HM Treasury

23 July 2013

GOVERNMENT FINANCIAL REPORTING MANUAL (FReM) EXPOSURE DRAFT NO:

(13)01

EXPOSURE DRAFT OF PROPOSED

AMENDMENTS TO THE FReM

Application of IFRS 13 *Fair Value Measurement* for the public sector

Comments to be received by 13 September 2013

GOVERNMENT FINANCIAL REPORTING TEAM
HM TREASURY

This exposure draft of proposed amendments to the Government Financial Reporting Manual is published by HM Treasury for comment only. The proposals may be modified in the light of comments received in this consultation process before being presented to the Financial Reporting Advisory Board for its approval. Final proposals approved by the Financial Reporting Advisory Board will be published as amendments to the FReM from the proposed effective date.

Comments on this exposure draft should be submitted in writing so as to be received by **13 September 2013.** Respondents are asked to send their comments electronically to FReM.consultation@hmtreasury.gsi.gov.uk

All responses will be published on the gov.uk website unless the respondent requests confidentiality.

PROPOSED AMENDMENTS TO THE GOVERNMENT FINANCIAL REPORTING MANUAL (FReM)

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Proposed amendments to the FReM

Introduction

The Government Financial Reporting team, HM Treasury, has published this exposure draft (ED) of proposed amendments to the Government Financial Reporting Manual (FReM) as part of its ongoing work in ensuring that the Manual reflects the latest developments in government financial reporting.

Structure of exposure draft

The exposure draft includes a section for each FReM chapter for which an amendment is proposed. Each section includes:

(a) An explanation of why the amendment is proposed;

(b) When necessary any specific additional questions unique to that proposed amendment;

(c) The paragraphs of the FReM chapter that are affected by the proposed amendment;

(d) The proposed effective date of each proposed amendment.

Invitation to comment

HM Treasury invites comments on the proposed amendments. It would particularly welcome responses to the questions set out below. Comments are most helpful if they:

(a) Respond to the question as stated;

(b) Indicate the specific paragraph or paragraphs to which they relate;

(c) Contain a clear rationale; and

(d) Describe any alternative HM Treasury should consider.

HM Treasury will consider all comments received in writing by 13 September 2013. In considering the comments, HM Treasury will base its conclusions on the merits of the arguments for and against each alternative, not on the number of responses supporting each alternative.

Executive Summary

1. This ED seeks views on the proposed amendments to the FReM arising from the application of IFRS 13 *Fair Value Measurement* (IFRS 13). The effective date for the proposed FReM amendments is 1 April 2014.

2. IFRS 13 sets out the measurement and disclosure requirements for reporting entities, where an asset or liability is measured at fair value on the Statement of Financial Position.

3. The principles of IFRS 13 affect all reporting entities covered by the FReM. The ED considers the implications of introducing IFRS 13 for these reporting entities, and the applicability of the standard to the public sector.

4. IFRS 13 raises significant conceptual issues regarding measurement and disclosure for the public sector. The fundamental issue is that IFRS 13 defines fair value as the 'exit price' for an asset or liability. The standard then establishes principles for calculating an exit price, and the associated disclosure framework.

5. The principle of exit price is based on the concept that assets are held to generate future inflows of economic benefit, and liabilities represent future outflows of economic benefits.

6. Public sector entities hold classes of assets to deliver public services, rather than to realise future cash flows. The ED explores how IFRS 13 may be applied in the public sector context.

8. The FReM currently provides guidance on the valuation techniques that might be used to calculate fair value. IFRS 13 will redefine references to fair value in all IFRS's (save the scope exceptions as detailed in IFRS 13 paragraphs 5 to 8), and the ED addresses the required amendments.

9. The ED seeks your views on the conclusions reached, and on the proposed amendments to the FReM arising from these conclusions.

General Questions

Question 1

Do you agree with the proposed amendments to the FReM to reflect the principles of IFRS 13? If so, why? If not, why not, and what alternatives do you propose?

Question 2

Do you agree with the proposed adaptation of IFRS 13 for the public sector? If so, why? If not, why not, and what alternatives do you propose? Please provide supporting details (e.g. class, current use) of non-financial property assets that may fall within the scope of the adaptation.

Question 3

The disclosure requirements of the standard are laid out in IFRS 13 paragraphs 91 to 99, and are discussed from paragraph 23 of this ED. Do you have any points to make about the disclosure requirements from a public sector perspective and the implications for reporting entities?

Question 4

Application of IFRS 13 may result in new valuation profiles for certain classes of assets. Do you have any further points to make about the introduction of IFRS 13 and the implications for reporting entities?

Question 5

IFRS13 requires an entity to consider non-performance risk (the risk that an entity will not fulfil an obligation. Non-performance risk includes, but may not be limited to, the entity's own credit risk) as a factor in the fair value measurement of its liabilities. Are there any instances where a government reporting entity would not evaluate its non-performance risk as zero?

Question 6

Do you agree with the proposed effective date for the proposed amendments? If so, why? If not, why not and what alternative do you propose?

Principles of IFRS 13 *Fair Value Measurement*

1. In May 2011 the IASB issued IFRS 13, setting out the principles for the calculation and disclosure of fair value in financial statements. The standard was adopted by the EU in December 2012 with an effective date of 1 January 2013. The Government's financial reporting policy is to apply IFRS that have been adopted by the EU. The FRAB agreed to a HM Treasury proposal to defer application of the standard to relevant public sector reporting entities until financial years beginning on or after 1 January 2014.

2. Some IFRSs require or permit entities to measure or disclose the fair value of assets, liabilities or their own equity instruments. As IFRSs have been developed over many years, the requirements for measuring fair value and for disclosing information about fair value measurements have been dispersed and "did not articulate a clear measurement or disclosure objective" (IFRS 13, paragraph IN5).

3. IFRS 13 paragraph 9 now 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."

4. This definition equates fair value with an exit price and is defined from a market perspective, which requires consideration of a range of new factors (e.g. "highest and best use" of an asset by market participants, as per IFRS 13 paragraph 27). In a general sense, IFRS 13 promotes a value that reflects a theoretical market price as much as possible and will attempt to simulate this amount where a ready price is not available.

5. IFRS 13 paragraph 34 provides that a fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument is transferred to a market participant at the measurement date. The transfer assumes that the liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. This differs from the previous definition of the fair value of a liability or equity instrument, which was a settlement value.

6. IFRS 13 paragraph 42 adds that the fair value of a liability should reflect the effect of non-performance risk. Non-performance risk is the risk that an entity will not fulfil an obligation, it includes, but may not be limited to, the entity's own credit risk.

7. IFRS 13 paragraph 16 states that "a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of the principal market, in the most advantageous market for the asset or liability."

8. Further to this, the reference to an orderly transaction requires a valuer to suppose that the transaction is not forced (i.e. there is no element of financial distress affecting the sale or transfer). For an orderly transaction to occur under the standard IFRS 13 paragraph 19 provides that "the entity must have access to the principal (or most advantageous) market at the measurement date". It should be noted that the

standard disregards an entity's intent to sell an asset or transfer a liability as a factor at the measurement date.

9. Conceptually, IFRS's are written primarily for profit-making organisations. Consequently the principles consider the information requirements of investors on future economic benefits, which are intended to represent the future cash flows associated with assets and liabilities. In establishing a theoretical price for the item, the seller would take into account the fact that a buyer would pay according to the economic benefits expected to be gained in the use of the asset – that is, the asset would be valued as if it were employed in its "highest and best use", even if that is not its current use and even when an asset/liability is held for purposes other than the pursuit or economic goals (i.e. as the public sector holds many assets/liabilities in the course of providing public services).

10. Highest and best use contributes to the maximisation of the value of an asset based on the different physically possible, legal permissible and financially feasible uses that market participants could employ to generate economic benefits from the item undergoing valuation. Financially feasible supports the assumption that a market participant would factor conversion costs into a price when highest and best use is not existing use or supported by the asset's current configuration.

11. The standard also requires an entity to include appropriate disclosures supporting fair value calculations – in particular where fair value has been calculated using valuation techniques that are not derived from market information on exit prices (for example where such information is not available).

Applicability of IFRS 13 for Reporting Entities

12. IFRS 13 includes guidance to assist an entity determine the most appropriate valuation based on exit price. Supporting guidance for the application of IFRS 13 in a Central Government context can be found in Appendix A.

13. Central Government reporting entities hold different classes of assets and liabilities (e.g. financial, non-financial, current, non-current), most of which are held ultimately to deliver public services.

Liabilities

14. When considering non-performance risk, it is expected that in most (if not all cases) a public sector entity's non-performance risk would be zero. Where non-performance risk is greater than zero, HM Treasury deems the inclusion of this risk as appropriate for public sector reporting objectives.

Assets

15. IFRS 13 requires that fair value should be the market value of an asset in its highest and best use with regard to all market participants; i.e., while the existing use of an asset might be the highest and best use for the current owner of the asset, another market participant may be able to derive higher economic benefit employing the asset in a different way.

16. The application of the standard should be considered with regard to the following effects on asset valuation methodologies:

- Cases where methodologies would be unchanged;
- Cases where methodologies consider constraints on the sale of the asset; and
- Cases where methodologies would change appropriately.

Cases where methodologies would be unchanged

17. Under IFRS 13, methodologies may remain unchanged although HM Treasury is proposing to change the available guidance. Assets that fall within the scope of the existing IAS 16 *Property, Plant and Equipment* adaptation (see 2013-14 FReM paragraph 6.2.5) are currently required to be valued at market value in existing use. The ED proposes the removal of this adaptation as part of the application of IFRS 13 to the public sector. It is possible that in some instances market value in existing use and fair value may be the same.

18. For assets that have unique characteristics that cannot be captured by direct market information or adjusted market information (i.e. level 1 or 2 inputs as per IFRS 13 paragraphs 76 to 85), the standard requires the entity to disregard any market value that does not capture the nature of the asset and instead employ either the income method or DRC to arrive at an appropriate fair value. This replicates the existing practice of many specialised assets currently being valued using DRC; an income method is not prevalent as many public sector assets generate no cash flows on which an income method could be based.

Cases where methodologies consider constraints on the sale of the asset

19. As per IFRS 13 paragraph 11, 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 measurement date. Such characteristics include, for example, the condition and location of the asset and restrictions, if any, on the sale or use of the asset. The following paragraphs provide examples of assets whose valuation under IFRS 13 would be affected by the constraints associated with their use or sale.

20. There is a public sector requirement for any portfolio asset currently used to deliver public services to be retained for the delivery of that portfolio's service delivery objectives wherever possible (high probability is not required). As such, these constraints on sale are a characteristic of the asset that a market participant would take into consideration that would affect the theoretical sale price of the asset. This is not intended to constitute an interpretation, but is rather an understanding of the standard in application to public sector conditions.

21. Certain types of in-use property assets (i.e. assets that are not surplus to public sector service delivery requirements) must undergo extensive procedural hurdles prior to any possible sale. These constraints are more extensive than office accommodation requiring planning permission for development as residential properties – they often require lengthy public consultations, fulfilment of regulatory obligations and possible Secretary of State approval. The time required to complete this process often spans financial years. As such, these constraints on sale constitute lack of access to many markets for the entity at the measurement date. As the primary market (i.e. the open

property market) is not available to the public sector entity, the most advantageous market available would have to assume that the asset's highest and best use is its existing use. This is not intended to constitute an interpretation, but is rather an understanding of the standard in application to public sector conditions.

22. HM Treasury considers that for in-use assets that:

a. do not meet the characteristics of the constraints described above; and
b. are held in a very specific geographic location for the delivery of public services,

open market value does not appropriately convey the value of a public sector reporting entity as the entity does not have the discretion to take advantage of market dynamics to acquire assets in a different location to continue to render the service. As such, HM Treasury considers an adaptation to IFRS 13 appropriate that will require public sector bodies to value geographically restricted property assets currently used in the direct rendering of public services to be valued at market value in existing use. An entity that feels this adaptation would apply to a non-financial asset would need to be prepared to demonstrate that there is clear evidence of a geographic restriction to its auditors.

Cases where methodologies would change appropriately

23. Application of IFRS 13 and the removal of the IAS 16 FReM adaptation results in new valuation profiles for certain classes of assets, the clear example being office accommodation. In almost all cases, there are no constraints on access to a market and these are not specialised assets. Where this is the case, it is no longer considered appropriate for such an asset to be valued at market value in existing use (as per the existing IAS 16 adaptation - see 2013-14 FReM paragraph 6.2.5) and, where an appropriate market exists, a market valuation methodology under the standard should apply.

Disclosure

24. As per IFRS 13 paragraph 93(i) "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." This disclosure may be utilised by commercial decision makers when an entity may not be utilising an asset to its highest economic benefit (possibly for competition reasons, i.e. withholding intellectual property until the most beneficial market entry point may yield long term benefits, but the asset is not generating cash flows until a future point in time and this would impact its valuation). This information can also support central government entities whose fair value disclosures may belie how an entity uses an asset (specialised and non-specialised) to render public services and deliver departmental objectives.

25. HM Treasury's view is that adoption of the disclosure principles (and measurement principles) of IFRS 13 should enhance the quality of information presented on the calculation of fair value.

Current IAS 16 FReM adaptation

26. The 2013-14 FReM, paragraph 6.2.5 states "for ‘in-use’ non-specialised property assets fair value should be interpreted as market value for existing use.” Given the principles and concepts stated above, the ED proposes to remove this adaptation.

FReM chapters addressed

The following table shows the topics addressed by these proposed amendments.

FReM Chapter	**Subject of amendments**
Chapter 6, Tangible Non-Current Assets	To include correct references to IFRS 13, and to reflect the language, principles and interpretations of IFRS 13.
Chapter 7, Intangible assets	To reflect the language, principles and interpretations of IFRS 13.
Chapter 14, Whole of Government Accounts	To include IFRS 13 in the table of applicable standards.

Proposed amendments to the
Government Financial Reporting Manual

Introduction

An amendment to each of the following chapters is proposed:

- Chapter 6, *Tangible Non-Current Assets*
- Chapter 7, *Intangible Assets*
- Chapter 14, *Whole of Government Accounts*

Why the amendments are proposed

The amendments proposed in the ED seek to amend the FReM to incorporate the financial reporting principles contained in IFRS 13. Where appropriate, these principles have been interpreted for the public sector context.

Effective date of amendments

The effective date for the proposed amendments is 1 April 2014.

Proposed amendments

FReM amendments are proposed to reflect IFRS 13. As this is a new standard, there are no references to it in the FReM.

The proposed amendments reflect the measurement and disclosure requirements of IFRS 13. The amendments also give reporting entities flexibility in determining the definition of fair value for each class of asset and liability held.

Chapter 6

IFRS 13 Fair Value Measurement

Applicability

6.2.2 IFRS 13 applies as adapted in paragraph 6.2.5 to all situations in this manual where other standards permit an asset or liability to be measured at fair value.

Objectives of IFRS 13

6.2.3 The objectives of IFRS 13 are to define fair value, to set out a framework for measuring fair value and to set out the disclosure requirements for reporting entities relating to fair value measurement.

6.2.4 IFRS 13 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.

Adaptation of IFRS 13 for the public sector context

6.2.5 'In use' non-specialised property assets used to deliver services in a restricted geographic area as described by government policy should be valued at market value for existing use. This measure is a proxy for fair value.

IAS 16 Property, Plant and Equipment

~~*Adaptation of IAS 16 for the public sector context*~~

~~6.2.6 'In use' For 'in use' non-specialised property assets fair value should be interpreted as market value for existing use. In the RICS Red Book, this is defined as 'market value on the assumption that property is sold as part of the continuing enterprise in occupation'.~~

Interpretations of IAS 16 for the public sector context

6.2.7 In applying IAS 16, reporting entities should be aware of the following interpretations for the public sector context.

Recognition and measurement

a) All tangible non-current assets shall be carried at fair value ~~valuation~~ at the reporting ~~period~~ date – that is, the option given in IAS 16 to measure at cost has been withdrawn, as has the option to value only certain classes of assets;

b) It is not necessary to disclose the historical cost carrying amounts (where available) as required by IAS 16; and

c) The 'value in use' of a non-cash-generating asset is the present value of the asset's remaining service potential, which can be assumed to be at least equal to the cost of replacing that service potential.

~~Valuations~~Fair Value

6.2.8 In considering how best to apply the valuation requirements of IAS 16 and IFRS 13 so as to ensure that the Statement of Financial Position gives a true and fair view of the value of the assets at the reporting ~~period~~ date, entities should consider the following guidance on property and non-property assets.

Property

Recognition and measurement

a) Entities should value their property using the most appropriate valuation methodology. Such methods might include:

- a quinquennial valuation supplemented by annual indexation and no interim professional valuation;
- annual valuations; or
- a rolling programme of valuations of properties (whether specialised or non-specialised);

b) It is for valuers, using the Royal Institution of Chartered Surveyors; (RICS) 'Red Book' (RICS Appraisal and Valuation Standards), and following discussions with the entity, to determine the most appropriate methodology for obtaining a fair value. Where a valuer, following discussion with the entity, determined that depreciated replacement cost (DRC) is the most appropriate, entities and their valuers should have regard to the guidance contained in the most recent RICS Red Book ~~Valuation Information Paper No. 10~~ ~~*The depreciated replacement cost (DRC) method of valuation for Financial Statements*~~~~[1]~~ ~~as supplemented by the more detailed guidance available on this Manual's dedicated website~~;

Donated assets

6.2.18 Assets donated by third parties (see also paragraph 6.2.23), either by gift of the asset or by way of funds to acquire assets (including national lottery-funded assets), and which meet the criterion in paragraph 6.2.19, should be capitalised at fair value on receipt. ~~Where the value of the services provided by an asset will be less than the fair value of the asset because it is over-specified for its intended use, the lower value should be used.~~ The funding element should be recognised as income as required by IAS 20 as interpreted in this Manual as paragraph 6.2.71 (b) refers.

Interpretation of IAS 16 in respect of accounting for heritage assets

Recognition and measurement

6.2.29 Where information is available on the cost or fair value of heritage assets:

(i) they should be presented in the Statement of Financial Position separately from other tangible assets;

(ii) the Statement of Financial Position or the notes to the accounts should identify separately those classes of heritage assets being reported at cost and those at fair value ~~valuation~~; and

(iii) changes in the valuation should be recognised in the Other Comprehensive Expenditure section of the Statement of Comprehensive Net Expenditure, except impairment losses that should be recognised in accordance with chapter 8 of this Manual.

The accounting convention in this manual is to recognise non-current assets at fair value but, where exceptionally, it is not practicable to obtain a fair value, the heritage assets may be reported at historical cost.

6.2.30 Where assets have previously been capitalised or are recently purchased, information on their cost or fair value will be available. Where this information is not available, and cannot be obtained at a cost commensurate with the benefits to users of the financial statements, the assets will not be recognised in the Statement of Financial Position and the disclosure required by this manual should be made.

Chapter 7

IAS 38 Intangible Assets and SIC 32 Intangible Assets – Web Site Costs

Interpretations of IAS 38 for the public sector context

7.2.5 Following the initial recognition of an intangible asset, for subsequent measurement IAS 38 permits the use of either the cost or revaluation model for each class of intangible asset. Where an active (homogeneous) market exists, intangible assets should be carried at fair value at the reporting period date – that is, the cost option given in IAS 38 has been withdrawn. ~~Where no active market exists, entities should revalue the asset, using indices or some suitable model, to the lower of depreciated replacement cost and value in use where the asset is income generating. Where there is no value in use, the asset should be valued using depreciated replacement cost. These measures are a proxy for fair value~~.

Chapter 14

14.2 Accounting standards applied to Whole of Government Accounts

14.2.1 This section summarises the applicability of accounting standards to WGA. Adaptations and interpretations of standards that apply to WGA are explained in the paragraphs below.

Accounting Standard	Adapted in other chapters	Interpreted in other chapters	Adapted for WGA	Interpreted in WGA
<u>IFRS 13 Fair Value Measurement</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>

<u>***IFRS 13 Fair value Measurement***</u>

<u>14.2.20 IFRS 13 is adapted for WGA in the same way that it is adapted for the financial statements of reporting entities covered by this manual, other than in regards to the detailed disclosure requirements in IFRS 13 paragraphs 91 to 96 which shall not apply to WGA.</u>

Appendix A – Guidance

The following is summary guidance, and is not intended to be prescriptive. It is up to each reporting entity to justify its decisions to its auditors. The initial paragraphs discussing calculation of fair value are supported by a flow chart depicting the process (page 19) and several examples of how IFRS 13 may apply to certain elements of a reporting entity's balance sheet.

Calculation of fair value by Reporting Entities

(a) In a general sense, IFRS 13 promotes a value that reflects a theoretical market price as much as possible and will attempt to simulate this amount where a ready price is not available.

(b) The data used during the valuation process, called inputs, have been placed into three possible categories:

- Level 1 inputs, or direct market inputs;
- Level 2 inputs, or indirect market inputs; and
- Level 3 inputs, or unobservable market inputs.

(c) The standard requires the maximisation of level 1 inputs, which are those directly observable from the market in which an asset would be sold – namely, a quoted price for an identical asset in an active market. By definition, if a Level 1 input is available then the market method is being used to value the asset.

(d) Where level 1 inputs are not available, level 2 inputs are required to be used where available and appropriate. Level 2 inputs are market corroborated inputs other than those that classify as level 1 – for example, market indices for housing valuation. Level 2 inputs can feed into any of the three valuation methodologies available under IFRS 13.

(e) In addition, and separately regarded from inputs, are three valuation methodologies:

- The market method, based on market information;
- The income method, based on the present value of cash flows associated with the asset; and
- The cost method, generally read as the depreciated current replacement cost (DRC).

(f) While there is some natural correlation between methodologies and inputs (i.e. Level 1 inputs with a market valuation methodology), each of the valuation methodologies are equally compliant under the standard.

(g) Level 3 inputs are those that are not directly observable from the market. By definition, level 3 inputs cannot be used in a direct market valuation. However level 3 inputs may be used to adjust a market valuation where necessary to capture the characteristics of the asset being valued.

Non-financial assets

(h) If a quoted price for an identical asset in an active market is available (for example, a valuation report with reference to the asset in question), then that price constitutes a Level 1 input using a market valuation methodology and will be the fair value for that asset. In subsequent years, if this price is adjusted for indexation to reflect ‘current year conditions’, it will constitute a Level 2 input.

(i) Many common tangible assets will be valued using a market valuation method. Unless a direct assessment of an asset is undertaken, level 1 inputs will rarely (if ever) be available.

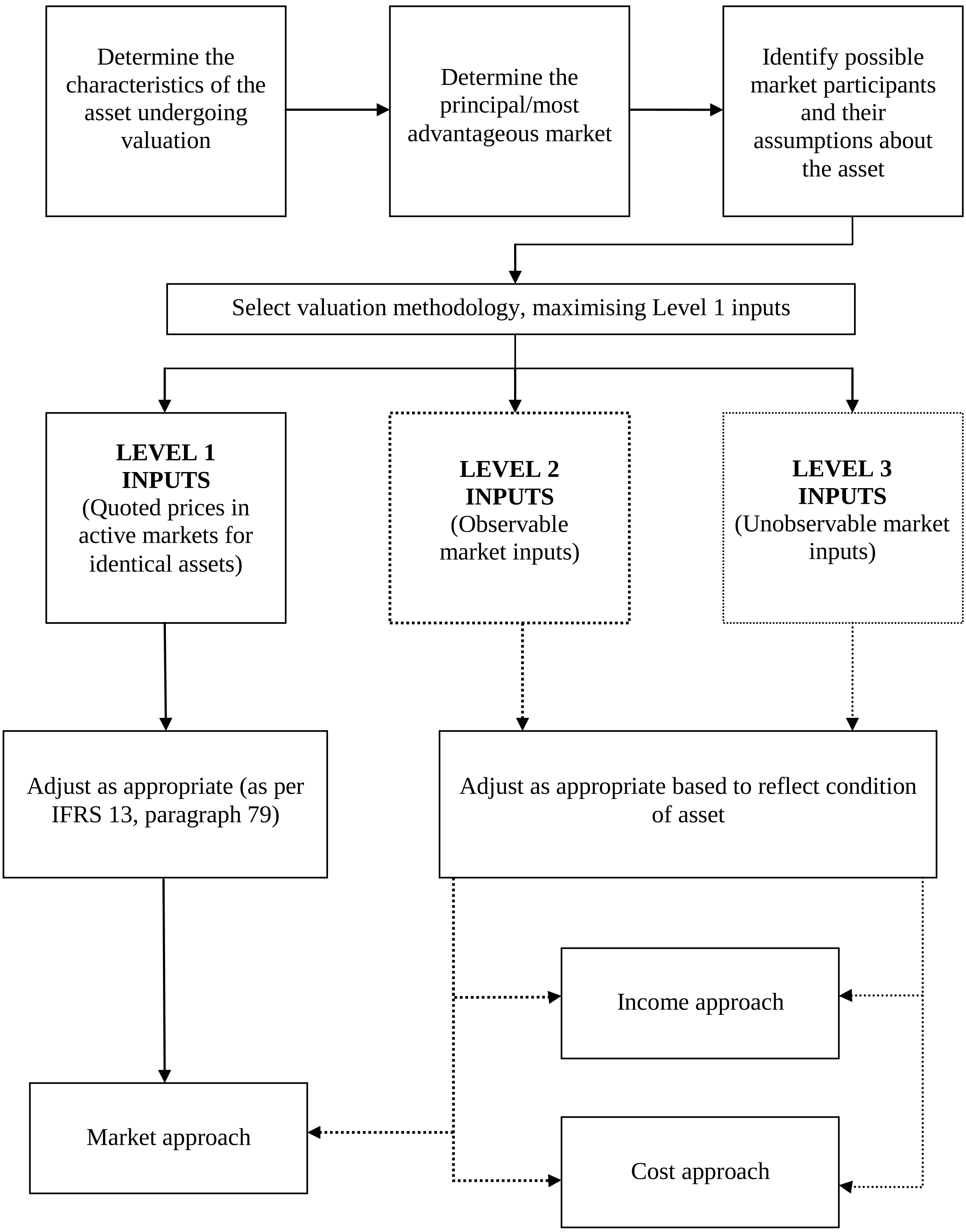
(j) For non-specialised assets, the minimum fair value should be no lower than market value in existing use. This is by virtue of the restriction on distressed sale and the inclusion of the seller in the group of market participants (paragraph BC56) whose assumptions feed into the theoretical transaction price. A non-distressed seller will not dispose of the asset for an amount that is less than its market value in existing use.

(k) In some cases, particularly for genuinely specialised assets, market value may not take into account the inherent characteristics of the asset (namely its current installation, configuration, ability to contribute to the economic benefit of the entity when used in conjunction with other assets).

(l) Paragraph BC79 (in the basis of conclusion to IFRS 13) states that “when a market price does not capture the characteristics of the asset (e.g. if that price represents the use of the asset on a stand-alone basis, not installed or otherwise configured for use, rather than in combination with other assets, installed and configured for use), that price will not represent fair value.”

(m) In these situations, the standard requires the entity to disregard any market value that does not capture the nature of the asset and instead employ either the income method or DRC to arrive at an appropriate fair value.

Valuation of an asset under IFRS 13 Fair Value
See IFRS 13 paragraph B2.



Assets with low value or short useful lives

(n) The FReM guidance (2013-14: paragraph 6.2.7(h)) allowing entities to elect to adopt a depreciated historical cost basis as a proxy for fair value for assets that have short useful lives or low values (or both) continues to apply without amendment.

Specialised assets

(o) The standard requires the maximisation of level 1 inputs. Level 1 inputs are quoted prices in active markets for identical assets that the entity can access at the measurement date. Due to the unique characteristics of genuinely specialised assets, identical assets in an active market do not exist and nor do similar assets, ruling out the use of level 1 and 2 inputs. As such, many specialised assets will commonly use depreciated replacement cost and level 3 inputs to arrive at a fair value.

Infrastructure Assets

(p) Similarly to specialised assets, the availability of level 1 and 2 input market for infrastructure assets is scarce to non-existent. As such, most (if not all) infrastructure assets will commonly use depreciated replacement cost and level 3 inputs to arrive at a fair value.

Land

(q) Market information is generally abundant for most properties. As such, it would be expected that level 1 inputs would be used (adjusted where appropriate for the condition of and restrictions on the use or sale of the property).

Plant and machinery

(r) It is likely that market information adjusted where appropriate for condition of asset will be used in the calculation of fair value for plant and machinery. As per (a) above, the FReM provision for non-material transaction would continue to apply and as per (b) if the plant or machinery is specialised then a depreciated replacement cost model may be appropriate.

Liabilities and equity instruments

(s) 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.

(t) When a quoted price 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.

(u) IFRS 13 paragraph 42 adds that the fair value of a liability should reflect the effect of non-performance risk. Non-performance risk includes, but may not be limited to, an entity's own credit risk.