the group of assets or of assets and liabilities in which the project would be used (ie the asset would be used in combination with other assets or with other assets and liabilities). That might be the case if market participants do not have similar technology, either in development or commercialised. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project, assuming that the R&D would be used with its complementary assets and the associated liabilities and that those assets and liabilities would be available to market participants.
- (b) The highest and best use of the R&D project would be to cease development if, for competitive reasons, market participants would lock up the project and that use would maximise the value of the group of assets or of assets and liabilities in which the project would be used. That might be the case if market participants have technology in a more advanced stage of development that would compete with the project if completed and the project would be expected to improve the prospects for their own competing technology if locked up. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project, assuming that the R&D would be used (ie locked up) with its complementary assets and the associated liabilities and that those assets and liabilities would be available to market participants.
- (c) The highest and best use of the R&D project would be to cease development if market participants would discontinue its development. That might be the case if the project is not expected to provide a market rate of return if completed and would not otherwise provide defensive value if locked up. The fair value of the project would be measured on the basis of the price that would be received in a current transaction to sell the project on its own (which might be zero).

## **Use of multiple valuation techniques**

---

IE10 The Ind AS notes that a single valuation technique will be appropriate in some cases. In other cases multiple valuation techniques will be appropriate. Examples 4 and 5 illustrate the use of multiple valuation techniques.

### **Example 4—Machine held and used**

IE11 An entity acquires a machine in a business combination. The machine will be held and used in its operations. The machine was originally purchased by the acquired entity from an outside vendor and, before the business combination, was customised by the acquired entity for use in its operations. However, the customisation of the machine was not extensive. The acquiring entity determines that the asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities (as installed or otherwise configured for use). There is no evidence to suggest that the current use of the machine is not its highest and best use. Therefore, the highest and best use of the machine is its current use in combination with other assets or with other assets and liabilities.

IE12 The entity determines that sufficient data are available to apply the cost approach and, because the customisation of the machine was not extensive, the market approach. The income approach is not used because the machine does not have a separately identifiable income stream from which to develop reliable estimates of future cash flows. Furthermore, information about short-term and intermediate-term lease rates for similar used machinery that otherwise could be used to project an income stream (ie lease payments over remaining service lives) is not available. The market and cost approaches are applied as follows:

- (a) The market approach is applied using quoted prices for similar machines adjusted for differences between the machine (as customised) and the similar machines. The measurement reflects the price that would be received for the machine in its current condition (used) and location (installed and configured for use). The fair value indicated by that approach ranges from Rs 40,000 to Rs 48,000.
- (b) The cost approach is applied by estimating the amount that would be required currently to construct a substitute (customised) machine of comparable utility. The estimate takes into account the condition of the machine and the environment in which it operates, including physical wear and tear (ie physical deterioration), improvements in technology (ie functional obsolescence), conditions external to the condition of the machine such as a decline in the market demand for similar machines (ie economic obsolescence) and installation costs. The fair value indicated by that approach ranges from Rs 40,000 to Rs 52,000.

IE13 The entity determines that the higher end of the range indicated by the market approach is most representative of fair value and, therefore, ascribes more weight to the results of the market approach. That determination is made on the basis of the relative subjectivity of the inputs, taking into account the degree of comparability between the machine and the similar machines. In particular:

- (a) the inputs used in the market approach (quoted prices for similar machines) require fewer and less subjective adjustments than the inputs used in the cost approach.
- (b) the range indicated by the market approach overlaps with, but is narrower than, the range indicated by the cost approach.
- (c) there are no known unexplained differences (between the machine and the similar machines) within that range.

Accordingly, the entity determines that the fair value of the machine is Rs 48,000.

IE14 If customisation of the machine was extensive or if there were not sufficient data available to apply the market approach (eg because market data reflect transactions for machines used on a stand-alone basis, such as a scrap value for specialised assets, rather than machines used in combination with other assets or with other assets and liabilities), the entity would apply the cost approach. When an asset is used in combination with other assets or with other assets and liabilities, the cost approach assumes the sale of the machine to a market participant buyer with the complementary assets and the associated liabilities. The price received for the sale of the machine (ie an exit price) would not be more than either of the following:

- (a) the cost that a market participant buyer would incur to acquire or construct a substitute machine of comparable utility; or

- (b) the economic benefit that a market participant buyer would derive from the use of the machine.

### **Example 5—Software asset**

- IE15 An entity acquires a group of assets. The asset group includes an income producing software asset internally developed for licensing to customers and its complementary assets (including a related database with which the software asset is used) and the associated liabilities. To allocate the cost of the group to the individual assets acquired, the entity measures the fair value of the software asset. The entity determines that the software asset would provide maximum value to market participants through its use in combination with other assets or with other assets and liabilities (ie its complementary assets and the associated liabilities). There is no evidence to suggest that the current use of the software asset is not its highest and best use. Therefore, the highest and best use of the software asset is its current use. (In this case the licensing of the software asset, in and of itself, does not indicate that the fair value of the asset would be maximised through its use by market participants on a stand-alone basis.)
- IE16 The entity determines that, in addition to the income approach, sufficient data might be available to apply the cost approach but not the market approach. Information about market transactions for comparable software assets is not available. The income and cost approaches are applied as follows:
- (a) The income approach is applied using a present value technique. The cash flows used in that technique reflect the income stream expected to result from the software asset (licence fees from customers) over its economic life. The fair value indicated by that approach is Rs 15 million.
  - (b) The cost approach is applied by estimating the amount that currently would be required to construct a substitute software asset of comparable utility (ie taking into account functional and economic obsolescence). The fair value indicated by that approach is Rs 10 million.
- IE17 Through its application of the cost approach, the entity determines that market participants would not be able to construct a substitute software asset of comparable utility. Some characteristics of the software asset are unique, having been developed using proprietary information, and cannot be readily replicated. The entity determines that the fair value of the software asset is Rs 15 million, as indicated by the income approach.

### **Principal (or most advantageous) market**

---

- IE18 Example 6 illustrates the use of Level 1 inputs to measure the fair value of an asset that trades in different active markets at different prices.

### **Example 6—Level 1 principal (or most advantageous) market**

- IE19 An asset is sold in two different active markets at different prices. An entity enters into transactions in both markets and can access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is Rs 26, transaction costs in that market are Rs 3 and the costs to transport the asset to that market are Rs 2 (ie the net amount that would be received is Rs 21). In Market B, the

price that would be received is Rs 25, transaction costs in that market are Rs 1 and the costs to transport the asset to that market are Rs 2 (ie the net amount that would be received in Market B is Rs 22).

- IE20 If Market A is the principal market for the asset (ie the market with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market, after taking into account transport costs (Rs 24).
- IE21 If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after taking into account transaction costs and transport costs (ie the net amount that would be received in the respective markets).
- IE22 Because the entity would maximise the net amount that would be received for the asset in Market B (Rs 22), the fair value of the asset would be measured using the price in that market (Rs 25), less transport costs (Rs 2), resulting in a fair value measurement of Rs 23. Although transaction costs are taken into account when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

## **Transaction prices and fair value at initial recognition**

---

- IE23 The Ind AS clarifies that in many cases the transaction price, ie the price paid (received) for a particular asset (liability), will represent the fair value of that asset (liability) at initial recognition, but not presumptively. Example 7 illustrates when the price in a transaction involving a derivative instrument might (and might not) equal the fair value of the instrument at initial recognition.

### **Example 7—Interest rate swap at initial recognition**

- IE24 Entity A (a retail counterparty) enters into an interest rate swap in a retail market with Entity B (a dealer) for no initial consideration (ie the transaction price is zero). Entity A can access only the retail market. Entity B can access both the retail market (ie with retail counterparties) and the dealer market (ie with dealer counterparties).
- IE25 From the perspective of Entity A, the retail market in which it initially entered into the swap is the principal market for the swap. If Entity A were to transfer its rights and obligations under the swap, it would do so with a dealer counterparty in that retail market. In that case the transaction price (zero) would represent the fair value of the swap to Entity A at initial recognition, ie the price that Entity A would receive to sell or pay to transfer the swap in a transaction with a dealer counterparty in the retail market (ie an exit price). That price would not be adjusted for any incremental (transaction) costs that would be charged by that dealer counterparty.
- IE26 From the perspective of Entity B, the dealer market (not the retail market) is the principal market for the swap. If Entity B were to transfer its rights and obligations under the swap, it would do so with a dealer in that market. Because the market in which Entity B initially entered into the swap is different from the principal market for the swap, the transaction price (zero) would not necessarily represent the fair value of the swap to Entity B at initial recognition. If the fair value differs from the transaction price (zero), Entity B applies Ind AS 39 *Financial Instruments: Recognition and Measurement* to determine whether it recognises that difference as a gain or loss at initial recognition.

## Restricted assets

---

- IE27 The effect on a fair value measurement arising from a restriction on the sale or use of an asset by an entity will differ depending on whether the restriction would be taken into account by market participants when pricing the asset. Examples 8 and 9 illustrate the effect of restrictions when measuring the fair value of an asset.

### Example 8—Restriction on the sale of an equity instrument

- IE28 An entity holds an equity instrument (a financial asset) for which sale is legally or contractually restricted for a specified period. (For example, such a restriction could limit sale to qualifying investors.) The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case the fair value of the instrument would be measured on the basis of the quoted price for an otherwise identical unrestricted equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction. The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the instrument for the specified period. The adjustment will vary depending on all the following:

- (a) the nature and duration of the restriction;
- (b) the extent to which buyers are limited by the restriction (eg there might be a large number of qualifying investors); and
- (c) qualitative and quantitative factors specific to both the instrument and the issuer.

### Example 9—Restrictions on the use of an asset

- IE29 A donor contributes land in an otherwise developed residential area to a not-for-profit neighbourhood association. The land is currently used as a playground. The donor specifies that the land must continue to be used by the association as a playground in perpetuity. Upon review of relevant documentation (eg legal and other), the association determines that the fiduciary responsibility to meet the donor's restriction would not be transferred to market participants if the association sold the asset, ie the donor restriction on the use of the land is specific to the association. Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the association, the land could be used as a site for residential development. In addition, the land is subject to an easement (ie a legal right that enables a utility to run power lines across the land). Following is an analysis of the effect on the fair value measurement of the land arising from the restriction and the easement:

- (a) *Donor restriction on use of land.* Because in this situation the donor restriction on the use of the land is specific to the association, the restriction would not be transferred to market participants. Therefore, the fair value of the land would be the higher of its fair value used as a playground (ie the fair value of the asset would be maximised through its use by market participants in combination with other assets or with other assets and liabilities) and its fair value as a site for residential development (ie the fair value of the asset would be maximised through its use by market participants on a stand-alone basis), regardless of the restriction on the use of the land by the association.

- (b) *Easement for utility lines.* Because the easement for utility lines is specific to (ie a characteristic of) the land, it would be transferred to market participants with the land. Therefore, the fair value measurement of the land would take into account the effect of the easement, regardless of whether the highest and best use is as a playground or as a site for residential development.

## Measuring liabilities

---

- IE30 A fair value measurement of a liability assumes that the liability, whether it is a financial liability or a non-financial liability, is transferred to a market participant at the measurement date (ie the liability would remain outstanding and the market participant transferee would be required to fulfil the obligation; it would not be settled with the counterparty or otherwise extinguished on the measurement date).
- IE31 The fair value of a liability reflects the effect of non-performance risk. Non-performance risk relating to a liability includes, but may not be limited to, the entity's own credit risk. An entity takes into account the effect of its credit risk (credit standing) on the fair value of the liability in all periods in which the liability is measured at fair value because those that hold the entity's obligations as assets would take into account the effect of the entity's credit standing when estimating the prices they would be willing to pay.
- IE32 For example, assume that Entity X and Entity Y each enter into a contractual obligation to pay cash (Rs 500) to Entity Z in five years. Entity X has a AA credit rating and can borrow at 6 per cent, and Entity Y has a BBB credit rating and can borrow at 12 per cent. Entity X will receive about Rs.374 in exchange for its promise (the present value of Rs 500 in five years at 6 per cent). Entity Y will receive about Rs 284 in exchange for its promise (the present value of Rs 500 in five years at 12 per cent). The fair value of the liability to each entity (ie the proceeds) incorporates that entity's credit standing.
- IE33 Examples 10–13 illustrate the measurement of liabilities and the effect of non-performance risk (including an entity's own credit risk) on a fair value measurement.

### Example 10—Structured note

- IE34 On 1 January 20X7 Entity A, an investment bank with a AA credit rating, issues a five-year fixed rate note to Entity B. The contractual principal amount to be paid by Entity A at maturity is linked to an equity index. No credit enhancements are issued in conjunction with or otherwise related to the contract (ie no collateral is posted and there is no third-party guarantee). Entity A designated this note as at fair value through profit or loss. The fair value of the note (ie the obligation of Entity A) during 20X7 is measured using an expected present value technique. Changes in fair value are as follows:
- (a) *Fair value at 1 January 20X7.* The expected cash flows used in the expected present value technique are discounted at the risk-free rate using the government bond curve at 1 January 20X7, plus the current market observable AA corporate bond spread to government bonds, if non-performance risk is not already reflected in the cash flows, adjusted (either up or down) for Entity A's specific credit risk (ie resulting in a credit-adjusted risk-free rate). Therefore, the fair value of Entity A's obligation at initial recognition takes into account non-performance risk, including that entity's credit risk, which presumably is reflected in the proceeds.
- (b) *Fair value at 31 March 20X7.* During March 20X7 the credit spread for AA corporate bonds widens, with no changes to the specific credit risk of Entity A. The expected cash flows used in the expected present value technique are



discounted at the risk-free rate using the government bond curve at 31 March 20X7, plus the current market observable AA corporate bond spread to government bonds, if non-performance risk is not already reflected in the cash flows, adjusted for Entity A's specific credit risk (ie resulting in a credit-adjusted risk-free rate). Entity A's specific credit risk is unchanged from initial recognition. Therefore, the fair value of Entity A's obligation changes as a result of changes in credit spreads generally. Changes in credit spreads reflect current market participant assumptions about changes in non-performance risk generally, changes in liquidity risk and the compensation required for assuming those risks.

- (c) *Fair value at 30 June 20X7.* As of 30 June 20X7 there have been no changes to the AA corporate bond spreads. However, on the basis of structured note issues corroborated with other qualitative information, Entity A determines that its own specific creditworthiness has strengthened within the AA credit spread. The expected cash flows used in the expected present value technique are discounted at the risk-free rate using the government bond yield curve at 30 June 20X7, plus the current market observable AA corporate bond spread to government bonds (unchanged from 31 March 20X7), if non-performance risk is not already reflected in the cash flows, adjusted for Entity A's specific credit risk (ie resulting in a credit-adjusted risk-free rate). Therefore, the fair value of the obligation of Entity A changes as a result of the change in its own specific credit risk within the AA corporate bond spread.

### **Example 11—Decommissioning liability**

- IE35 On 1 January 20X1 Entity A assumes a decommissioning liability in a business combination. The entity is legally required to dismantle and remove an offshore oil platform at the end of its useful life, which is estimated to be 10 years.
- IE36 On the basis of paragraphs B23–B30 of the Ind AS , Entity A uses the expected present value technique to measure the fair value of the decommissioning liability.
- IE37 If Entity A was contractually allowed to transfer its decommissioning liability to a market participant, Entity A concludes that a market participant would use all the following inputs, probability-weighted as appropriate, when estimating the price it would expect to receive:
- (a) labour costs;
  - (b) allocation of overhead costs;
  - (c) the compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset. Such compensation includes both of the following:
    - (i) profit on labour and overhead costs; and
    - (ii) the risk that the actual cash outflows might differ from those expected, excluding inflation;
  - (d) effect of inflation on estimated costs and profits;
  - (e) time value of money, represented by the risk-free rate; and
  - (f) non-performance risk relating to the risk that Entity A will not fulfil the obligation, including Entity A's own credit risk.

IE38 The significant assumptions used by Entity A to measure fair value are as follows:

- (a) Labour costs are developed on the basis of current marketplace wages, adjusted for expectations of future wage increases, required to hire contractors to dismantle and remove offshore oil platforms. Entity A assigns probability assessments to a range of cash flow estimates as follows:

Cash flow estimate (Rs)	Probability assessment	Expected cash flows(Rs)
100,000	25%	25,000
125,000	50%	62,500
175,000	25%	<u>43,750</u>
		<u>Rs131,250</u>

The probability assessments are developed on the basis of Entity A's experience with fulfilling obligations of this type and its knowledge of the market.

- (b) Entity A estimates allocated overhead and equipment operating costs using the rate it applies to labour costs (80 per cent of expected labour costs). This is consistent with the cost structure of market participants.
- (c) Entity A estimates the compensation that a market participant would require for undertaking the activity and for assuming the risk associated with the obligation to dismantle and remove the asset as follows:
- (i) A third-party contractor typically adds a mark-up on labour and allocated internal costs to provide a profit margin on the job. The profit margin used (20 per cent) represents Entity A's understanding of the operating profit that contractors in the industry generally earn to dismantle and remove offshore oil platforms. Entity A concludes that this rate is consistent with the rate that a market participant would require as compensation for undertaking the activity.
- (ii) A contractor would typically require compensation for the risk that the actual cash outflows might differ from those expected because of the uncertainty inherent in locking in today's price for a project that will not occur for 10 years. Entity A estimates the amount of that premium to be 5 per cent of the expected cash flows, including the effect of inflation.
- (d) Entity A assumes a rate of inflation of 4 per cent over the 10-year period on the basis of available market data.
- (e) The risk-free rate of interest for a 10-year maturity on 1 January 20X1 is 5 per cent. Entity A adjusts that rate by 3.5 per cent to reflect its risk of non-performance (ie the risk that it will not fulfil the obligation), including its credit risk. Therefore, the discount rate used to compute the present value of the cash flows is 8.5 per cent.

- IE39 Entity A concludes that its assumptions would be used by market participants. In addition, Entity A does not adjust its fair value measurement for the existence of a restriction preventing it from transferring the liability. As illustrated in the following table, Entity A measures the fair value of its decommissioning liability as Rs 194,879.

	Expected cash flows  (Rs)
	1 January 20X1
Expected labour costs	131,250
Allocated overhead and equipment costs(0.80 ×Rs 131,250)	105,000
Contractor's profit mark- up[0.20×(Rs131,250+105,000)]	<u>47,250</u>
Expected cash flows before inflation adjustment	283,500
Inflation factor (4% for 10 years)	<u>1.4802</u>
Expected cash flows adjusted for inflation	419,637
Market risk premium(0.05 ×Rs419,637)	<u>20,982</u>
Expected cash flows adjusted for market risk	<u>440,619</u>
Expected present value using discount rate of 8.5% for 10 years	<u>194,879</u>

### Example 12—Debt obligation: quoted price

- IE40 On 1 January 20X1 Entity B issues at par a Rs 2 million BBB-rated exchange-traded five-year fixed rate debt instrument with an annual 10 per cent coupon. Entity B designated this financial liability as at fair value through profit or loss.
- IE41 On 31 December 20X1 the instrument is trading as an asset in an active market at Rs 929 per Rs 1,000 of par value after payment of accrued interest. Entity B uses the quoted price of the asset in an active market as its initial input into the fair value measurement of its liability (Rs929 × [Rs2 million ÷ Rs1,000] = Rs1,858,000).
- IE42 In determining whether the quoted price of the asset in an active market represents the fair value of the liability, Entity B evaluates whether the quoted price of the asset includes the effect of factors not applicable to the fair value measurement of a liability, for example, whether the quoted price of the asset includes the effect of a third-party credit enhancement if that credit enhancement would be separately accounted for from the perspective of the issuer. Entity B determines that no adjustments are required to the quoted price of the asset. Accordingly, Entity B concludes that the fair value of its debt instrument at 31 December 20X1 is Rs 1,858,000. Entity B categorises and discloses the fair value measurement of its debt instrument within Level 1 of the fair value hierarchy.

### **Example 13—Debt obligation: present value technique**

- IE43 On 1 January 20X1 Entity C issues at par in a private placement a Rs 2 million BBB-rated five-year fixed rate debt instrument with an annual 10 per cent coupon. Entity C designated this financial liability as at fair value through profit or loss.
- IE44 At 31 December 20X1 Entity C still carries a BBB credit rating. Market conditions, including available interest rates, credit spreads for a BBB-quality credit rating and liquidity, remain unchanged from the date the debt instrument was issued. However, Entity C's credit spread has deteriorated by 50 basis points because of a change in its risk of non-performance. After taking into account all market conditions, Entity C concludes that if it was to issue the instrument at the measurement date, the instrument would bear a rate of interest of 10.5 per cent or Entity C would receive less than par in proceeds from the issue of the instrument.
- IE45 For the purpose of this example, the fair value of Entity C's liability is calculated using a present value technique. Entity C concludes that a market participant would use all the following inputs (consistently with paragraphs B12–B30 of the Ind AS) when estimating the price the market participant would expect to receive to assume Entity C's obligation:
- (a) the terms of the debt instrument, including all the following:
    - (i) coupon of 10 per cent;
    - (ii) principal amount of Rs 2 million; and
    - (iii) term of four years.
  - (b) the market rate of interest of 10.5 per cent (which includes a change of 50 basis points in the risk of non-performance from the date of issue).
- IE46 On the basis of its present value technique, Entity C concludes that the fair value of its liability at 31 December 20X1 is Rs 1,968,641.
- IE47 Entity C does not include any additional input into its present value technique for risk or profit that a market participant might require for compensation for assuming the liability. Because Entity C's obligation is a financial liability, Entity C concludes that the interest rate already captures the risk or profit that a market participant would require as compensation for assuming the liability. Furthermore, Entity C does not adjust its present value technique for the existence of a restriction preventing it from transferring the liability.

### **Measuring fair value when the volume or level of activity for an asset or a liability has significantly decreased**

---

- IE48 Example 14 illustrates the use of judgement when measuring the fair value of a financial asset when there has been a significant decrease in the volume or level of activity for the asset when compared with normal market activity for the asset (or similar assets).

## **Example 14—Estimating a market rate of return when the volume or level of activity for an asset has significantly decreased**

- IE49 Entity A invests in a junior AAA-rated tranche of a residential mortgage-backed security on 1 January 20X8 (the issue date of the security). The junior tranche is the third most senior of a total of seven tranches. The underlying collateral for the residential mortgage-backed security is unguaranteed non-conforming residential mortgage loans that were issued in the second half of 20X6.
- IE50 At 31 March 20X9 (the measurement date) the junior tranche is now A-rated. This tranche of the residential mortgage-backed security was previously traded through a brokered market. However, trading volume in that market was infrequent, with only a few transactions taking place per month from 1 January 20X8 to 30 June 20X8 and little, if any, trading activity during the nine months before 31 March 20X9.
- IE51 Entity A takes into account the factors in paragraph B37 of the Ind AS to determine whether there has been a significant decrease in the volume or level of activity for the junior tranche of the residential mortgage-backed security in which it has invested. After evaluating the significance and relevance of the factors, Entity A concludes that the volume and level of activity of the junior tranche of the residential mortgage-backed security have significantly decreased. Entity A supported its judgement primarily on the basis that there was little, if any, trading activity for an extended period before the measurement date.
- IE52 Because there is little, if any, trading activity to support a valuation technique using a market approach, Entity A decides to use an income approach using the discount rate adjustment technique described in paragraphs B18–B22 of the Ind AS to measure the fair value of the residential mortgage-backed security at the measurement date. Entity A uses the contractual cash flows from the residential mortgage-backed security (see also paragraphs 67 and 68 of the Ind AS).
- IE53 Entity A then estimates a discount rate (ie a market rate of return) to discount those contractual cash flows. The market rate of return is estimated using both of the following:
- (a) the risk-free rate of interest.
  - (b) estimated adjustments for differences between the available market data and the junior tranche of the residential mortgage-backed security in which Entity A has invested. Those adjustments reflect available market data about expected non-performance and other risks (eg default risk, collateral value risk and liquidity risk) that market participants would take into account when pricing the asset in an orderly transaction at the measurement date under current market conditions.
- IE54 Entity A took into account the following information when estimating the adjustments in paragraph IE53(b):
- (a) the credit spread for the junior tranche of the residential mortgage-backed security at the issue date as implied by the original transaction price.
  - (b) the change in the credit spread implied by any observed transactions from the issue date to the measurement date for comparable residential mortgage-backed securities or on the basis of relevant indices.

- (c) the characteristics of the junior tranche of the residential mortgage-backed security compared with comparable residential mortgage-backed securities or indices, including all the following:
  - (i) the quality of the underlying assets, ie information about the performance of the underlying mortgage loans such as delinquency and foreclosure rates, loss experience and prepayment rates;
  - (ii) the seniority or subordination of the residential mortgage-backed security tranche held; and
  - (iii) other relevant factors.
- (d) relevant reports issued by analysts and rating agencies.
- (e) quoted prices from third parties such as brokers or pricing services.

IE55 Entity A estimates that one indication of the market rate of return that market participants would use when pricing the junior tranche of the residential mortgage-backed security is 12 per cent (1,200 basis points). This market rate of return was estimated as follows:

- (a) Begin with 300 basis points for the relevant risk-free rate of interest at 31 March 20X9.
- (b) Add 250 basis points for the credit spread over the risk-free rate when the junior tranche was issued in January 20X8.
- (c) Add 700 basis points for the estimated change in the credit spread over the risk-free rate of the junior tranche between 1 January 20X8 and 31 March 20X9. This estimate was developed on the basis of the change in the most comparable index available for that time period.
- (d) Subtract 50 basis points (net) to adjust for differences between the index used to estimate the change in credit spreads and the junior tranche. The referenced index consists of subprime mortgage loans, whereas Entity A's residential mortgage-backed security consists of similar mortgage loans with a more favourable credit profile (making it more attractive to market participants). However, the index does not reflect an appropriate liquidity risk premium for the junior tranche under current market conditions. Thus, the 50 basis point adjustment is the net of two adjustments:
  - (i) the first adjustment is a 350 basis point subtraction, which was estimated by comparing the implied yield from the most recent transactions for the residential mortgage-backed security in June 20X8 with the implied yield in the index price on those same dates. There was no information available that indicated that the relationship between Entity A's security and the index has changed.
  - (ii) the second adjustment is a 300 basis point addition, which is Entity A's best estimate of the additional liquidity risk inherent in its security (a cash position) when compared with the index (a synthetic position). This estimate was derived after taking into account liquidity risk premiums implied in recent cash transactions for a range of similar securities.

IE56 As an additional indication of the market rate of return, Entity A takes into account two recent indicative quotes (ie non-binding quotes) provided by reputable brokers for the junior tranche of the residential mortgage-backed security that imply yields of 15–17

per cent. Entity A is unable to evaluate the valuation technique(s) or inputs used to develop the quotes. However, Entity A is able to confirm that the quotes do not reflect the results of transactions.

IE57 Because Entity A has multiple indications of the market rate of return that market participants would take into account when measuring fair value, it evaluates and weights the respective indications of the rate of return, considering the reasonableness of the range indicated by the results.

IE58 Entity A concludes that 13 per cent is the point within the range of indications that is most representative of fair value under current market conditions. Entity A places more weight on the 12 per cent indication (ie its own estimate of the market rate of return) for the following reasons:

(a) Entity A concluded that its own estimate appropriately incorporated the risks (eg default risk, collateral value risk and liquidity risk) that market participants would use when pricing the asset in an orderly transaction under current market conditions.

(b) The broker quotes were non-binding and did not reflect the results of transactions, and Entity A was unable to evaluate the valuation technique(s) or inputs used to develop the quotes.

## Fair value disclosures

IE59 Examples 15–19 illustrate the disclosures required by paragraphs 92, 93(a), (b) and (d)–(h)(i) and 99 of the Ind AS .

### Example 15—Assets measured at fair value

IE60 For assets and liabilities measured at fair value at the end of the reporting period, the Ind AS requires quantitative disclosures about the fair value measurements for each class of assets and liabilities. An entity might disclose the following for assets to comply with paragraph 93(a) and (b) of the Ind AS :

(Rs in millions)	Fair value measurements at the end of the reporting period using				Total gains (losses)
	31/12/X9	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Recurring fair value measurements</b>					
Trading equity securities <sup>(a)</sup> :					
Real estate industry	93	70	23		
Oil and gas industry	45	45			
Other	15	15			
<b>Total trading equity securities</b>	<u>153</u>	<u>130</u>	<u>23</u>		

Other equity securities <sup>(a)</sup> :			
Financial services industry	150	150	
Healthcare industry	163	110	53
Energy industry	32		32
Private equity fund investments <sup>(b)</sup>	25		25
Other	<u>15</u>	<u>15</u>	
Total trading equity securities	<u>385</u>	<u>275</u>	<u>110</u>
Debt securities:			
Residential mortgage-backed Securities	149	24	125
Commercial mortgage-backed Securities	50		50
Collateralised debt obligations	35		35
Risk-free government securities	85	85	
Corporate bonds	<u>93</u>	<u>9</u>	<u>84</u>
Total debt securities	<u>412</u>	<u>94</u>	<u>210</u>
Hedge fund investments:			
Equity long/short	55	55	
Global opportunities	35	35	
High-yield debt securities	90		90
Total hedge fund investments	<u>180</u>	<u>90</u>	<u>90</u>
Derivatives:			
Interest rate contracts	57	57	
Foreign exchange contracts	43	43	
Credit contracts	38		38
Commodity futures contracts	78	78	
Commodity forward contracts	<u>20</u>	<u>20</u>	
Total derivatives	<u>236</u>	<u>78</u>	<u>38</u>
Investment properties:			
Commercial—Asia	31		31
Commercial—Europe	<u>27</u>		<u>27</u>
Total investment properties	<u>58</u>		<u>58</u>
Total recurring fair value measurements	<u>1,424</u>	<u>577</u>	<u>341</u>
<b>Non-recurring fair value Measurements</b>			
Assets held for sale <sup>(c)</sup>	<u>26</u>	<u>26</u>	<u>(15)</u>
Total non-recurring fair value measurements	<u>26</u>	<u>26</u>	<u>(15)</u>



- (a) On the basis of its analysis of the nature, characteristics and risks of the securities, the entity has determined that presenting them by industry is appropriate.
- (b) On the basis of its analysis of the nature, characteristics and risks of the investments, the entity has determined that presenting them as a single class is appropriate.
- (c) In accordance with Ind AS 105, assets held for sale with a carrying amount of Rs 35 million were written down to their fair value of Rs 26 million, less costs to sell of Rs 6 million (or Rs 20 million), resulting in a loss of Rs 15 million, which was included in profit or loss for the period.
- (Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

### **Example 16—Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy**

- IE61 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the Ind AS requires a reconciliation from the opening balances to the closing balances for each class of assets and liabilities. An entity might disclose the following for assets to comply with paragraph 93(e) and (f) of the Ind AS :

Fair value measurements using significant unobservable inputs (Level 3)											
(Rs in millions)	Other equity securities			Debt securities			Hedge fund investments	Derivatives	Investment properties		
	Healthcare industry	Energy industry	Private equity fund	Residential Mortgage-backed securities	Commercial Mortgage-backed securities	Collateralised debt obligations			High-yield debt securities	Credit contracts	Asia
Opening balance	49	28	20	105	39	25	145	30	28	26	495
Transfers into Level 3				60 <sup>(a)(b)</sup>							60
Transfers out of Level 3				(5) <sup>(b)(c)</sup>							(5)
Total gains or losses for the period											
Included in profit or loss			5	(23)	(5)	(7)	7	5	3	1	(14)
Included in other comprehensive income	3	1									4
Purchases, issues, sales and settlements											
Purchases	1	3			16	17		18			55
Issues											
Sales				(12)			(62)				(74)
Settlements								(15)			(15)
Closing balance	53	32	25	125	50	35	90	38	31	27	506
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period			5	(3)	(5)	(7)	(5)	2	3	1	(9)

(a) Transferred from Level 2 to Level 3 because of a lack of observable market data, resulting from a decrease in market activity for the securities.  
(b) The entity's policy is to recognise transfers into and transfers out of Level 3 as of the date of the event or change in circumstances that caused the transfer.  
(c) Transferred from Level 3 to Level 2 because observable market data became available for the securities.

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

IE62 Gains and losses included in profit or loss for the period (above) are presented in financial income and in non-financial income as follows:

(Rs in millions)	<u>Financial income</u>	<u>Non- financial income</u>
Total gains or losses for the period included in profit or loss	<u>(18)</u>	<u>4</u>
Change in unrealised gains or losses for the period included in profit or loss for assets held at the end of the reporting period	<u>13</u>	<u>4</u>

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

### **Example 17—Valuation techniques and inputs**

IE63 For fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, the Ind AS requires an entity to disclose a description of the valuation technique(s) and the inputs used in the fair value measurement. For fair value measurements categorised within Level 3 of the fair value hierarchy, information about the significant unobservable inputs used must be quantitative. An entity might disclose the following for assets to comply with the requirement to disclose the significant unobservable inputs used in the fair value measurement in accordance with paragraph 93(d) of the Ind AS :

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)				
(Rs in millions) Description	Fair value at 31/12/X9	Valuation technique(s)	Unobservable input	Range (weighted average)
<b>Other equity securities:</b> Healthcare industry	53	Discounted cash flow	weighted average cost of capital	7%–16% (12.1%)
			long-term revenue growth rate	2%–5% (4.2%)
			long-term pre-tax operating margin	3%–20% (10.3%)
			discount for lack of marketability <sup>(a)</sup>	5%–20% (17%)
			control premium <sup>(e)</sup>	10%–30% (20%)
Energy industry	32	Market comparable companies	EBITDA multiple <sup>(b)</sup>	10–13 (11.3)
			revenue multiple <sup>(b)</sup>	1.5–2.0 (1.7)
			discount for lack of marketability <sup>(a)</sup>	5%–20% (17%)
			control premium <sup>(a)</sup>	10%–30% (20%)
			weighted average cost of capital	8%–12% (11.1%)
Private equity fund investments	25	Market comparable companies	long-term revenue growth rate	3%–5.5% (4.2%)
			long-term pre-tax operating margin	7.5%–13% (9.2%)
			discount for lack of marketability <sup>(a)</sup>	5%–20% (10%)
			control premium <sup>(a)</sup>	10%–20% (12%)
			EBITDA multiple <sup>(b)</sup>	6.5–12 (9.5)
<b>Debt securities:</b> Residential mortgage-backed securities	125	Net asset value <sup>(c)</sup> Discounted cash flow	revenue multiple <sup>(b)</sup>	1.0–3.0 (2.0)
			discount for lack of marketability <sup>(a)</sup>	5%–20% (10%)
			control premium <sup>(a)</sup>	10%–20% (12%)
			n/a	n/a
			constant prepayment rate	3.5%–5.5% (4.5%)
			probability of default	5%–50% (10%)
			loss severity	40%–100% (60%)

Continued..... Description	Fair value at 31/12/X9	Valuation technique(s)	Unobservable input	Range (weighted average)
Commercial mortgage-backed securities	50	Discounted cash flow	constant prepayment rate	3%–5% (4.1%)
			probability of default	2%–25% (5%)
			loss severity	10%–50% (20%)
Collateralised debt obligations	35	Consensus pricing	offered quotes	20–45
<b>Hedge fund investments:</b> High-yield debt securities	90	Net asset value <sup>(c)</sup>	comparability adjustments (%)	-10% – +15% (+5%)
<b>Derivatives:</b> Credit contracts	38	Option model	n/a	n/a
			annualised volatility of credit <sup>(d)</sup>	10%–20%
			counterparty credit risk <sup>(e)</sup>	0.5%–3.5%
			own credit risk <sup>(e)</sup>	0.3%–2.0%
Commercial—Europe	27	Discounted cash flow	price per square metre (USD)	\$3,000–\$7,000 (\$4,500)
			long-term net operating income margin	15%–25% (18%)
			cap rate	0.06–0.10 (0.80)
		Market comparable approach	price per square metre (EUR)	€4,000–€12,000 (€8,500)

- (a) Represents amounts used when the entity has determined that market participants would take into account these premiums and discounts when pricing the investments.
- (b) Represents amounts used when the entity has determined that market participants would use such multiples when pricing the investments.
- (c) The entity has determined that the reported net asset value represents fair value at the end of the reporting period.
- (d) Represents the range of the volatility curves used in the valuation analysis that the entity has determined market participants would use when the pricing contracts.
- (e) Represents the range of the credit default swap spread curves used in the valuation analysis that the entity has determined market participants would use when pricing the contracts.

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

IE64 In addition, an entity should provide additional information that will help users of its financial statements to evaluate the quantitative information disclosed. An entity might disclose some or all the following to comply with paragraph 92 of the Ind AS:

- (a) the nature of the item being measured at fair value, including the characteristics of the item being measured that are taken into account in the determination of relevant inputs. For example, for residential mortgage-backed securities, an entity might disclose the following:
  - (i) the types of underlying loans (eg prime loans or sub-prime loans)
  - (ii) collateral
  - (iii) guarantees or other credit enhancements
  - (iv) seniority level of the tranches of securities
  - (v) the year of issue
  - (vi) the weighted-average coupon rate of the underlying loans and the securities
  - (vii) the weighted-average maturity of the underlying loans and the securities
  - (viii) the geographical concentration of the underlying loans
  - (ix) information about the credit ratings of the securities.
- (b) how third-party information such as broker quotes, pricing services, net asset values and relevant market data was taken into account when measuring fair value.

### **Example 18—Valuation processes**

IE65 For fair value measurements categorised within Level 3 of the fair value hierarchy, the Ind AS requires an entity to disclose a description of the valuation processes used by the entity. An entity might disclose the following to comply with paragraph 93(g) of the Ind AS :

- (a) for the group within the entity that decides the entity's valuation policies and procedures:
  - (i) its description;
  - (ii) to whom that group reports; and
  - (iii) the internal reporting procedures in place (eg whether and, if so, how pricing, risk anagement or audit committees discuss and assess the fair value measurements);
- (b) the frequency and methods for calibration, back testing and other testing procedures of ricing models;

- (c) the process for analysing changes in fair value measurements from period to period;
- (d) how the entity determined that third-party information, such as broker quotes or pricing services, used in the fair value measurement was developed in accordance with the Ind AS; and
- (e) the methods used to develop and substantiate the unobservable inputs used in a fair value measurement.

### **Example 19—Information about sensitivity to changes in significant unobservable inputs**

IE66 For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, the Ind AS requires an entity to provide a narrative description of the sensitivity of the fair value measurement to changes in significant unobservable inputs and a description of any interrelationships between those unobservable inputs. An entity might disclose the following about its residential mortgage-backed securities to comply with paragraph 93(h)(i) of the Ind AS :

The significant unobservable inputs used in the fair value measurement of the entity's residential mortgage-backed securities are prepayment rates, probability of default and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

## Appendix

### Amendments to guidance on other Ind ASs

The following amendments to guidance on other Ind ASs are necessary in order to ensure consistency with Ind AS 113 Fair Value Measurement and the related amendments to other Ind ASs. Amended paragraphs are shown with new text underlined and deleted text struck through.

#### Ind AS 103 Business Combinations

IGA1 In the illustrative examples paragraph IE5 is amended as follows:

IE5 The fair value of the consideration effectively transferred should be based on the most reliable measure. In this example, the quoted ~~market~~ price of Entity A's shares in the principal (or most advantageous) market for the shares provides a more reliable basis for measuring the consideration effectively transferred than the ~~estimated~~ fair value of the shares in Entity B, and the consideration is measured using the market price of Entity A's shares—100 shares with a fair value per share of Rs 16.

IGA2 The example in paragraph IE72 is amended as follows:

#### Footnote X: Acquisitions

##### Paragraph Reference

...

B64(f)(iv) The fair value of the 100,000 ordinary shares issued as part of the consideration paid for TC (Rs 4,000) was ~~determined on the basis of~~ measured using the closing market price of AC's ordinary shares on the acquisition date.

B64(f)(iii)  
B64(g)

...

The fair value of the contingent consideration B67(b) arrangement of Rs 1,000 was estimated by applying the income approach. The fair value ~~estimates are~~ measurement is based on significant inputs that are not observable in the market, which Ind AS 113 Fair Value Measurement refers to as Level 3 inputs. Key assumptions include a ~~an assumed~~ discount rate range of 20–25 per cent and assumed probability-adjusted revenues in XC of Rs 10,000–20,000.

...

...

B64(o) The fair value of the non-controlling interest in TC, an unlisted company, was estimated by applying a market approach and an income approach. The fair value ~~estimates~~ measurements are based on significant inputs that are not observable in the market and thus represent a fair value measurement categorised within Level 3 of the fair value hierarchy as described in Ind AS 113. Key assumptions include the following:

(a) ~~an assumed~~ a discount rate range of 20–25 per cent;



- (b) ~~an assumed~~ a terminal value based on a range of terminal BITDA multiples between 3 and 5 times (or, if appropriate, based on long-term sustainable growth rates ranging from 3 to 6 per cent);
- (c) ~~assumed~~ financial multiples of companies deemed to be similar to TC; and
- (d) ~~assumed~~ adjustments because of the lack of control or lack of marketability that market participants would consider when estimating measuring the fair value of the non-controlling interest in TC.

...  
IGA3 (Refer to Appendix 1)

## **Ind AS 104 Insurance Contracts**

IGA4 In the guidance on implementing Ind AS 104 Example 3 is amended as follows:

<b>IG Example 3: Unbundling a deposit component of a reinsurance contract</b>
---

...

If the reinsurer is required, or elects, to unbundle the contract, it does so as follows. Each payment by the cedant has two components: a loan advance (deposit component) and a payment for insurance cover (insurance component). Applying Ind AS 39 to the deposit component, the reinsurer is required to measure it initially at fair value. Fair value could be ~~determined~~ measured by discounting the future cash flows from the deposit component using a valuation technique. Assume that an appropriate discount rate is 10 per cent and that the insurance cover is equal in each year, so that the payment for insurance cover is the same in every year. Each payment of Rs 10 by the cedant is then made up of a loan advance of Rs 6.7 and an insurance premium of Rs 3.3.

...

## **Ind AS 105 Non-current Assets Held for Sale and Discontinued Operations**

IGA5 In the guidance on implementing Ind AS 105 Examples 10 and 13 are amended as follows:

### **Example 10**

...

The entity ~~estimates that~~ measures the fair value less costs to sell of the disposal group ~~amounts to as~~ Rs 13,000. Because an entity measures a disposal

group classified as held for sale at the lower of its carrying amount and fair value less costs to sell, the entity recognises an impairment loss of Rs 1,900 (Rs 14,900 – Rs 13,000) when the group is initially classified as held for sale.

...

### Example 13

...

The ~~estimated~~ fair value less costs to sell of S2 is Rs135. A accounts for S2 as follows:

...

## Ind AS 107 *Financial Instruments: Disclosures*

IGA6 In the guidance on implementing **Ind AS 107** paragraphs IG13A and IG13B, and their accompanying tables, are deleted<sup>16</sup>.

IGA7 Paragraph IG14 is amended as follows:

IG14 The fair value at initial recognition of financial instruments that are not traded in active markets is ~~determined~~ measured in accordance with Ind AS 113 *Fair Value Measurement* and paragraph AG76 of Ind AS 39. ... Such recognition reflects changes in factors (including time) that market participants would ~~consider in setting a price~~ take into account when pricing the asset or liability (see paragraph ~~AG76A~~ AG76(b) of Ind AS 39). Paragraph 28 requires disclosures in these circumstances. An entity might disclose the following to comply with paragraph 28:

#### **Background**

On 1 January 20X1 an entity purchases for Rs 15 million financial assets that are not traded in an active market. The entity has only one class of such financial assets.

The transaction price of Rs 15 million is the fair value at initial recognition.

After initial recognition, the entity will apply a valuation technique to ~~establish~~ measure the financial assets' fair value. This valuation technique ~~includes variables~~ uses inputs other than data from observable markets.

At initial recognition, the same valuation technique would have resulted in an amount of Rs 14 million, which differs from fair value by Rs 1 million.

The entity has existing differences of Rs 5 million at 1 January 20X1.

#### **Application of requirements**

<sup>16</sup> Paragraphs IG13A and IG13B have been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of Ind AS 113. As a consequence to this deletion, Appendix 1 to Ind AS 107 shall be modified indicating the aforesaid deletion.

The entity's 20X2 disclosure would include the following:

*Accounting policies*

The entity uses the following valuation technique to ~~determine~~ measure the fair value of financial instruments that are not traded in an active market: [description of technique, not included in this example]. Differences may arise between the fair value at initial recognition (which, in accordance with Ind As 113 and Ind AS 39, is ~~generally~~ normally the transaction price) and the amount determined at initial recognition using the valuation technique. Any such differences are [description of the entity's accounting policy].

*In the notes to the financial statements*

As discussed in note X, the entity uses [name of valuation technique] to measure the fair value of the following financial instruments that are not traded in an active market. However, in accordance with Ind AS 113 and Ind AS 39, the fair value of an instrument at inception is ~~generally~~ normally the transaction price. If the transaction price differs from the amount determined at inception using the valuation technique, that difference is [description of the entity's accounting policy]. The differences yet to be recognised in profit or loss are as follows:

...

## **Ind AS 34 Interim Financial Reporting**

IGA10 Paragraphs C4 and C7 are amended as follows:

- C4 **Pensions:** Ind AS 19 *Employee Benefits* requires ~~that~~ an entity to determine the present value of defined benefit obligations and the ~~market~~ fair value of plan assets at the end of each reporting period and encourages an entity to involve a professionally qualified actuary in measurement of the obligations. For interim reporting purposes, reliable measurement is often obtainable by extrapolation of the latest actuarial valuation.
- C7 **Revaluations and fair value accounting:** Ind AS 16 *Property, Plant and Equipment* allows an entity to choose as its accounting policy the revaluation model whereby items of property, plant and equipment are revalued to fair value. For those measurements, an entity may rely on professionally qualified valuers at annual reporting dates though not at interim reporting dates.

## **Ind AS 36 Impairment of Assets**

IGA11 In the illustrative examples all references to 'fair value less costs to sell' are replaced with 'fair value less costs of disposal'.

## **Ind AS 39 *Financial Instruments: Recognition and Measurement***

IGA12 In the guidance on implementing Ind AS 39 Questions and answers E.2.1 and E.2.2 are deleted.<sup>17</sup>

## **Ind AS 41 *Agriculture***

IGA13 (Refer to Appendix 1)

...

## **Appendix A to Ind AS 11 *Service Concession Arrangements***

IGA14 Paragraphs IE15 and IE31 are amended as follows:

IE15 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as an intangible asset (licence to charge users of the infrastructure). The operator ~~estimates~~ measures the fair value of its consideration received ~~to be as~~ equal to the forecast construction costs plus 5 per cent margin, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with Ind AS 23 *Borrowing Costs*, the operator capitalizes the borrowing costs, estimated at 6.7 per cent, during the construction phase of the arrangement:

...

IE31 During the construction phase of the arrangement the operator's asset (representing its accumulating right to be paid for providing construction services) is classified as a right to receive a licence to charge users of the infrastructure. The operator ~~estimates~~ measures the fair value of its consideration received or receivable as equal to the forecast construction costs plus 5 per cent, which the operator concludes is consistent with the rate that a market participant would require as compensation for providing the construction services and for assuming the risk associated with the construction costs. It is also assumed that, in accordance with Ind AS 23 *Borrowing Costs*, the operator capitalizes the borrowing costs, estimated at 6.7 per cent, during the construction phase:

...

---

<sup>17</sup> Paragraph IGA12 has been deleted as a consequence of Ind AS 113, *Fair Value Measurement*. However, the paragraph numbering has been retained to make it consistent with paragraph numbering of Ind AS 113. As a consequence to this deletion, Appendix 1 to Ind AS 39 shall be modified indicating the aforesaid deletion.

## **Appendix B to Ind AS 18 *Customer Loyalty Programmes***

IGA15 Paragraphs IE1 and IE3 are amended as follows:

IE1 A grocery retailer operates a customer loyalty programme. It grants programme members loyalty points when they spend a specified amount on groceries. Programme members can redeem the points for further groceries. The points have no expiry date. In one period, the entity grants 100 points. Management ~~estimates~~ measures the fair value of groceries for which each loyalty point can be redeemed as 1.25 currency units (Rs 1.25). This amount takes into account ~~an~~ management's estimate of the discount that ~~management~~ market participants would assume when pricing the award credits. That discount takes into account market participants' expectations of the discount that ~~expects~~—would otherwise be offered to customers who have not earned award credits from an initial sale. In addition, management ~~estimates that market participants would~~ expects only 80 of these points to be redeemed. Therefore, the fair value of each point is Rs 1, being the fair value of the award for each loyalty point granted of Rs 1.25 reduced to take into account points not expected to be redeemed ((80 points/100 points) × Rs 1.25 = Rs 1). Accordingly, management defers recognition of revenue of Rs 100. Throughout the example, management determines that non-performance risk has an immaterial effect on the measurement of its obligation under the programme.

IE3 In the second year, management revises its estimate of market participants' expectations. It now expects 90 points to be redeemed altogether.

## **Appendix A to Ind AS 19 *Ind AS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction***

IGA16 In the illustrative examples all references to 'market value' of assets are replaced with 'fair value'.

# Appendix 1

## Comparison with IFRS 13, Fair Value Measurement

*Note: This appendix is not a part of the Indian Accounting Standard (Ind AS) 113, Fair Value Measurement. The purpose of this Appendix is only to highlight differences between Indian Accounting Standard (Ind AS) 113 and corresponding International Financial Reporting Standard (IFRS) 13, Fair Value Measurement issued by the International Accounting Standards Board.*

1. Different terminology is used in this standard, e.g., the term 'balance sheet' is used instead of 'Statement of financial position'. The word 'approval of the financial statements for issue' have been used instead of 'authorisation of the financial statements for issue' in the context of the financial statements considered for the purpose of events after the reporting period.
2. Paragraphs 7(b) refers to Ind AS 26, *Accounting and Reporting by Retirement Benefit Plans* which is not relevant for the companies. Hence the paragraph is deleted. In order to maintain consistency with the paragraph numbers of IFRS 13, the paragraph number is retained in Ind AS 113.
3. Paragraph D18 – D46 of Appendix D deals with IFRS 9 *Financial Instruments*. As only Ind AS 39 corresponding to IAS 39 is made applicable, hence these paragraphs have been deleted. However in order to maintain consistency with the paragraph numbers of IFRS 13, the paragraph number are retained in Ind AS 113.
4. Appendix C is not relevant as the date of application will be notified under the Companies Act. However, in order to maintain consistency with IFRS 13, the same has been retained.
5. Following paragraphs of Appendix D have been deleted as they are not relevant.  
D11, D 61, D77, D94 , D96, D113, D120, D122, D123, D135, D137,D141, D142, D145  
D146.  
  
However in order to maintain consistency with the paragraph numbers of IFRS 13, the paragraph numbers are retained in Ind AS 113.
6. Following paragraphs are not relevant as the date of application will be notified under the Companies Act. However, in order to maintain consistency with paragraph numbers of IFRS 13, the paragraph numbers are retained in Ind AS 113:  
D3, D7, D9, D10, D16, D48, D50, D52, D54, D58, D60, D63, D64, D66, D68, D70, D72,  
D75, D79, D87, D95, D103, D139, D144 and 148
7. Paragraph D124-D130 and IGA13 deals with IAS 41 *Agriculture* have been deleted as the relevant changes have already been incorporated in the Exposure Draft of Ind AS 41.
8. Paragraphs D131-D134 ) refers to IFRIC 2 *Members' Shares in Co-operative Entities and Similar Instruments* which is not relevant for the companies. Hence the paragraphs are deleted. In order to maintain consistency with the paragraph numbers of IFRS 13, the paragraph number is retained in Ind AS 113.