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Valuation Update

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VALUATION UPDATE

- IFRS 13 – Fair Value Measurement
 - Definition / Scope
 - Approach / Techniques
 - Disclosures
- What's new
- Hot topics (Increased scrutiny and Technology)
- Technology – IAAs and Approaches
- Working with Valuation Experts

VALUATION UPDATE

Definition

- *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*
- Exit value
- Emphasis on market participants
- Excludes entity specific factors
- Transaction price may not represent FV where related parties / duress present

VALUATION UPDATE

Scope

- IFRS 13 – Fair Value Measurement
 - Applies when another IFRS requires or permits FV measurements
 - Doesn't apply to
 - IFRS 2 or IFRS 16
 - Measurements that are similar to FV (i.e. value in use, net realizable value)

VALUATION UPDATE

Scope

- IFRS 3 – Business Combinations
- IFRS 5 – Non-current Assets Held for Sale / Discontinued Ops
- IAS 16, 19 – PPE / Employee Benefits
- IAS 27, 28, IFRS 11 – Separate FS / Inv in JVs / Joint Ops
- IAS 36 – Impairment
- IAS 38 – Intangible Assets
- IFRS 9 – Financial Instruments
- IFRS 17 – Insurance Contracts
- IAS 40 – Investment Property
- IAS 41 - Agriculture

VALUATION UPDATE

Measurement Approach

- Transactions assumed to take place in principal and most advantageous market
 - The market that the entity/ MPs accesses
- Highest and Best Use (non-financial assets)
 - Asset's use by owner might not be relevant if MPs would use it differently

VALUATION UPDATE

Valuation Approaches

- Focus on maximizing use of relevant observable inputs (minimizing use of unobservable inputs)
- References FV hierarchy
- Cost, income, market and hybrid approaches

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Disclosures

- The lower the Level of Input (i.e. Level 3 Unobservable input), the more the disclosure

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What's New

- Mar 2021 - IASB Exposure Draft
 - Proposed Amendments to IFRS 13 – Overall disclosure objective – Comment period closes Jan 2022
 - Will require an entity to disclose information
 - Significance of the assets and liabilities measured at fair value
 - How fair value measurements have been determined; and
 - How changes in those measurements affect the entity's financial statements.

VALUATION UPDATE

What's New

- Mar 2021 - IASB Exposure Draft – IFRS 13
 - Specific disclosure objectives
 - Fair value hierarchy, measurement uncertainties
 - Possible alternative fair value measurements, and drivers of change in fair value measurements.
 - Also covers disclosures regarding assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

VALUATION UPDATE

Hot Topics – Increased Scrutiny

- Increased sophistication of users has led to higher degree of scrutiny of valuation models and inputs
- Business Combinations
 - Contingent consideration – use of complex models (Monte Carlo)
 - Discounts for Lack of Marketability on Restricted Shares
- Impairment
 - Allocation of goodwill to appropriate CGUs
 - Support for assumptions

VALUATION UPDATE

Hot Topics – Increased Scrutiny

- Be prepared to
 - Answer why one approach was selected over another
 - Answer why referenced guideline companies or transactions are relevant
 - Provide support for projections (revenue, expenses, capital expenditures, working capital)
 - Disclose

VALUATION UPDATE

Hot Topics - Technology

- PPAs and Impairment
 - Identifiable Intangible assets
 - » Technology, Brand, Supply contracts
 - Challenges when valuing Technology using
 - » Relief from royalty method (Observable royalty rates)
 - » Income approach (clearly identifying life of base technology and supporting projected cash flows)
 - Complex exercise require corroborating approaches

VALUATION UPDATE

Working with Valuators

- In the event you are asked to work with a valuation specialist, **ensure**
 - They are qualified (e.g. CPA, CBV, ASA) and familiar with FV measurement standards and accepted approaches – Some concepts approaches not intuitive
 - Communicate with auditor to ensure consensus / no surprises
 - Disclose and adequately support rationale, approach, assumptions
 - THEY ARE BE PREPARED TO SUPPORT THEIR Conclusion (YOUR CONCLUSION)

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Q&A Session

Closing Items

- Any unanswered questions or comments can be sent to events@davidson-co.com
- Slides and link to survey/PD Certificate will be emailed
- Copy of this webinar will be posted to website
- Draw

