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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: December 2008, London

Project: Fair Value Measurement

Subject: Cover note (Agenda paper 3)

Agenda papers for this meeting

1 We have prepared the following agenda papers for this meeting:

Agenda Paper No.	Title	Objective
3	Cover note	Outlines the meeting objectives and timeline
3A	Defensive value	Describes defensive intangible assets and practice issues with subsequent accounting
3B	Reference market	Addresses on which market an entity should base a fair value measurement
3C	Valuation premise	Discusses the valuation premise (in-use or in-exchange), how it relates to an exit price notion and its application for financial instruments and liabilities
3D	Day one gains or losses	Summarises practical application of the guidance in SFAS 157
3E	Restrictions on assets and liabilities	Describes the principle in SFAS 157 and provides some practical application issues

Agenda Paper No.	Title	Objective
3F	Control premiums	Addresses how the Board's decision to prohibit the application of a control premium affects business combinations, investments in subsidiaries and impairment testing
3G	Highest and best use change of use option	Summarises approaches in practice for accounting for an asset that has a highest and best use different from its current use
3H	Measuring the effect of credit standing	Addresses whether credit standing is an attribute of a liability and whether regulatory restrictions are attributes of the market in which a liability can be transferred
3I	Credit standing	Summarises the questions about whether credit standing should be reflected in a fair value measurement
3J	Credit standing and liability measurement	FASB <i>Understanding the Issues</i> publication from 2001
3K	Fair value definition for liabilities	Discusses whether a fair value measurement should be based on a transfer notion or a settlement notion

Meeting objectives

- 2 **If the Board is unable to reach decisions on the above issues at this meeting, the project timeline will be delayed.**
- 3 If the Board reaches decisions on those issues at this meeting (and the remainder as outlined under 'Next steps' at the January 2009 meeting), a first draft of an exposure draft of an IFRS on fair value measurement will be available by the **end of January 2009** (in approximately 5-6 weeks).

Tentative decisions to-date

- 4 The Board has made the following tentative decisions in this project. These tentative decisions form the basis for future discussions about particular topics (see 'Next steps' below) as we develop the exposure draft.

Single source of guidance

- 5 The Board reaffirmed its preliminary view that having a single source of guidance would be an improvement over the disparate guidance in IFRSs.

Market participant view

- 6 The Board reaffirmed its preliminary view that the market participant view in SFAS 157 is generally consistent with the concepts of knowledgeable, willing parties in an arm's length transaction that are currently in IFRSs. However, the Board asked the staff to consider situations in which there is no observable market for an asset or liability.
- 7 **Follow-up:** The Board will discuss the reference market at its December 2008 meeting.

Attributes specific to an asset or liability

- 8 The Board reaffirmed its preliminary view that it is appropriate to consider attributes specific to the asset or liability that a market participant would consider when pricing the asset or liability. When location is an attribute of the asset or liability, the price in the principal (or most advantageous) market should be adjusted for costs that would be incurred to transport the asset or liability from its current location to the principal (or most advantageous) market.
- 9 The Board also reaffirmed its preliminary view that transaction costs are an attribute of the transaction rather than an attribute of the asset or liability. Thus, they should be considered separately from fair value. This is consistent with current IFRSs.
- 10 **Follow-up:** The Board will discuss restrictions on assets at its December 2008 meeting.

Fair value hierarchy

- 11 Because IFRSs do not have a consistent hierarchy that applies to all fair value measurements, the Board tentatively decided to introduce a single hierarchy, such as the one in SFAS 157, to reduce complexity and increase comparability.

Bid-ask spreads

- 12 The Board reaffirmed its preliminary view that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances.
- 13 The Board also tentatively decided:
 - a not to preclude the use of mid-market pricing or another pricing convention as a practical expedient for a fair value measurement within a bid-ask spread.
 - b to specify that the bid-ask spread guidance applies in all levels of the fair value hierarchy.
 - c not to include guidance on offsetting positions. This is because the bid-ask pricing guidance allows entities to determine, for each position, the price within the bid-ask spread that is most representative of fair value in the circumstances.

Definition of fair value

- 14 In July 2008 the Board tentatively decided to define fair value for assets as a current exit price. The wording of the definition of fair value will reflect the fact that an exit price considers a market participant's ability to generate economic benefit by using an asset or by selling it to a third party.
- 15 **Follow-up:**
 - a The Board will discuss the valuation premise (including the fact that an exit price considers a market participant's ability to generate economic benefit by using an asset or by selling it to a third party) at its December 2008 meeting.
 - b The Board will discuss the definition of fair value for liabilities at its December 2008 meeting.
 - c The staff will complete a scope assessment for uses of fair value in current IFRSs. In situations for which the Board decides that an exit price definition of fair value is not appropriate (eg perhaps at initial recognition), it could, for example, require an entity to use its transaction price or another measurement basis instead of fair value.

Highest and best use

- 16 The Board tentatively decided the following:
- a The fair value of an asset should reflect its highest and best use. The highest and best use is the use by market participants that would maximise the value of the asset or of the group of assets in which the asset would be used. It considers uses of the asset that are physically possible, legally permissible and financially feasible at the measurement date. The Board tentatively decided to provide a description of each criterion and an explanation of how they apply in a fair value measurement.
 - b The exposure draft should state explicitly that an entity does not need to perform an exhaustive search to find other potential uses on which to base the valuation if there is no evidence to suggest that the current use of the asset is not its highest and best use.
 - c When an entity measures an asset at fair value and currently uses the asset together with another asset in a use that differs from their highest and best use, the entity may need to split the fair value into two components: (a) the fair value of the asset assuming its current use and (b) a ‘change of use option’ reflecting the entity’s ability to switch the asset to its highest and best use.
- 17 **Follow-up:** The Board will discuss the practical application of a ‘change of use option’ at its December 2008 meeting.

Blockage factors

- 18 The Board confirmed its preliminary view, as expressed in the discussion papers on *Fair Value Measurements* and *Reducing Complexity in Reporting Financial Instruments*, that the measurement objective should be to measure fair value at the individual instrument level. The Board tentatively decided:
- a to exclude blockage factors from a fair value measurement at all levels of the fair value hierarchy.

- b that a fair value measurement should exclude other discounts or premia (such as a control premium) that apply to a holding of financial instruments and do not apply to the individual instrument.
- 19 **Follow-up:** The Board will discuss whether control premiums should be excluded from a fair value measurement at its December 2008 meeting.

Next steps

- 20 We plan to present the following topics at the January 2009 meeting:
- a fair value measurement disclosures (taking into consideration the comments received on the exposure draft of improvements to *IFRS 7 Financial Instruments: Disclosures*);
 - b an assessment of which fair value measurements in current IFRSs should be included or excluded from the scope of an IFRS on fair value measurement;
 - c transition; and
 - d comment period.
- 21 The staff has begun drafting an exposure draft of an IFRS on fair value measurement.
- 22 This timing is consistent with the tech plan presented at the October IASB meeting.