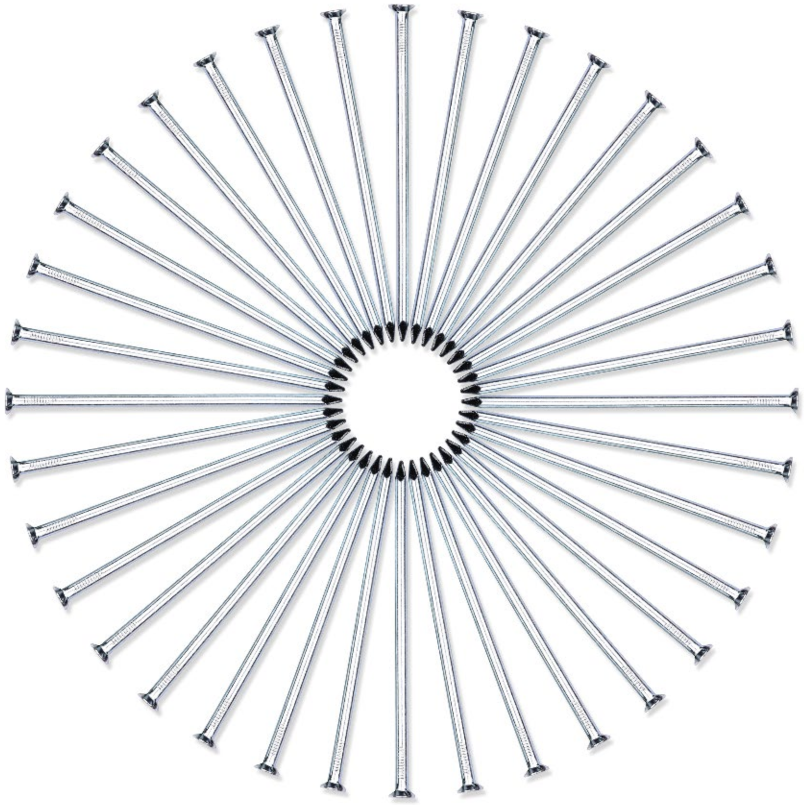

Fair Value

Accounting perspective

08 November 2019

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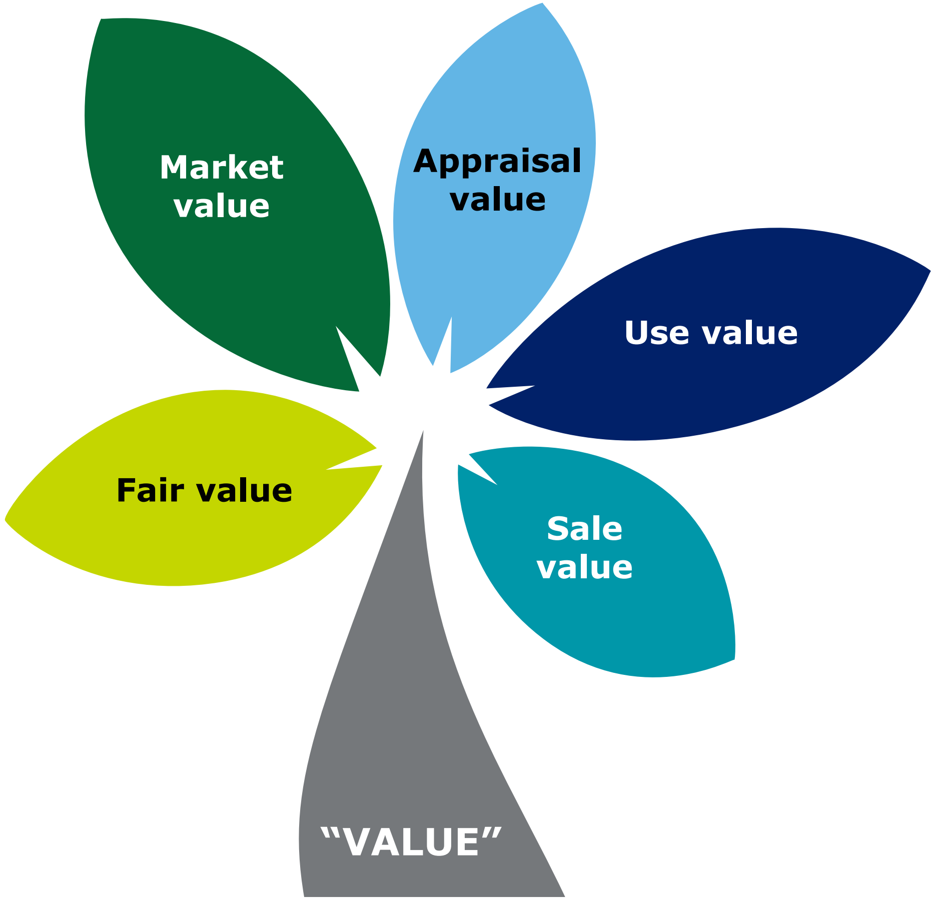
Fair value definition

“You do not know the true value of something until it is sold”



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 under current market conditions (**IFRS 13, §9 and §24**).

Market value
Consists in the most probable price an asset could reach in a competitive market considering similar observable transactions. It fluctuates over time and it is determined by supply and demand forces typically in organized sale’s markets.

Appraisal value
Is the amount for which the asset has been valued after being examined by a qualified expert. Consists on an expert’s best estimation of the asset’s fair value.

Use value
Economic concept under which the value of an asset is related only to its usage (which is not necessarily its highest and best use) or to an equivalent value in cash and not to any intrinsic value.

Sale value
Is the price at which an asset is effectively sold. It is directly influenced by specific characteristics of the seller and/or the buyer like personal motivations, application for tax benefits, unique synergies, financial constraints, amongst other.

Multiple value perspectives

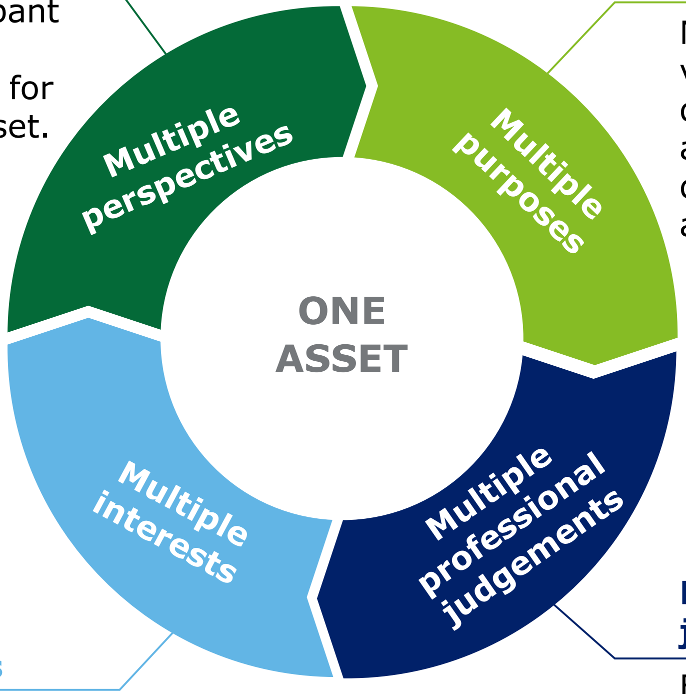
The same unique asset may be valued differently depending on each valuation situation

Multiple perspectives

Each market participant can have a different perspective of value for the same unique asset.

Multiple purposes

Market participants can value the asset differently depending on the purpose assumed for the future development and use of the asset.



Multiple interests

Valuation conclusions may be influenced by different objectives and specific scope of valuation.

Multiple professional judgments

Each professional background, expertise and knowledge of the appraiser influence its unique understanding of the value of an asset.

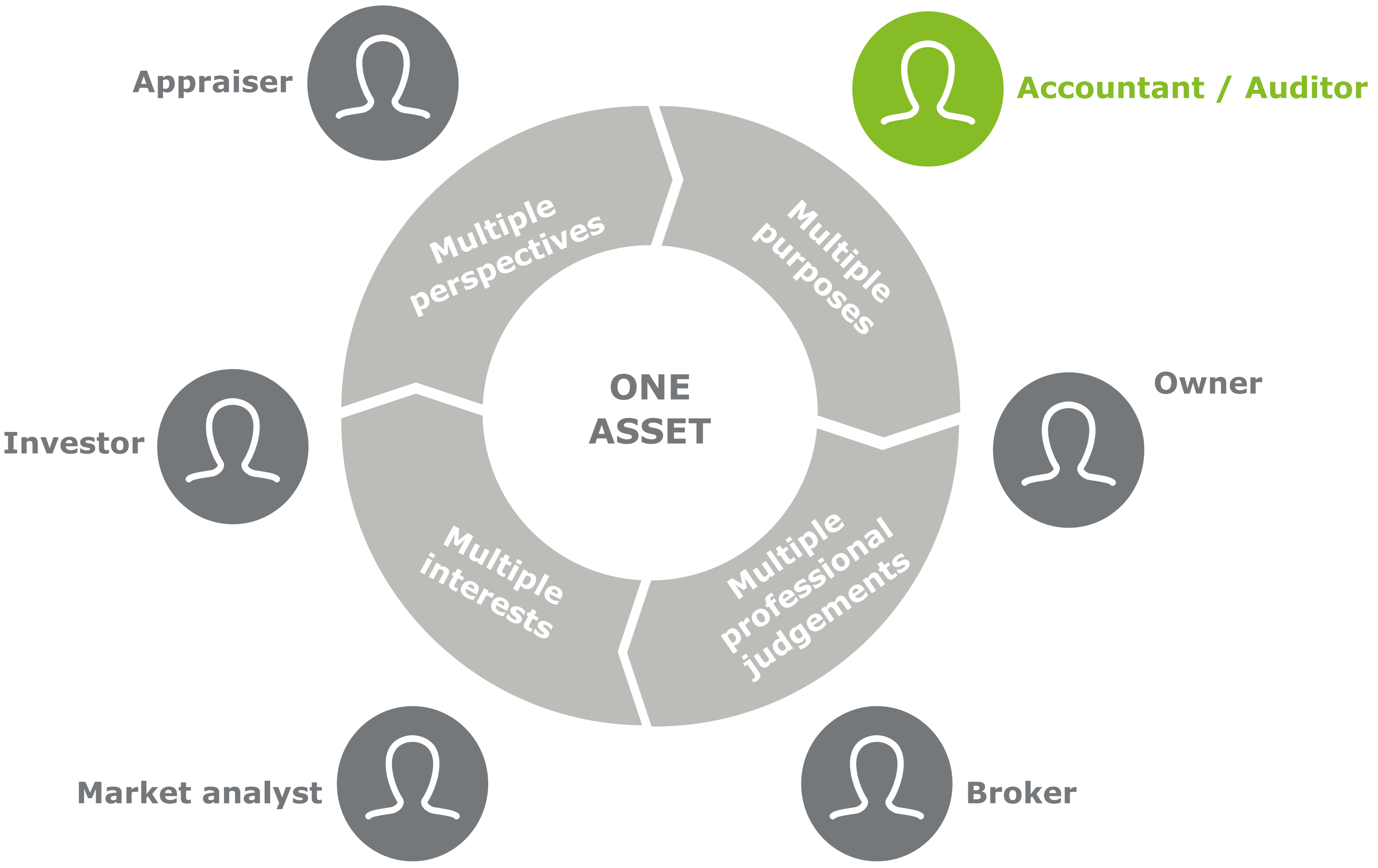
A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants (**IFRS 13, §15**).

Entities do not necessarily sell assets at the prices paid to acquire them (…) Transaction price might not represent the fair value of an asset or a liability at initial recognition (**IFRS 13, §57 and §59**).

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 (**IFRS 13, §25**).

Market participants

For the same asset, different market participants will have different perception of the asset's fair value according to their own particular view and understanding of the asset



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 (**IFRS 13, §12**).

The judgements applied in different valuation situations may be different (**IFRS 13, §B1**).

Accounting framework to valuations

The accounting approach to fair value calculation varies depending on the subject entity and the specific characteristics of the assets

Prudence

The principle of prudence as a conceptual framework suggests the exercise of caution when making judgements under conditions of uncertainty.

Prudence is considered in support of the principle of neutrality for the purposes of faithful representation (**IASB Conceptual Framework**).

Accounting framework

Different entities may be subject to specific accounting standards, which may influence the asset's valuation (e.g., REIF or small sized entities).

Characteristics of the assets

The accounting for asset value depends on the specific characteristics of the assets:

- Investment property (**IAS 40**).
- Non-current assets held for sale (**IFRS 5**).
- Property, Plant and Equipment (**IAS 16**)
- Leases (**IFRS 16**)
- Inventories (**IAS 2**)

An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available (**IFRS 13, §61**).

Valuation techniques (…) shall maximise the use of relevant observable inputs and minimise the use of unobservable inputs (**IFRS 13, §67**).

If multiple valuation techniques are used to measure fair value, the results 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 (**IFRS 13, §63**).

Valuation building blocks

Different valuation perspectives may give rise to valuation gaps amongst market participants

Min **Possible valuation interval** Max

Other market participants

Physical asset | Realizable return | Incremental / Perceived return

Each market participant will subjectively consider the expected return envisioned for the asset according to its own projects and perspectives when valuing the asset.

GAP

Difference that may arise between accounting view and other valuation perspectives

Accounting's valuation interval

Accountant / Auditor

Physically possible | Legally permissible | Financially feasible

Use that is physically possible (e.g., location or size of property).

Use that considers any legal restrictions (e.g., zoning regulations).

Use physically possible and legally permissible that generates adequate income or cash flows.

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 (**IFRS 13, §27**).

When an asset is acquired (…) the transaction price is the price paid to acquire the asset (an entry price). In contrast, the fair value of the asset (…) is the price that would be received to sell the asset (an exit price). Entities do not necessarily sell assets at the prices paid to acquire them (**IFRS 13, §57**).

Deloitte.