

ED NASCO 26

“Fair Value Measurement”

Purpose of Standard

1. This Standard has been prepared in accordance with the Accounting Law of the Azerbaijan Republic

Objective

2. The objective of this Standard is to prescribe the procedures that an entity is to employ in measuring and disclosing those assets and liabilities that are required to be measured and disclosed at fair value.

Scope

3. This Standard will be applied by all types of commercial enterprise that prepare financial statements in accordance with Article 10 of the Accounting Law of the Azerbaijan Republic, taking into account the additional provisions contained in the Explanations and Recommendations on its Application
4. In the case of contradictions between effective normative-legal Acts on accounting regulation and this National Accounting Standard, the National Accounting Standard should be applied.
5. This Standard should be applied in all cases where fair value has to be measured or disclosed. Where other NASCOs contain requirements for the specific measurement and disclosure of fair value within the context of that NASCO then those requirements are to take precedence over this NASCO if there is a conflict of requirements.
6. The requirements contained in other NASCOs are not to be regarded as definitive if requirements contained in this NASCO are not included in those other NASCOs. In other words, this NASCO should be regarded as additional to the requirements contained in those other NASCOs.
7. This Standard will make reference to the fair value of assets. However, when appropriate, if the fair value of a liability has to be measured then the provisions of this Standard will be applicable.

Measuring fair value of tangible assets

8. The fair value of a tangible asset is the price at which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction.
9. In this context, “knowledgeable” means that both the buyer and the willing seller are reasonably well informed about the nature and characteristics of the asset, its actual and potential uses, and market conditions as they exist at the balance sheet date.
10. A “willing” buyer is motivated to buy but is not compelled to buy nor is there any obligation, either real or implied, to buy. The willing buyer is neither over-eager nor determined to buy at any price and would not pay a higher price than a market comprising of knowledgeable, willing buyers and sellers would require.
11. A “willing” seller is neither an over-eager nor a forced seller, prepared to sell at any price, nor one who is prepared to hold out for a price not considered reasonable in current market conditions. The willing seller is motivated to sell the asset at normal market terms for the best price obtainable.

12. Both the “willing” buyer and seller are hypothetical parties and the factual circumstances of the actual asset owner are not part of the consideration in determining fair value. For example, before making the decision to sell an asset the actual owner may take into account the taxation consequences of that sale whereas a willing seller would not. The willing seller, therefore is a party who merely wants to sell the asset and is unencumbered by any other considerations.
13. Fair value is also deemed to be the result of an “arm’s length transaction”. An arm’s length transaction is one between parties that do not have a particular or special relationship that makes transactions between them uncharacteristic of normal market conditions. The transaction is assumed to take place between unrelated parties, each acting independently of each other and in furtherance of their own economic interests. In addition, an arm’s length transaction is assumed to take place between parties of equal bargaining power, neither of whom is able to exert undue economic power or influence over the other.
14. The fair value of an asset shall reflect the market conditions at the balance sheet date as they affect the asset in its current location and condition. It will not reflect future capital expenditure that will improve or enhance the asset and does not reflect the future economic benefits that may flow from such future expenditure nor will it reflect an estimated price that has been inflated or deflated by special terms, conditions or circumstances such as atypical financing or special concessions granted by anyone associated with the sale.
15. Fair value is time-specific as of a given date. Because it is driven by market conditions, market conditions may change and the amount reported as fair value may be incorrect or inappropriate if it has been estimated at any other date. It also assumes simultaneous exchange and completion of the contract for sale without any variation in price that might be made in an arm’s length transaction if the exchange and completion were not simultaneous.
16. The best evidence of fair value is given by current prices in an active market for similar assets in the same location and condition. When assessing current prices, an entity must take care to identify, and make appropriate adjustments if necessary, any differences in the nature, location, or condition of the asset, or in any contractual terms relating to the asset.
17. An active market is a market where sufficient transactions are made on a regular basis to establish, with reasonable certainty, current prices.
18. In the absence of current prices in an active market of the kind described in paragraphs 15 and 16, an entity must consider information from other sources in establishing the fair value of an asset. These other sources include, but are not limited to:
 - current prices in an active market for assets of a different nature, condition, or location but of sufficient similarity to be a viable comparator, adjusted to reflect these differences;
 - recent prices of similar assets on less active markets, with appropriate adjustments being made to reflect any changes in economic circumstances since the date of the transactions that occurred at those prices;
 - discounted cash flow projections based on reliable estimates of future cash flows arising from the use of the asset, supported by external evidence when available, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows;
 - valuation techniques commonly used by market participants to price such assets and which have been demonstrated in the past to provide reliable estimates of prices obtained in actual transactions. The chosen technique should make maximum use of market inputs and rely as little as possible on entity-specific inputs. It should incorporate all factors that market participants would consider in setting a price and be consistent with accepted economic methodologies. Periodically, an entity should test the chosen technique for

validity using prices from any observable current market transactions for the same asset or based on any available market data;

- sector benchmark prices if they are available such as the value of cattle expressed per kilogram of meat.

19. In some cases, the various sources described in paragraph 17 may suggest a range of possible fair values for an asset. An entity should consider the reasons for those differences and arrive at the most reliable estimate of fair value within the range of reasonable fair value estimates.
20. In exceptional cases, there is clear evidence that the range of reasonable fair value estimates is so great, and the probabilities of the various outcomes so difficult to assess, that the usefulness of a single estimate of fair value is negated. This may indicate that the fair value of the asset cannot be reliably determinable on a continuing basis (see paragraph 24).

Measuring fair value of intangible assets

21. There is a rebuttable presumption that if an intangible asset has a finite useful life that its fair value can be measured reliably.
22. Intangible assets can exist independently (such as a patent or trademark) or only together with a related tangible asset (such as a trademark for natural spring water might relate to a particular spring. Although the trademark may be separable, it cannot exist separately from the spring). In such cases it may not be possible to establish the fair value of the intangible asset separately from the related tangible asset.
23. Where an intangible asset is separable but there is no history or evidence of exchange transactions for the same or similar assets, it may not be possible to establish the fair value of the intangible asset.
24. An entity that measures the fair value of an intangible asset should follow the guidelines contained in paragraphs 15 – 19 of this Standard.

Measuring fair value of liabilities

25. The principles involved in measuring the fair value of assets given in paragraphs 8 – 20 apply also to the measurement of liabilities.
26. The fair value of a liability is the cost that would be incurred by an entity in transferring the liability to an independent, willing, and knowledgeable third party or to settle the liability.
27. Any transaction costs that might be payable in transferring or settling a liability are not to form part of the fair value of the liability.
28. The risk that a financial liability will not be satisfied (non-performance risk) affects the value at which a liability would be transferred. Therefore the fair value of a liability shall reflect the non-performance risk related to that liability.

Inability to measure fair value reliably

29. There is a rebuttable presumption that an entity can reliably determine the fair value of an asset on a continuing basis. However, in exceptional cases, there may be clear evidence that the fair value of an asset cannot be reliably determined on a continuing

basis. This arises when, and only when, comparable market transactions are infrequent and when alternative means of establishing fair value (see paragraph 17) are not available.

30. On acquisition, if the fair value of an asset cannot be reliably established then the fair value of any asset given up, provided that it can be reliably established, may be used as the fair value of the asset acquired.
31. If the fair value of an asset cannot be reliably established nor the fair value of the asset given up then an entity will use, if appropriate the cost model in valuing assets (see, for example, NASCOs 7, 12, and 28).
32. If the fair value of an asset cannot be reliably established nor the fair value of the asset given up nor is the cost model appropriate then the asset fails to meet the criteria of an asset contained in the Conceptual Framework and may not be classified as an asset in the Balance Sheet of an entity.
33. In the exceptional cases where an entity would be compelled to measure an asset using the appropriate cost model when all other assets within that class of asset are measured at fair value then an entity may use the cost model for that one asset and continue to account for each of the remaining assets within the class of asset at fair value.
34. Once an entity has measured an asset at fair value, it shall continue to measure the asset at fair value until disposal or derecognition even if comparable market transactions become less frequent or market prices become less readily available. The fact that an active market may no longer exist may indicate that the asset may have been impaired and that it needs to be tested in accordance with NASCO 24 – Impairment of Assets.

Disclosure

35. Where other Standards require the application of fair value to assets or liabilities and contain disclosure requirements, these disclosure requirements must be complied with. The disclosure requirements contained in paragraphs 36 and 37 are in addition to the disclosure requirements of other Standards, if any.
36. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition an entity shall disclose such information that enables users of its financial statements to assess the inputs used to develop these measurements and their results. To achieve that objective, an entity shall disclose the following information separately for each major category of asset and liability:
 - a) the fair value measurement at the reporting date
 - b) the basis used to determine fair value
 - c) Where valuation techniques have been used to measure fair value, a description of these techniques together with a discussion of changes in valuation techniques, if any, during the period
 - d) a reconciliation between opening and closing balances separately showing changes attributable to gains and losses for the period, purchases, sales, and settlements
 - e) the amount of gains and losses for the period shown above that has been included in the Income Statement for the period together with where in the Income Statement these gains and losses have appeared
 - f) the amount of gains and losses for the period shown above that has been taken directly to Reserves in the period.

37. For assets and liabilities that are measured at fair value on a non-recurring basis in periods subsequent to initial recognition an entity shall disclose such information that enables users of its financial statements to assess the inputs used to develop these measurements and their results. To achieve that objective, an entity shall disclose the following information separately for each major category of asset and liability:

- a) the fair value measurements recorded and the reasons for their measurement
- b) the basis used to determine fair value
- c) Where valuation techniques have been used to measure fair value, a description of these techniques.

Effective date

38. This Standard becomes operative for financial statements covering periods beginning on or after 1 January XXXX