CHARTERED PROFESSIONAL ACCOUNTANTS CANADA

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 13 *Fair Value Measurement*

YOUR QUESTIONS ANSWERED

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This paper was prepared by the Research, Guidance and Support Group of the Chartered Professional Accountants of Canada (CPA Canada). It has not been approved by any Board or Committee of CPA Canada or any provincial accounting organization.

Contents

Introduction

In January 2013, Chartered Professional Accountants of Canada (CPA Canada) delivered a webinar on each of the following International Financial Reporting Standards (IFRSs): IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, and IFRS 13 *Fair Value Measurement*.

This publication provides a summary of these webinars and contains responses to some of the unanswered questions posed by participants during the webinars.

Each webinar provides an overview of the standard, focusing on key changes, practical application and disclosure issues, and transition considerations. The webinars also address questions from participants.

Each webinar addresses key implementation questions, including:

- What's changed? How does the standard compare to previous IFRSs?
- What are the common application issues?
- What are the common transition issues?
- What is the interaction between IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28?
- What should I be doing to prepare for the implementation of the standard?
- What resources are available to help me implement the standard?

Members in industry implementing the standards and members in practice who are working with their clients through the implementation process will find these webinars particularly relevant.

The views expressed in this publication are non-authoritative and have not been formally endorsed by CPA Canada or the Accounting Standards Board (AcSB). The views in this document do not represent formal interpretations of the standards to which they relate. This publication contains general information only and is not a substitute for professional advice.

To access these free webinars visit our website or click on the following links:

- IFRS 10 *Consolidated Financial Statements*
- IFRS 11 *Joint Arrangements*
- IFRS 13 *Fair Value Measurement*

Responses to Questions Posed

IFRS 10 *Consolidated Financial Statements*

On January 23, 2013, CPA Canada delivered a webinar on IFRS 10 *Consolidated Financial Statements.* During the webinar, participants had the opportunity to ask questions. Since all questions could not be answered during the webinar, the following document has been produced to respond to some of the unanswered participant questions. The following questions do not necessarily reflect common or frequently asked questions but are simply the ones posed during the webinar that were unanswered. To ensure the broadest applicability, some questions have been rephrased and/or simplified.

The responses provided are narrow and limited in scope and are not a substitute for careful analysis of entity specific facts and circumstances. The responses contain general information only and are not a substitute for professional advice.

1. **Will fewer or greater number of entities be consolidated under IFRS 10 as compared to IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation—Special Purpose Entities*?**

   It depends. IFRS 10 will affect some entities more than others. The consolidation conclusion is not expected to change for most straightforward situations. However, changes can result in more complex situations.

   For example, sometimes assessing power is straightforward, such as when power over an investee is obtained directly and solely from the voting rights granted by equity instruments such as shares, and can be assessed by considering the voting rights from those shareholdings. In other cases, the assessment will be more complex and require more than one factor to be considered, for example when power results from one or more contractual arrangements.

   IFRS 10 does not provide "bright-lines" and therefore requires consideration of many factors and the application of professional judgment.

2. **If a company disposes of a subsidiary during an accounting period, does it still need to prepare consolidated financial statements up to the date of disposal?**

   Yes. IFRS 10 requires that the income and expenses of a subsidiary should be included in the consolidated financial statements until the date on which the parent ceases to control the subsidiary.

   However, on adoption of IFRS 10, certain transitional relief exists where the subsidiary is disposed of prior to the date of initial application. For each investee, an entity performs the assessment of control (i.e., whether the investee should be consolidated) at the beginning of the annual period in which IFRS 10 is first applied. If an entity with a calendar year-end has not early adopted IFRS 10, then this date is January 1, 2013. This means that there is no need to perform the consolidation assessment at an earlier date, which avoids the need to consolidate and then deconsolidate a controlling interest that was disposed of in the comparative period, for example.

Refer to Appendix C of IFRS 10 for detailed transition guidance.

3. **When potential voting rights are "out of the money", can such rights still be considered substantive?**

   Yes. For a right to be substantive, the holder must have the practical ability to exercise that right when decisions about the direction of the relevant activities need to be made. Rights are more likely to be substantive when they are "in the money", however sometimes rights can be substantive, even though the rights are "out of the money" (e.g., because the investor could benefit for other reasons such as by realizing synergies between the investor and the investee). It is necessary to exercise judgment based on a careful analysis of all of the relevant facts and circumstances.

   Common examples of potential voting rights include rights that result from the exercise of an option or conversion feature of a convertible instrument.

   Refer to paragraphs B22–B25 of Appendix B to IFRS 10 for guidance on how to determine if a right is substantive. Refer to paragraphs B47–B50 of Appendix B to IFRS 10 for guidance on potential voting rights.

4. **Are voting rights the primary factor to determine power?**

   Not necessarily. Power arises from a variety of rights which may include voting rights; potential voting rights (e.g., options or convertible instruments); rights to appoint, reassign or remove members of an investee's key management personnel who have the ability to direct the relevant activities; decision-making rights within a management contract; rights to direct the investee to enter into, or veto any changes to, transactions for the benefit of the investor, etc...

   To determine whether an investor has rights sufficient to give it power, the investor should also consider the purpose and design of the investee (refer to paragraphs B5–B8 of Appendix B to IFRS 10) and the guidance in paragraphs B51–54 together with paragraphs B18–B20 of Appendix B to IFRS 10.

5. Are decision-making rights synonymous with a shareholder who holds common shares?

Not necessarily. Typically, common shareholders have decision-making rights; however, situations may arise where decision-making rights are held by those who hold no equity interest in the company (e.g., a lender who has decision-making rights by virtue of a loan agreement).

Refer also to question #4, which addresses if voting rights is the primary factor that determines power.

6. As a result of IFRS 10, has the definition of joint control changed in the scope of IFRS 11 *Joint Arrangements*?

Yes. Before assessing whether an entity has joint control over an arrangement, an entity first assesses whether the parties, or a group of the parties, control the arrangement (in accordance with the definition of control in IFRS 10).

7. Does an annual control assessment need to be performed?

IFRS 10 requires a continuous assessment of control to be performed based on changes in facts and circumstances. An investor must reassess whether it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of control (i.e., power, exposure to variable returns and the ability to use power to affect those returns).

8. Does IFRS 10 contain guidance on "special purpose entities", similar to that of SIC-12 *Consolidation—Special Purpose Entities?*

IFRS 10 builds on the concepts in IAS 27 and SIC-12 and combines them into a single consolidation model, based on the principle of control. The use of a single consolidation model that applies to all entities removes uncertainty about which guidance to apply to different entities. The consolidation model in IFRS 10 clarifies requirements that were either implicitly embedded or only briefly addressed in IAS 27 and SIC-12 and provides additional application guidance.

However, it would be inappropriate to automatically assume that conclusions reached under SIC-12 would be identical to those under IFRS 10. Each situation should be carefully analyzed considering the guidance in IFRS 10.

9. Can you explain the concept of a “structured entity”?

A structured entity is defined in IFRS 12 *Disclosure of Interests in Other Entities* as an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. A structured entity often has some or all of the following features or attributes:

— restricted activities;
— a narrow and well-defined objective, such as to effect a tax-efficient lease, carry out research and development activities, provide a source of capital or funding to an entity or provide investment opportunities for investors by passing on risks and rewards associated with the assets of the structured entity to investors;
— insufficient equity to permit the structured entity to finance its activities without subordinated financial support; and
— financing in the form of multiple contractually linked instruments to investors that create concentrations of credit or other risks (tranches).

An example of a structured entity may be when voting rights relate to administrative tasks only and the relevant activities are directed by means of a contractual arrangement. Common examples of entities that may be regarded as structured entities include, but are not limited to: securitization vehicles, asset-backed financings, and some investment funds.

10. Do separate consolidation rules exist for “structured entities”?

No. IFRS 10 provides a single consolidation model that applies to all types of entities.

However, IFRS 12 *Disclosure of Interests in Other Entities* does contain separate disclosure requirements for “structured entities” that are not consolidated (i.e., unconsolidated structured entities).

11. When a “structured entity” operates in a predetermined manner, does this mean the structured entity has no relevant activities?

Typically, no. It would be rare that structured entities, including those that operate in a predetermined manner, have no relevant activities. Sometimes the relevant activities are contingent upon certain events taking place. For example, for some structured entities the relevant activities occur only when particular circumstances arise or events occur (e.g., for an investment vehicle holding a portfolio of high quality receivables, the decision on how to pursue recovery in the event of default). The structured entity may be designed so that the direction of its activities and its returns are predetermined unless and until those particular circumstances arise or events occur. In these cases, only the decisions about the entity’s activities when those circumstances or events occur can significantly affect its returns and thus be relevant activities.

Therefore, it is expected to be rare for a structured entity to have no relevant activities (i.e., it operates on full "autopilot" and the only decisions to be made after formation of the structured entity relate to administrative activities that do not significantly affect returns). Before coming to this conclusion it is important to consider guidance provided in paragraphs B5–B8, B17–B20 and B51–B54 of Appendix B to IFRS 10.

12. If an investor is involved in setting-up a "structured entity", does this mean the investor has control of the entity?

Not necessarily. Being involved in setting-up an investee is not, in and of itself, sufficient to conclude that an investor has control because such involvement does not necessarily give the investor decision-making rights to direct the relevant activities.

However, consideration of the overall purpose and design of an investee is important when assessing control. Participants who were involved with the design of the entity may have been granted rights that give them power over the investee. An analysis of the purpose and design of the investee should also include consideration of the risks to which the investee was designed to be exposed, the risks it was designed to pass on to the parties involved with the investee and whether the investor is exposed to some or all of those risks. Consideration of the risks includes not only the downside risk, but also the potential for upside.

13. The transition guidance in IFRS 10 uses the term "impracticable". What is meant by "impracticable"?

Impracticable is defined in the context of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. Paragraph 5 of IAS 8 defines "impracticable". Refer to Appendix C to IFRS 10 for specific transition guidance.

In practice, evidence would need to exist to support that an action is "impracticable".

14. Should the numerical references provided within the illustrative examples in IFRS 10 be construed to provide "bright-lines"?

No. IFRS 10 utilizes a principles-based definition of control which requires the exercise of judgment. IFRS 10 does not provide "bright-lines" and requires consideration of many factors. The illustrative examples in IFRS 10 are meant to illustrate the application of IFRS 10 under specific fact patterns. The examples should be used to understand the guidance in IFRS 10 but are not a substitute for applying the standard and/or the use of professional judgment.

15. Does IFRS 10 change the fundamental mechanical consolidation procedures?

IFRS 10 retains the fundamental IAS 27's requirements on consolidation procedures. Refer to paragraph B86 of Appendix B to IFRS 10.

16. Where can I find the disclosure requirements for IFRS 10?

IFRS 12 *Disclosure of Interests in Other Entities* is a consolidated disclosure standard requiring a wide range of disclosures about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated "structured entities". Disclosures are presented as a series of objectives, with detailed guidance on satisfying those objectives.

17. Is summarized financial information required for all subsidiaries?

No. IFRS 12 requires an entity to disclose summarized financial information only for those subsidiaries that have non-controlling interests that are material to the reporting entity.

However, an entity should exercise judgment in determining the appropriate nature and extent of disclosure regarding its interests in other entities and consider if information provided is sufficient to enable users to understand the composition of the group and evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

18. Are all IFRS 12 disclosures required for interim financial statements?

IAS 34 *Interim Financial Reporting* applies when an entity prepares interim financial statements. The objective of IAS 34 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. For a condensed set of financial statements, IAS 34 does not mandate the disclosures in IFRS 12. However, in complying with the objectives of IAS 34, an entity should provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions should update the relevant information presented in the most recent annual financial report. To comply with this objective, an entity should consider what IFRS 12 disclosures may need to be included in its interim financial statements.

If there has been any change in accounting policy since the most recent annual financial statements, the interim financial report should include a description of the nature and effect of the change.

Responses to Questions Posed

IFRS 11 *Joint Arrangements*

On January 30, 2013, CPA Canada delivered a webinar on IFRS 11 *Joint Arrangements*. During the webinar, participants had the opportunity to ask questions. Since all questions could not be answered during the webinar, the following document has been produced to respond to some of the unanswered participant questions. The following questions do not necessarily reflect common or frequently asked questions but are simply the ones posed during the webinar that were unanswered. To ensure the broadest applicability, some questions have been rephrased and/or simplified.

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1. **Where can I find more information on the main differences between IAS 31 *Interests in Joint Ventures* and IFRS 11 *Joint Arrangements*?**

   The CPA Canada Reporting Alert, *Joint Ventures Redefined* outlines some of the key differences between IAS 31 and IFRS 11. The IASB has also published an IFRS 11 *Frequently Asked Questions* document that discusses some of the key differences between the two standards. In addition, our website contains several external publications which analyze and compare IAS 31 to IFRS 11.

2. **Is proportionate consolidation still an accounting policy choice?**

   IFRS 11 requires the use of the equity method of accounting for interests in joint ventures thereby eliminating the proportionate consolidation method (i.e., the accounting policy choice of proportionate consolidation for joint ventures has been removed).

   However, a party to a joint operation (i.e., joint operator) recognizes its own assets, liabilities and transactions, including its share of those incurred jointly. In other words, each party to the joint operation accounts for its share of the joint assets and its agreed share of any liabilities, and recognizes its share of revenues and expenses in accordance with the contractual arrangement.

3. What are the differences between proportionate consolidation and recognition of assets, liabilities, revenues and expenses arising from a joint operation?

The IASB has published an IFRS 11 *Frequently Asked Questions* document that describes some of the main differences between proportionate consolidation and recognition of assets, liabilities, revenues and expenses arising from a joint operation. The following is an extract from the above noted IASB publication.

In the majority of cases, accounting for assets and liabilities gives the same outcome as proportionate consolidation would have done. There are two main differences between recognizing assets, liabilities, revenues and expenses relating to a joint operation and proportionate consolidation.

First, IFRS 11 requires an entity with an interest in a joint operation to recognize assets, liabilities, revenues and expenses of the joint operation as specified in the contractual arrangement, rather than automatically basing the recognition of all assets, liabilities, revenues and expenses on the ownership interest that the entity has in the joint operation.

Second, the parties' interests in a joint operation are recognized in their separate financial statements. There is no difference between amounts recognized in the parties' separate financial statements and in the parties' consolidated financial statements, whereas under IAS 31 the parties' interests in jointly controlled entities in their separate financial statements were represented by an investment measured at cost or in accordance with IFRS 9 *Financial Instruments* (or IAS 39 *Financial Instruments: Recognition and Measurement*) .

4. What is a "separate vehicle"?

One of the steps in classifying a joint arrangement is the assessment of whether a "separate vehicle" exists. A separate vehicle is defined in IFRS 11 as a separately identifiable financial structure, including separate legal entities or entities recognized by statute, regardless of whether those entities have a legal personality. The term "separate vehicle" is intended to be broader than a "separate legal entity".

Apart from the examples mentioned in the definition, IFRS 11 does not provide any further examples of what constitutes a "separate vehicle". In applying the guidance in IFRS 11, the following are generally likely to meet the definition of a separate vehicle:

- Corporation
- Trust
- Partnership
- Entities recognized by statute

However, the assessment of whether an identified separate vehicle qualifies as a joint venture or a joint operation, requires further analysis as outlined in paragraph B19–B33 of Appendix B to IFRS 11.

5. **Is it necessary for every party to the arrangement to agree to have unanimous consent?**

   No. Unanimous consent of those parties that share joint control over the relevant activities is required for there to be a joint arrangement. There may be other parties to the joint arrangement whose consent is not needed. Accordingly, it is not necessary for every party to the arrangement to agree to have unanimous consent. To have unanimous consent, only those parties that collectively control the arrangement must agree. While the requirement for unanimous consent is not new, IFRS 11 clarifies when unanimous consent exists and provides examples to illustrate the concept. Refer to application examples 1–3 of Appendix B to IFRS 11.

6. **If a contract has a dispute resolution mechanism through arbitration, does the existence of such a mechanism prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement?**

   Not necessarily. Contractual arrangements might include clauses on the resolution of disputes, such as arbitration. These provisions may allow for decisions to be made in the absence of unanimous consent among the parties that have joint control. The existence of such provisions does not necessarily prevent the arrangement from being jointly controlled and, consequently, from being a joint arrangement.

7. **Are there instances when a dispute resolution arrangement could lead to a conclusion that the parties to the arrangement do not have joint control?**

   Yes. The specific facts and circumstances of each contractual arrangement must be carefully reviewed and analyzed. Consider an example where the contractual terms include a mechanism that, in the event of a dispute over key relevant activities, gives one party to the joint arrangement a substantive right to overrule the other party (i.e., veto power); this may indicate that joint control does not exist.

8. **If a party to a joint arrangement provides a guarantee to a third party (e.g., repay funding received from the third party), does this automatically result in the joint arrangement being classified as a joint operation?**

   No. The parties to the joint arrangement may be required to provide guarantees to third parties that, for example, receive a service from, or provide financing to, the joint arrangement. The provision of such guarantees, or the commitment by the parties to provide them, does not, by itself, determine that the joint arrangement is a joint operation.

   The feature that determines whether the joint arrangement is a joint operation or a joint venture is whether the parties have obligations for the liabilities relating to the arrangement (for some of which the parties might or might not have provided a guarantee).

   A guarantee does not give the guarantor a present obligation for the underlying liabilities. Accordingly, a guarantee is not, in of itself, determinative of having an obligation for a liability.

   Paragraph B27 of Appendix B to IFRS 11 provides a table that compares common terms in contractual arrangements of parties to a joint operation and common terms in contractual arrangements of parties to a joint venture.

9. **What are the main disclosure requirements under IFRS 11?**

   The disclosure requirements for joint arrangements are in IFRS 12 *Disclosure of Interests in Other Entities*. The disclosure requirements aim to capture the nature, extent and financial effects of an entity's interests in joint arrangements as well as the nature of the risks associated with an entity's interests in joint ventures.

   The disclosure requirements include a list of all individually material joint arrangements, summarized financial information about each material joint venture and separate disclosure of commitments and contingent liabilities relating to joint ventures. It is necessary to refer to IFRS 12 (e.g., paragraphs 1–4 and 20–23) to obtain a thorough understanding of the disclosure objectives and requirements relating to interests in joint arrangements.

10. **Are all IFRS 12 disclosures required for interim financial statements?**

    IAS 34 *Interim Financial Reporting* applies when an entity prepares interim financial statements. The objective of IAS 34 is to prescribe the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period. For a condensed set of financial statements, IAS 34 does not mandate the disclosures in

IFRS 12. However, in complying with the objectives of IAS 34, an entity should provide an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period. Information disclosed in relation to those events and transactions should update the relevant information presented in the most recent annual financial report. To comply with this objective, an entity should consider what IFRS 12 disclosures may need to be included in its interim financial statements.

If there has been any change in accounting policy since the most recent annual financial statements, the interim financial report should include a description of the nature and effect of the change.

11. For a calendar year-end company (i.e., December 31, 2013), that presents comparative information for one year, what periods should be presented on its year-ending December 31, 2013 statement of financial position?

A statement of financial position is presented at the beginning of the earliest comparative period following the retrospective application of an accounting policy change, the correction of an error, or the reclassification of items in the financial statements. In such cases, three statements of financial position will be presented:

— December 31, 2013
— December 31, 2012
— January 1, 2012

Refer to paragraphs 40A-D of IAS 1 *Presentation of Financial Statements*.

12. Can you give an example of an arrangement that is outside the scope of IFRS 11 because "joint control" does not exist?

Determining if joint control exists is not always straightforward. Consider, for example, a scenario where three unrelated parties, Oil-X Co., Oil-Y Co., and Oil-Z Co., establish an arrangement where the parties have 50, 25, and 25 per cent of the voting rights in an arrangement, respectively. The contractual arrangement specifies that at least 75 per cent of the voting rights are required for decisions about the relevant activities. Based on these facts, it is likely that joint control does not exist unless the contractual arrangement among the parties specifies which combination of parties is required to agree about decisions in respect of the relevant activities. If joint control does not exist then the arrangement is not within the scope of IFRS 11.

When an arrangement is outside the scope of IFRS 11, an entity accounts for its interest in the arrangement in accordance with relevant IFRSs, such as IFRS 10, IAS 28 (as amended in 2011) or IFRS 9.

Responses to Questions Posed

IFRS 13 *Fair Value Measurement*

On January 16, 2013, CPA Canada delivered a webinar on IFRS 13 *Fair Value Measurement*. During the webinar, participants had the opportunity to ask questions. Since all questions could not be answered during the webinar, the following document has been produced to respond to some of the unanswered participant questions. The following questions do not necessarily reflect common or frequently asked questions but are simply the ones posed during the webinar that were unanswered. To ensure the broadest applicability, some questions have been rephrased and/or simplified.

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1. **Does IFRS 13 *Fair Value Measurement* apply to share-based payments?**

   No. The measurement and disclosure requirements of IFRS 13 do not apply to share-based payment transactions within the scope of IFRS 2 *Share-based Payment*. Therefore, when applying IFRS 2 an entity measures fair value in accordance with IFRS 2, not IFRS 13.

2. **Why are leasing transactions within the scope of IAS 17 *Leases* excluded from IFRS 13 when IAS 17 refers to the term "fair value"?**

   The IASB concluded that applying the requirements in IFRS 13 might significantly change the classification of leases and the timing of recognizing gains or losses for sale and leaseback transactions. Because there is a project under way to replace IAS 17, the IASB concluded that requiring entities to make potentially significant changes to their accounting systems for the IFRS on fair value measurement and then for the IFRS on lease accounting could be burdensome.

3. **Why is the definition of "fair value" based on "exit price"?**

   Paragraphs 36-45 of IFRS 13 Basis for Conclusions outlines the rationale for defining fair value as a current exit price.

   An exit price of an asset or a liability embodies expectations about the future cash inflows and outflows associated with the asset or liability from the perspective of a market participant that holds the asset or owes the liability at the measurement date.

An entity generates cash inflows from an asset by using the asset or by selling it. Even if an entity intends to generate cash inflows from an asset by using it rather than by selling it, an exit price embodies expectations of cash flows arising from the use of the asset by selling it to a market participant that would use it in the same way. That is because a market participant buyer will pay only for the benefits it expects to generate from the use (or sale) of the asset. Thus, the IASB concluded that an exit price is always a relevant definition of fair value for assets, regardless of whether an entity intends to use an asset or sell it.

Similarly, a liability gives rise to outflows of cash (or other economic resources) as an entity fulfills the obligation over time or when it transfers the obligation to another party. Even if an entity intends to fulfill the obligation over time, an exit price embodies expectations of related cash outflows because a market participant transferee would ultimately be required to fulfill the obligation. Thus, the IASB concluded that an exit price is always a relevant definition of fair value for liabilities, regardless of whether an entity intends to fulfill the liability or transfer it to another party that will fulfill it.

4. What is the difference between "transaction price" and "fair value"?

In many cases the transaction price will equal the fair value. However, fair value is an exit price (not entry price) and may not always be equal to the transaction price in certain situations. For example, the transaction price may not represent the fair value of an asset or a liability at initial recognition when any of the conditions set out in IFRS 13.B4 exists, such as:

— 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.

— 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.

— 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 (e.g., in a business combination), the transaction includes unstated rights and privileges that are measured separately in accordance with another IFRS, or the transaction price includes transaction costs.

— 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.

If another IFRS requires or permits an entity to measure an asset or a liability initially at fair value and the transaction price is different from the fair value on recognition (i.e., day 1), the difference is recognized in profit or loss (unless another applicable IFRS specifies otherwise).

5. Are transaction costs considered in determining "fair value"?

No. Transaction costs (e.g., broker fees) are not a component of fair value, although they are considered in determining the most advantageous market.

6. Does IFRS 13 require the use of a professional valuator?

No. The use of a professional valuator or appraiser is not a requirement of IFRS 13. However, such professionals can be beneficial in determining and supporting the fair value of assets and liabilities that are not quoted in an active market, for example.

7. What is meant by "recurring" and "non-recurring" fair value measurements?

Recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position at the end of each reporting period (e.g., investment properties measured using the fair value model under IAS 40 *Investment Property*).

Non-recurring fair value measurements of assets or liabilities are those that other IFRSs require or permit in the statement of financial position in particular circumstances (e.g., asset held for sale at fair value less costs to sell in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*).

8. If fair value is only disclosed in the notes to the financial statements, do the fair value hierarchy disclosures still apply?

Yes. Refer to paragraph 97 of IFRS 13. For each class of assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed, an entity shall disclose the information required by paragraph 93(b), (d) and (i) of IFRS 13. However, an entity is not required to provide the quantitative disclosures about significant unobservable inputs used in fair value measurements categorized within Level 3 of the fair value hierarchy required by paragraph 93(d).

9. **Is IFRS 13 guidance regarding "bid-ask" prices the same as IAS 39 *Financial Instruments: Recognition and Measurement*?**

   No. Under IAS 39, an entity is required to use the bid price for an asset and the ask price for a liability. IFRS 13 requires the price in the bid-ask spread that is "most representative" of fair value. As a result, IFRS 13 provides more flexibility in certain circumstances.

   IFRS 13 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. Once management has established which convention it is using, it should follow its accounting policy consistently.

10. **Does IFRS 13 apply to provisions that are within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*?**

    No. Provisions within the scope of IAS 37 are not necessarily measured at fair value. Provisions are measured at the entity's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

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