IFRS Guidance

Key points

- Under IFRS 13, unlisted infrastructure equity should **not** be assumed to be worth its unadjusted NAV if market-based valuations are available.
- Private infrastructure debt, insofar as it is considered 'available for sale' should also be evaluation at its fair market value. Credit risk should be estimated using models of non-performance.

IFRS 13 guidance recommends approaching the question of fair value by identifying a unit of account for a given principal market and determining the type of observable valuation inputs available.

Equity Investments

Current guidance for measuring the value of unlisted alternative investments is limited. Under ASC Topic 820, the reported unadjusted net asset value (NAV) may be used as a measure of fair value. Under IFRS however, no specific guidance exists, primarily because of concerns that NAV is computed in a variety of ways, especially across jurisdictions.

Even under US GAAP, unadjusted NAV is considered a **practical expedient only if there is no readily determinable fair value** 💡 and as long as the reported NAV computation is consistent with the reporting date. If calculating NAV is not practical or sales at the reported NAV are unlikely, the practical expedient is not available and general fair-value-measurement principles should apply.

Under IFRS 13, three families of methodologies are available to estimate fair value when level-1 inputs are unavailable:

- the so-called income or discounted-cash-flow (DCF) approach;
- the “market” approach using market-based proxies; and
- the cost approach, that is, the amortised face value of assets.

Given the limited availability of observable level-2 and level-3 input data, the valuation of unlisted infrastructure investments typically combines the income and market approaches. The cost approach can be relevant for assets at the end of their lives, especially if the company ceases to be a going concern or when financial instruments are repaid early.

Hence, a key aspect of unlisted asset valuation **under IFRS 13 is the ⚠️ *calibration of models to market prices***: if an observable transaction price exists at the initial investment date and unobservable inputs are used to measure fair value subsequently, the model calibration should ensure that the model matches the initial price at the initial date, ensuring that market conditions at the time are reflected.

Model calibrations should reflect the evolution of:

1. investment-specific elements like business risk, the achievement of certain milestones, divergence from the original plan, and changes in the long-term outlook of the company; and
2. market-based elements such as the liquidity and size of the market, interest rates, foreign exchange rates, legal and regulatory changes, etc.

Debt Instruments

With regards to private infrastructure debt instruments, under ASC Topic 320, an investment in a debt security classified as held to maturity (HTM) is accounted for at amortised cost (A debt security is classified as HTM if the entity has the 'positive intent and ability' to hold it to maturity), but one that is classified as **'available for sale' is accounted for at fair value** even if it is not a 'trading security' under US GAAP classification (a security that is bought and held principally to sell in the near term).

Likewise, under IFRS 9, fair value is required for financial instruments that

1. are within a business model for which the objective is to both collect the contractual cash flows and sell financial assets; and
2. for which the contractual cash flows are solely payments of principal and interest.

In the absence of active market prices for identical instruments, the valuation of private debt requires a **model-based assessment of nonperformance risk**, maximising the use of relevant observable inputs and minimising the use of unobservable inputs (IFRS 13:3). In particular, impairment loss should be measured as either the 12-month expected credit loss or the lifetime expected credit loss.