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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:	**18 June 2008, London**
Project:	**Fair value measurement**
Subject:	**Reviewing the Board's preliminary views in the discussion paper (Agenda Paper 4A)**

Introduction

1 At the April 2008 joint IASB-FASB meeting the IASB appeared to favour an approach to that would:

a define current exit price as identical to the definition of fair value in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157);

b define a comparable current entry price;

c amend existing IFRSs that use the term 'fair value' to clarify in each case, based on the intent of the existing standard, whether the term refers to a current entry price or a current exit price; and

d provide disclosures about current entry and exit price measurements.

2 For current exit price, the Board indicated that it might not need to reconsider in detail the fundamental features of SFAS 157 such as the following (non-exhaustive):

a the market participant view,

b highest and best use, and

c the principal market.

3 However, Board members indicated that, before reaching final conclusions in these areas, they need to ensure that they have a clear understanding of those features of SFAS 157 and to ensure that those features work well internationally.

4 In addition, the Board suggested that the following conceptual issues could be addressed if necessary in the conceptual framework or in other standards-level projects, rather than in the fair value measurement project:

a which measurement basis <u>should</u> be used, rather than what existing standards require;

b whether gains on initial recognition are ever appropriate (day one gains); and

c whether an entity-specific value is a measurement basis (ie what does an entity-specific measurement mean?).

5 This paper:

a summarises the Board's preliminary views on the issues in the *Fair Value Measurements* discussion paper, which was issued in November 2006;

b recommends addressing some of those issues again;

c recommends addressing significant issues that the discussion paper did not address;

d asks the Board to reaffirm its preliminary views in the discussion paper, subject to the recommendations of paragraphs 5b and 5c.

The Board's preliminary views in the Fair Value Measurements discussion paper

6 The Board debated some of the fundamental features of SFAS 157 when it prepared the *Fair Value Measurements* discussion paper. The Board did not, however, discuss and debate some issues (eg the highest and best use concept) at that time. The Board also did not reach a preliminary view on some issues (eg whether to allow mid-market pricing within a bid-ask spread), and there are some issues that the Board probably should discuss further (eg the transfer or settlement of liabilities).

7 The following table summarises the questions posed in the discussion paper and the Board's preliminary views expressed in the discussion paper and notes the issues the staff thinks should be discussed further. Paragraph 9 provides a list of these issues.

8 For reference, Agenda Paper 4B is an excerpt of the comment letter summary presented at the October 2007 IASB meeting (Agenda Paper 2C for that meeting).

Issue	Question	Board's preliminary view	Staff recommendation
Issue 1. SFAS 157 and fair value measurement guidance in current IFRSs	Q1 In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not? Q2 Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.	Because SFAS 157 establishes a single source of guidance and a single measurement objective that can be applied to all fair value measurements, it is an improvement on the disparate guidance in IFRSs.	Reaffirm the preliminary view in the discussion paper.
Issue 2A. Exit price measurement objective	Q3 Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not? Q4 Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views. Q5 Would it be advisable to eliminate the term 'fair value' and replace it with terms, such as 'current exit price' or 'current entry price', that more closely reflect the measurement objective for	The majority of Board members believe that a fair value measurement with an exit price objective is consistent with the definitions of assets and liabilities in the conceptual framework because it reflects current market-based expectations of flows of economic benefit into or out of the entity. Other Board members agree with this view, but in their view an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity. These Board members suggest replacing the term 'fair value' with terms that are more descriptive of the measurement attribute, such as 'current entry price' or 'current exit price'. Some Board members are of the view that an entry price and an exit price would be the same amount in the same market,	Deliberate this issue further. The Board did not reach a preliminary view on this issue and the tentative decision in the April 2008 joint meeting was that the Board would consider both entry and exit notions of a fair value measurement. The Board will base its decision in part on the work done during the standard-by-standard review.

Issue	Question	Board's preliminary view	Staff recommendation
	each situation? Please provide a basis for your views. Q6 Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.	assuming that transaction costs are excluded. However, an entity might buy an asset or assume a liability in one market and sell that same asset or transfer that same liability (ie without modification or repackaging) in another market. In such circumstances, the exit price in SFAS 157 would be likely to differ from the entry price.	

Issue	Question	Board's preliminary view	Staff recommendation
Issue 2B. Market participant view	Q7 Do you agree with how the market participant view is articulated in SFAS 157? Why or why not? Q8 Do you agree the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRSs? If not, how do you believe they differ?	The market participant view is generally consistent with the concepts of a knowledgeable, willing party in an arm's length transaction that are currently contained in IFRSs. However, the proposed definition more clearly articulates the market-based fair value measurement objective in IFRSs.	Reaffirm the preliminary view in the discussion paper. The staff thinks the direction taken by the Board in the discussion paper is broadly consistent with the principle in IFRSs. Based on the comments received on the discussion paper and through other means, the staff thinks we can articulate the principle in SFAS 157 in a way that addresses many of the concerns that have been raised and is consistent with SFAS 157.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 2C. Transfer versus settlement of a liability	Q9 Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not? Q10 Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?	The term 'transfer' more accurately describes the fair value measurement objective in IFRSs than does 'settlement'. This is based on existing guidance in IFRSs, which refers to market-based objectives for measuring the fair value of liabilities. Such a market-based objective is consistent with a transfer notion because it excludes entity-specific efficiencies or inefficiencies that might be included in a settlement notion. Rather, a transfer notion reflects market participants' views on settlement of a liability. Market participants that would assume a liability at the measurement date would also assume the obligation to settle with the counterparty to the liability. Therefore, the price that market participants would require in order to assume the liability reflects their views on the expected outflow of resources embodying economic benefits associated with the ultimate settlement with the counterparty.	Deliberate this issue further. Although the Board reached a preliminary view on this issue, this is a cross-cutting issue for many projects and is still under discussion.
Issue 3. Transaction price and fair value at initial	Q11 In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair	The Board has not reached a preliminary view on this matter and sought the views	Deliberate this issue further. The staff thinks we should

[1] Paragraph 16 states that entry and exit prices are different conceptually and paragraph 17 states that the transaction price (an entry price) would, in many cases, equal the exit price.

Issue	Question	Board's preliminary view	Staff recommendation
recognition	value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.	of respondents. The Board discussed two views about the divergence between paragraphs 16 and 17 of SFAS 157:[1] View 1: The accounting required by IAS 39 should be maintained. Supporters of this view do not fully agree with paragraphs 16 and 17 of SFAS 157. They believe that the transaction price is the best evidence of fair value in the absence of observable market informationor evidence to the contrary. Supporters of this view believe it is not appropriate to measure a financial asset or liability initially at an amount different from the transaction price unless the financial asset or liability can be valued at a different amount using only observable market information. View 2: Entry and exit prices are conceptually different. If fair value has an exit price objective, it should be used consistently whenever fair value is required by IFRSs, regardless of whether a fair value measurement can be corroborated by observable market information. Supporters of this view accept the	discuss day one gains and losses as part of this project rather than leaving it only to the conceptual framework or other standards-level projects. It is unlikely that we can resolve the entry vs exit debate without discussing the consequences.

Issue	Question	Board’s preliminary view	Staff recommendation
		recognition in profit or loss of a difference between a model-based estimate of fair value and the transaction price at initial recognition, even if the asset or liability cannot be valued using only market-based information. Supporters of this view argue that accounting for day one gains and losses separately from the subsequent changes in the model-based estimate of fair value provides users of financial statements with more relevant information and a better understanding of the economics of the transactions.	

Issue	Question	Board's preliminary view	Staff recommendation
Issue 3. Transaction price and fair value at initial recognition (continued)	Q12 Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.	Some Board members are concerned that if SFAS 157, which does not define the unit of account, was applied to IFRSs entities would measure the fair values of financial assets and liabilities on the basis of a portfolio of the separately identifiable risks held by the entity rather than as an in-exchange exit price for the individual instruments. These Board members observe that, based on the guidance in IAS 39, the objective of measuring fair value for financial assets and liabilities in IFRSs is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations for *the individual instrument*.	If the Board reaffirms its decision on blockage factors (Issue 9 below), it follows that the unit of account is the individual instrument at all levels of the hierarchy.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 4. Principal (or most advantageous) market	Q13 Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?	The Board agrees with the guidance in SFAS 157 because it has observed that in most instances the principal market for an asset or liability will be the most advantageous market and that entities need not continuously monitor multiple markets in order to determine which market is most advantageous at the measurement date. Furthermore, the market on which an asset or liability is principally traded provides a more liquid, and therefore more representative, input for a fair value measurement.	Deliberate this issue further. Although the Board reached a preliminary view on this issue, there are questions about its practical application.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 5. Attributes specific to the asset or liability	Q14 Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?	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 liabilty from its current location to the principal (or most advantageous) market.	Reaffirm the preliminary view in the discussion paper. The staff thinks the direction taken by the Board in the discussion paper is broadly consistent with the principle in IFRSs. Based on the comments received on the discussion paper and through other means, the staff thinks we can articulate the principle in SFAS 157 in a way that addresses many of the concerns that have been raised and is consistent with SFAS 157.
Issue 5. Attributes specific to the asset or liability (continued)	Q15 Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?	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, which is consistent with current IFRSs.	Reaffirm the preliminary view in the discussion paper. The staff will address the question of 'which transaction costs to include' when we discuss bid-ask spreads.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 6. Valuation of liabilities	Q16 Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?	The Board observes that a requirement to consider non-performance risk when measuring the fair value of a liability extends to fair value meaurements of all liabilities the principle already established for financial liabilities in IAS 39. Also, the Board agrees with the position in SFAS 157 that the risk that an obligation will not be satisfied affects the value at which that obligation would be transferred. Therefore, the Board's preliminary view is that the fair value of a liability should reflect non-performance risk.	Deliberate this issue further. Although the Board reached a preliminary view on this issue, this is a cross-cutting issue for many projects and is still under discussion.
Issue 7. 'In-use valuation premise' versus 'value in use'	Q17 Is it clear that the 'in-use valuation premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?	The Board provided an analsyis of the differences between the concept of 'value in use' in IAS 36 and the concept of an 'in-use valuation premise' in SFAS 157 to get respondents' views on whether the differences between the concepts are clear.	Although not specifically addressed in the discussion paper, the staff recommends deliberating highest and best use (including the valuation premise and defensive value).

Issue	Question	Board's preliminary view	Staff recommendation
Issue 8. Fair value hierarchy	Q18 Do you agree with the hierarchy in SFAS 157? If not, why? Q19 Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?	Because IFRSs do not have a consistent hierarchy that applies to all fair value measurements, the Board favours a single hierarchy, such as the one in SFAS 157, to reduce complexity and increase comparability.	Reaffirm the preliminary view in the discussion paper. The staff thinks the direction taken by the Board in the discussion paper is broadly consistent with the principle in IFRSs, although IFRSs do not have a distinct three-level hierarchy. Based on the comments received on the discussion paper and through other means, the staff thinks we can articulate the principle in SFAS 157 in a way that addresses many of the concerns that have been raised and is consistent with SFAS 157.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 9. Large positions of a single financial instrument (blocks)	Q20 Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.	The Board observes that blockage factors are often meant to adjust for the illiquidity of a large position of financial instruments that might be held by an entity. However, the illiquidity of an individual instrument is not affected by the size of a position held by an entity. If a financial instrument is not traded in an active market and the illiquidity affects the price that a market participant would pay for an individual financial asset or require for an individual financial liability the fair value measurement should reflect that illiquidity. However, the adjustment should not consider the size of the position held by the entity. Therefore, the Board's preliminary view is that a blockage factor adjustment should be prohibited at all levels of the hierarchy.	Reaffirm the preliminary view in the discussion paper. The staff thinks the direction taken by the Board in the discussion paper is broadly consistent with the principle in IFRSs. (However, there is diversity in practice. Some constituents think IAS 39 prohibits blockage factors only when there is a quoted price in an active market. Others think the prohibition applies in all situations.) The Board's preliminary view in the discussion paper differs from the requirement in SFAS 157, which prohibits blockage factors in Level 1 of the fair value hierarchy.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 10. Measuring fair value within the bid-ask spread	Q21 Do you agree 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, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view. Q22 Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not? Q23 Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?	Fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as required in paragraph 31 of SFAS 157. Different entities in different markets carry out transactions at different points within the bid-ask spread. The Board has not reached a preliminary view on whether it is appropriate to use mid-market pricing or another pricing convention as a practical expedient for fair value measurements within a bid-ask spread, even if the pricing convention is applied on a consistent basis. The Board also has not reached a preliminary view on whether bid-ask spread guidance should apply only when bid and ask prices are observable in a market or whether the concept should apply more broadly to fair value measurements in all levels of the hierarchy.	Deliberate the items for which the Board has not reached a preliminary view (ie mid-market pricing and whether bid-ask guidance applies to all levels of the hierarchy). When we discuss bid-ask spreads, the staff will address the question of 'which transaction costs to include'.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 11. Disclosures	Q24 Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.	The Board will consider the disclosure requirements in SFAS 157 in conjunction with the disclosures required by other IFRSs when developing an exposure draft. The Board sought views on whether the dislosures in SFAS 157 are sufficient, or whether additional disclosures might be necessary. The Board also sought feedback on whether the disclosures in SFAS 157 are excessive when considered with the disclosure requirements in current IFRSs.	Deliberate as necessary in the light of the current economic environment and based on the comments received on the discussion paper.

Issue	Question	Board's preliminary view	Staff recommendation
Issue 12. Application guidance	Q25 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why. Q26 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts)?	IFRSs require assets and liabilities to be measured at fair value in situations in which US GAAP does not. Therefore, addional application guidance might be necessary to illustrate how a standard on fair value measurement would be applied under IFRSs. The Board sought views from respondents on what additional application guidance might be needed. Furthermore, the Board believes the principles established should apply to all fair value measurements in all jurisdictions. However, it acknowledges that entities in emerging and developing economies might need additional guidance in order to apply the requirements of a fair value measurements standard. Such guidance could be provided through educational outreach or through additional implementation guidance that would accompany the final standard. The Board sought suggestions from respondents on how best to address the needs of entities in emerging and developing economies.	Deliberate as necessary in the light of the current economic environment and based on the comments received on the discussion paper. We will consider the implications for emerging markets as we discuss each specific issue.
Issue 13. Other matters	Q27 Please provide comments on any other matters raised by the discussion paper.	The Board sought suggestions or feedback on any other matters relating to the discussion paper or the fair value measurement project.	Will be deliberated as applicable with other issues above.

Summary of topics the staff recommends deliberating further

9 The following table summarises the topics that the staff thinks should be deliberated further.

Issue	Reason to discuss further
Exit price measurement objective	The Board did not reach a preliminary view on this issue and the tentative decision in the April 2008 joint meeting was that the Board would consider both entry and exit notions of a fair value measurement. The Board will base its decision in part on the work done during the standard-by-standard review.
Highest and best use (including the valuation premise and defensive value)	The Board did not deliberate this issue for the discussion paper.
Bid-ask spreads	The Board did not reach a preliminary view on (a) whether it is appropriate to use mid-market pricing or another pricing convention as a practical expedient and (b) whether bid-ask spread guidance should apply only when bid and ask prices are observable in a market or whether the concept should apply more broadly to fair value measurements in all levels of the hierarchy.
Day one gains and losses	The Board did not reach a preliminary view on this issue. The Board should deliberate day one gains and losses as part of this project rather than leaving it only to the conceptual framework or other standards-level projects. It is unlikely that we can resolve the entry vs exit debate without discussing the consequences.
Non-performance risk	Although the Board reached a preliminary view on this issue, this is a cross-cutting issue for many projects and is still under discussion. Constituents question whether non-performance risk should be included in a fair value measurement. They also want to know what, in addition to credit risk, non-performance risk represents.
Valuation of liabilities (including transfer notion)	Although the Board reached a preliminary view on this issue, this is a cross-cutting issue for many projects and is still under discussion.
Disclosures	The Board should deliberate disclosures in the light of the current market environment and the comments received on the discussion paper.
Application guidance	The Board should deliberate disclosures in the light of the current market environment and the comments received on the discussion paper. We will consider the implications for emerging markets as we discuss each specific issue.

Questions for the Board

10 **Do you agree that the Board does <u>not</u> need to discuss further the following topics:**

a **The market participant view (Issue 2B)?**

b **Attributes (characteristics) specific to an asset or liability (Issue 5)?**

c **Whether transaction costs are separate from fair value (Issue 5)?**

d **The fair value hierarchy (Issue 8)?**

e **The prohibition of blockage factors at all levels of the hierarchy (Issue 9)?**

f **The unit of account for financial assets and liabilities (Issue 3) (this is related to Issue 9)?**

11 **Do you agree that the Board should discuss further the following topics:**

a **The exit price measurement objective?**

b **Highest and best use?**

c **The principal (or most advantageous) market?**

d **Bid-ask spreads (ie mid-market pricing and the applicability to all levels of the hierarchy)?**

e **Day one gains and losses?**

f **Non-performance risk?**

g **Valuation of liabilities (settle vs transfer)?**

h **Disclosures?**

i **Application guidance?**

12 **Are there topics not in paragraphs 10 or 11 that you think the Board should discuss before issuing an exposure draft of an IFRS on fair value measurement?**