



Guide to Valuation of In-Kind Contributions from the Private Sector



Importance of recognizing your contribution

Transparent, timely and accessible data on humanitarian assistance is critical for humanitarian responders and supports effective planning, management and coordination of resources for emergency relief.

The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) manages the Financial Tracking Service (FTS), which records all reported humanitarian contributions (cash, in-kind, multi-lateral and bilateral) to emergencies. Its aim is to give credit and visibility to donors for their generosity and to show the total amount of funding and resource gaps in humanitarian appeals.

Please report your contributions for humanitarian relief to fts@un.org and copy to pss@un.org. For in-kind donations, you are encouraged to provide as much detail as possible about type, quantities and dispatch, so that it can be integrated in LogIK, the UN systems tracking physical progress and dispatch of contributions to emergencies.

About this guide

The guide to valuation was developed by PricewaterhouseCoopers in cooperation with OCHA and wider humanitarian system to assist the private sector in valuing their in-kind contributions for humanitarian relief.

This step-by-step guide constitutes an independent expert opinion of PricewaterhouseCoopers and does not necessarily reflect the official policy or position of the United Nations or its agencies¹.

¹ The FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) primarily converged the fair value measurement and disclosure guidance through the issuance in May 2011 of Accounting Standard Update 2011-04. These standards created a global framework for applying consistent application of fair value measurement and should be used in the valuation of in-kind contributions. In accordance with this framework, PricewaterhouseCoopers outlined the approach and key steps that should be followed.

It was noted during PricewaterhouseCoopers discussions with the UN management that most UN agencies are following the International Public Sector Accounting Standards (IPSAS). While IPSAS are based on market value similar to the International Financial Reporting Standards (IFRS) and Generally Accepted Accounting Standards (GAAP), an in depth analysis was not performed by PricewaterhouseCoopers to determine overall alignment with these standards.

Guide to valuation based on fair value methodology - For private sector use

When valuing in-kind contributions, please follow the guide to valuation in the chart (steps 1 through 5) as shown below. Note that the guide follows global framework as outlined by the FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) in Accounting Standard Update 2011-04, but do not represent the standards in their entirety and are a high-level

summary to reference. In accordance with this framework, the chart below shows the five-step process on a high level, followed by further details on the following page. For more details, please reference the FASB (Financial Accounting Standards Board) and IASB (International Accounting Standards Board) directly.

Key steps

Step 1: Determine Unit of Account

Fair Value is based on the Price to Sell an Asset or Transfer (not Settle) a Liability. Fair value is defined 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."

The Asset or Liability and Unit of Account. A fair value measurement is performed for a particular asset or liability. The characteristics of the asset or liability should be taken into account when determining fair value if market participants would consider these characteristics when pricing the asset or liability. Such characteristics include (1) the condition and/or location of the asset or liability and (2) any restrictions on sale or use of the asset.

The unit of account is defined as the level at which an asset or a liability is aggregated or disaggregated for recognition purposes.

For example, ABC Company wishes to donate medical equipment in response to a crisis. Considerations for the value are then based on what equipment was included (all different or the same), the condition the medical equipment arrived in as well as if there are any restrictions on the equipment.

1. Determine Unit of Account



2. Determine Valuation Premise



3. Determine Market for Basis of Valuation



4. Apply the Appropriate Valuation Technique



Market Approach + Income Approach + Cost Approach

5. Determine Fair Value



If applicable, allocate fair value to unit of account

Step 2: Determine Valuation Premise

Application to Nonfinancial Assets. The highest and best use concept is applicable to fair value measurements of nonfinancial assets. It takes into account a market participant's ability to generate economic benefits by using an asset in a way that is physically possible, legally permissible, and financially feasible. The highest and best use of a nonfinancial asset is determined from the perspective of a market participant, even if the reporting entity intends a different use for the asset.

Financial Assets and Liabilities with Offsetting Net Risk Positions. The "portfolio exception" allows for the fair value of those financial assets and financial liabilities to be measured based on the net positions of the portfolios.

Focus on Market Participant Assumptions. The fair value standards emphasize that fair value is a market-based measurement, not an entity-specific measurement. As such, management's intended use of an asset, or planned method of settling a liability, are not relevant when measuring fair value. Instead, the fair value of an asset or liability should be determined based on a hypothetical transaction at the measurement date, considered from the perspective of a market participant.

For example, medical equipment received would be classified as a nonfinancial asset and market participants such as doctors, nurses and other medical professionals would be considered knowledgeable buyers in help in determining the value.

Step 3: Determine Market for Basis of Valuation

Importance of Determining the Market. A key principle in the fair value standards is the concept of valuation based on the principal market or, in the absence of a principal market, the most advantageous market. The principal market is the market with the greatest volume and level of activity for the asset or liability being measured at fair value.

For example, based on the medical equipment donated, determine what a knowledgeable buyer and seller would pay in the principal market (the market with the greatest volume and level of activity for the asset or liability) or if that is not feasible, the most advantageous market is used. In the absence of such a market, an entity would look at potential markets in which it could sell the asset and select the market where it would receive the highest selling price.

Step 4: Apply the Appropriate Valuation Technique

Incorporation of Standard Valuation Techniques.

The fair value standards require consideration of three broad valuation techniques: the market approach, the income approach, and the cost approach. The guidance requires that entities consider all applicable valuation technique(s), given what is being measured and the availability of sufficient market inputs. In some cases, one valuation technique may be sufficient; in other cases, the reporting entity may need to incorporate multiple techniques, depending on the specific fact pattern.

The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities, such as a business.

The income approach converts future amounts (for example, cash flows or income and expenses) to a single current (that is, discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.

The cost approach reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

For example, the medical equipment could use the cost approach and value the item based on the current replacement cost.

Step 5: Determine Fair Value

The Fair Value Hierarchy. The fair value standards also contain a three-level hierarchy of fair value measurements to provide greater transparency and comparability of fair value measurements and disclosures among reporting entities (Level 1 being the highest priority and Level 3 being the lowest priority):

Level 1: Observable inputs that reflect quoted prices for identical assets or liabilities in active markets;

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly;

Level 3: Unobservable inputs (e.g., a reporting entity's own data).

For example, in the final step of determining the fair value of the medical equipment, prices quoted for identical equipment is obtained and used as the fair value.

Critical reminders for private sector engaging in humanitarian relief

The UN Secretary-General encourages companies to coordinate their response efforts with the United Nations and the affected Government in order to ensure coherence with priorities set by national authorities and to minimize gaps and duplications with the other responders. All responders are encouraged to source supplies locally whenever possible to help stimulate the economy and speed up recovery.

All response activities should be guided by the humanitarian principles of humanity, impartiality, neutrality and independence. Stakeholder engagement is key to corporate engagement in humanitarian response. Relief efforts succeed when they collaboratively mobilize civil society.

Business contributions to UN response efforts must comply with the Guidelines on Cooperation between the United Nations and the Business Sector www.business.un.org/en/documents/guidelines