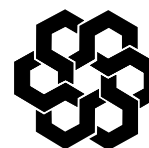

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International Accounting Standards Board

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, London**
Project: **Fair Value Measurement**
(Agenda Paper 5b)

Breakout session: Myths about fair value

1 This paper summarises some of the myths about the fair value measurement project for discussion during the breakout session. Participants will be split into three groups and each group will discuss one topic.

2 We would like your feedback on whether the descriptions help to refute the myth. If not, what would you add or remove?

Myth #1: The fair value measurement project prejudges the outcome of the measurement phase of the conceptual framework project and is just the next step in a move to full fair value accounting.

3 The conceptual framework measurement project is about providing tools to the Board so that it can determine the appropriate measurement basis for future standards. The fair value measurement project, on the other hand, is about providing tools to constituents for measuring fair value when it is required or permitted in another standard. By providing guidance for measuring fair value, we aim to provide clarity around the currently dispersed (and potentially confusing) guidance in IFRSs.

4 Determining the measurement attribute to be applied in future standards (and in changes to existing standards) is subject to the due process for each standard and will be informed by the progress on the measurement phase of the conceptual framework project. If fair value is not appropriate in a given situation, the Board will not select it as the measurement attribute in that particular standard.

Myth #2:	**A 'fair value' is a hypothetical value that only works when there is an active, liquid market for the asset or liability.**

5 Fair value reflects the current market situation whether or not there is a 'formal' market with quoted prices. When there is not an observable price, the fair value is not meaningless—the reliability of the fair value measurement in such a situation depends on the reliability of the inputs to the valuation techniques used. In many circumstances those inputs will be observable. When there is no market there is no perfect valuation technique for measuring fair value; each technique trades off transparency against verifiability. However, a cost-based measurement basis can be just as difficult and subjective as a fair value measurement basis.

6 When there is no market, SFAS 157 says that an entity should use its own estimates about the assumptions that market participants would use in pricing the asset or liability. Entities would their own assumptions as a starting point, but they must adjust those assumptions if they are (or reasonably could be) known to be significantly different from those market participants would make. Entities should try to answer the question, 'If there was a motivated seller of an asset or liability like mine, at what price would there be a buyer willing to buy it or take on the obligation?'

Myth #3: If there is no market and the entity has no intention of selling the asset or transferring the liability, a 'fair value' is irrelevant.

7 A fair value measurement is a current, market-based estimate of the price an entity would be willing to receive to sell an asset or to pay to transfer a liability. The measurement is the same regardless of who owns the asset or owes the liability.

8 Because it is a current, market-based price, fair value provides a benchmark of an entity's performance relative to the performance of other entities with similar assets and liabilities. With a public benchmark, it is possible to see how the entity is performing relative to market participants. A private benchmark, on the other hand, would compare the entity's expectations about the use of the asset or liability to its actual use of the asset or liability (eg value in use). It would not provide an indication of the entity's performance relative to market participants and, therefore, is less meaningful.