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**International
Accounting Standards
Board**

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

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 15 November 2007, London

Project: Fair value measurement

Subject: Preliminary definitions of current entry price and current exit price (Agenda Paper 2)

INTRODUCTION

- 1 The purpose of this agenda paper is to propose preliminary definitions of current exit price and current entry price to allow the staff to move forward with the initial standard-by-standard review, without prejudging the outcome of the fair value measurement project.
- 2 At the October meeting, the Board confirmed its plan to complete a standard-by-standard review of fair value measurements currently required or permitted in IFRSs to assess whether each standard's measurement basis was intended to be an exit price. For situations in which the measurement basis was not intended to be an exit price, the Board plans to assess whether it should develop additional measurement guidance.
- 3 The most likely candidate for an additional measurement basis is current entry price. However, the review will not be limited to current entry price and current exit price. If during the review a measurement basis in a particular

standard does not appear to be a current entry price or a current exit price, the staff will notify the Board so it can decide at that time how to proceed.

- 4 The standard-by-standard review will consider what the Board/IASC meant when using the term ‘fair value’ in each standard in which it is used. It will not consider which measurement basis should have been used, or *why* a particular measurement basis should be used in a given circumstance. That is outside the scope of this project. However, for situations in which it is not clear what the Board/IASC meant when they used the term ‘fair value’, the Board might need to consider what it or the IASC should have meant, which potentially overlaps with the conceptual framework project. The staff will work to ensure that any duplication is minimal and that there is communication between both project teams.

PRELIMINARY DEFINITIONS

- 5 We have separately considered the preliminary definitions of current entry price and current exit price for assets and liabilities for the standard-by-standard review. These definitions are subject to several working assumptions (see paragraphs 15a-15g) and will be refined in the deliberations.
- 6 The definitions assume an exchange transaction between market participants at the measurement date. Current entry and exit prices are estimates of an arm’s length exchange price between market participants who are knowledgeable and willing and able to transact for the asset or liability.
- 7 The preliminary definitions focus on *current* entry and exit prices because they reflect the price *at the measurement date*, which is either the end of the reporting period or a transaction date (eg the acquisition date in a business combination). A current price at the measurement date reflects the attributes of the asset or liability *at that date* (ie not at some past or future date).
- 8 ***Please note***—any distinctions between current entry price and current exit price have been made only for the standard-by-standard review and to provide a starting point for discussing the differences between them. The staff will analyse the differences between entry and exit prices at a future meeting.

Assets

- 9 The proposed working definitions of current entry price and current exit price for assets are:

Current entry price	The price that would be <i>paid to buy</i> an asset in an orderly transaction between market participants at the measurement date.
Current exit price	The price that would be <i>received to sell</i> an asset in an orderly transaction between market participants at the measurement date.

- 10 The definition of current exit price is that used in FASB Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). The definition of current entry price is the mirror image of that.

Liabilities

- 11 The proposed working definitions of current entry price and current exit price for liabilities are:

Current entry price	The price that would be <i>received to incur</i> a liability in an orderly transaction between market participants at the measurement date.
Current exit price	Transfer price: The price that would be <i>paid to transfer</i> a liability in an orderly transaction between market participants at the measurement date. Settlement price: The price that would be <i>paid to settle</i> a liability in an orderly transaction at the measurement date.

- 12 The definition of current entry price is the mirror image of current exit price. In the definition of current entry price, 'incur' means:
- a originating an obligation (eg raising funds in a capital market by issuing debt securities or incurring an obligation to provide products or services); or
 - b assuming an obligation from another party (eg taking over the obligation of another party in a business combination).
- 13 The definition of transfer price is that used in SFAS 157 to refer to the fair value of a liability. It assumes that the liability continues to exist. The

definition of settlement price assumes that the liability no longer exists at the measurement date.

- 14 The relationship between a transfer price and a settlement price will be discussed at a future meeting.

WORKING ASSUMPTIONS

- 15 The preliminary definitions are not meant to prejudge the outcome of the project. The following items will be addressed in a future meeting:
- a the difference between an entity's transaction price, a current entry price and a current exit price;
 - b the meaning of the terms 'orderly transaction' and 'market participants' and their relationship with 'knowledgeable, willing parties' and 'arm's length transaction';
 - c the reference market (eg principal market, most advantageous market or another market);
 - d the relationship between the settlement and transfer of a liability;
 - e the difference between 'price' and 'value';
 - f the relationship between the in-use valuation premise, an exit price, an entry price and value in use (ie the intended use of an asset or liability); and
 - g the treatment of transaction costs.

QUESTIONS FOR THE BOARD

- 16 **Does the Board agree with the preliminary definitions for the current entry price and current exit price for assets and liabilities? If not, what is your suggested wording?**
- 17 **Should the staff consider other measurement bases in the standard-by-standard review?**