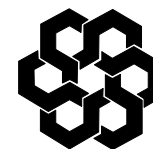


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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at Standards Advisory Council meetings, to assist them in following the Council's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

Note: These notes are based on the staff paper prepared for the Council. Paragraph numbers correspond to paragraph numbers used in the Council paper.

INFORMATION FOR OBSERVERS

SAC Meeting: November 2006, London
Project: Fair Value Measurements
(Agenda Paper 6)

OVERVIEW

- 1 In February 2006 the International Accounting Standards Board and the US Financial Accounting Standards Board (FASB) published a Memorandum of Understanding reaffirming their commitment to the convergence of US generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRSs) and to their shared objective of developing high quality, common accounting standards for use in the world's capital markets. The convergence work programme set out in the Memorandum reflects the standard-setting context of the 'roadmap' developed by the Securities and Exchange Commission in consultation with the IASB, FASB and European Commission for the removal of the reconciliation requirement for non-US companies that use IFRSs and are registered in the US. The work programme includes a project on fair value measurement.

- 2 The FASB has issued Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157). Work on this statement was well advanced before the Memorandum of Understanding was issued. SFAS 157 establishes a single set of guidance for all fair value measurements in US GAAP. The IASB recognises the need for consistent guidance on measuring fair value in IFRSs and for increased convergence with US GAAP. Consequently, the Board plans to use SFAS 157 as the starting point for its deliberations. As the first stage of its project, the IASB plans to publish a Discussion Paper of its preliminary views on the principal issues contained in SFAS 157.

IASB PROJECT OBJECTIVES

- 3 IFRSs require some assets, liabilities and equity instruments to be measured at fair value. However, guidance on measuring fair value is dispersed throughout the relevant IFRSs and is not always consistent. The Board believes that establishing a single source of guidance for all fair value measurements required by IFRSs will both simplify IFRSs and improve the quality of fair value information included in financial reports. A concise definition of fair value combined with consistent guidance that applies to all fair value measurements would more clearly communicate the fair value measurement objective and eliminates the need for constituents to consider guidance in multiple standards.
- 4 This project is not a means of expanding the use of fair value in financial reporting. Rather, the objective of the project is to codify, clarify and simplify existing guidance that is dispersed widely in IFRSs. However, in order to establish a single standard that provides uniform fair value measurement guidance for all fair value measurements required by IFRSs, conforming adjustments will need to be made to existing guidance dispersed throughout IFRSs. These conforming adjustments might change how fair value is measured in some standards and how the requirements were previously interpreted and applied.

CONVERGENCE

- 5 Convergence is one of the Board's priorities. However, deliberations on the Board's Fair Value Measurements project are ongoing. It is possible the Board might not reach the same conclusions that the FASB reached in SFAS 157, especially considering that SFAS 157 diverges from some fair value measurement guidance currently in IFRSs. The staff will highlight some of the key areas where SFAS 157 and current IFRS fair value measurement guidance differ during the SAC meeting.
- 6 The staff seeks the views of SAC members on the implications of divergence if the IASB were to reach different conclusions than the FASB did in SFAS 157. Specifically, the staff would like SAC member views on the following questions:
 - (a) If IFRS and US GAAP had divergent fair value measurement guidance, what would be the global implication on the usefulness of financial statements?
 - (b) Would divergent IFRS and US GAAP fair value measurement guidance be a significant cost for companies that reconcile from IFRS to US GAAP or for companies that report under both frameworks?
 - (c) What do SAC members consider as the important factors in balancing the objective of convergence and differing views on how fair value should be defined and measured?
- 7 While the discussion with the SAC will not focus on the technical aspects of SFAS 157 and fair value measurements, the staff encourages SAC members to read the main body of SFAS 157 prior to the meeting (pages 1 to 15 of the standard). A copy of SFAS 157 is supplied along with a copy of the slides the staff will discuss at the SAC meeting. The staff will also provide a high-level overview of the Board's Fair Value Measurements project at the SAC meeting.