30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410   Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org   Website: www.iasb.org

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:	**Summary of SFAS 157 and IFRS fair value requirements (Agenda Paper 4C)**

---

1 This paper is for information purposes only. It summarises the fair value requirements in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) and in IFRSs.

Topic	SFAS 157 requirement	IFRS requirement
Attributes (characteristics) of assets and liabilities	Fair value is for a particular asset or liability (or equity instrument) and the measurement should consider attributes specific to that asset or liability (or equity instrument), including the condition and/or location of the asset or liability (or equity instrument) and restrictions on the sale or use of the asset that market participants would consider in setting a price (nb SFAS 157 does not address restrictions on liabilities)	IFRS 2: Fair value reflects factors that knowledgeable, willing market participants would consider in setting the price IAS 36: Fair value reflects the market's expectations of the present value of the future cash flows to be derived from the asset. It reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of general factors that may be specific to the entity and not applicable to entities in general IAS 39: A fair value estimate includes inputs to a valuation technique that reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument IAS 40: The fair value of investment property reflects rental income from current leases and assumptions about rental income from future leases in the light of current conditions. It also reflects any cash outflows (including rental payments and other outflows) that could be expected in respect of the property. Willing buyers and sellers will take into consideration the characteristics of the investment property, including its actual and potential uses IAS 41: The fair value of an asset is based on its present location and condition **Restrictions on assets:** IFRS 2: Fair value refers to a particular share-based payment. For example, an entity might be required by government legislation to issue some portion of its shares to nationals of a particular country, which may be transferred only to other nationals of that country. Such a transfer restriction may affect the fair value of the shares concerned, and therefore those shares may have a fair value that is less than the fair value of otherwise identical shares that do not carry such restrictions. In this situation, the fair value of the share-based payment refers to the fair value of the restricted shares, not the fair value of other, unrestricted shares

Topic	SFAS 157 requirement	IFRS requirement
Bid-ask spread	Fair value is based on most representative price within the bid-ask spread regardless of where in the fair value hierarchy the input falls (Level 1, 2 or 3). Can use mid-market pricing or other pricing conventions as a practical expedient	IAS 39: Fair value is based on the bid price for assets and the ask price for liabilities. However, for offsetting risk positions, entities can use mid-market prices, and therefore can apply the bid or asking price to the net open position as appropriate
Day 1 gains and losses	If the transaction price does not equal fair value, the entity recognises a gain or loss at initial recognition even if the fair value is estimated using unobservable inputs	IAS 39: The best estimate of fair value at initial recognition of a financial instrument that is not quoted in an active market is the transaction price unless the fair value of the instrument is evidenced by other observable market transactions or is based on a valuation technique whose variables include only data from observable markets IFRS 3: If the fair value of the net identifiable assets acquired exceeds the fair value of the consideration transferred, there is a bargain purchase. The excess is recognised as a gain in profit or loss
Defensive value	The reporting entity should recognise the value to its other assets when it acquires an asset (eg in a business combination) and will 'lock up' that asset either to prevent its competitors from using it, or improve the prospects for the entity's own competing assets	The defensive value concept generally was not stated explicitly in IFRSs until IFRS 3 (revised 2008) was published. IFRS 3 (revised 2008) states that 'the acquirer shall measure the asset at fair value determined in accordance with its use by other market participants'
Definition of fair value for **assets**	Exchange price, with a focus on the seller (exit)	Exchange amount, with no explicit distinction between the buyer (entry) and the seller (exit)
Definition of fair value for **liabilities**	The SFAS 157 definition of fair value is an exit price with a focus on a transfer between market participants	The IFRS definition of fair value is an exit price with a focus on settlement between knowledgeable, willing parties (it is unclear whether settlement must be with the counterparty)

Topic	SFAS 157 requirement	IFRS requirement
Description of an active market	An active market for the asset or liability is a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis Inactive markets are those in which there are few transactions for the asset or liability, prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly	IAS 36, IAS 38: An active market is a market in which all the following conditions exist: (a) the items traded in the market are homogeneous; (b) willing buyers and sellers can normally be found at any time; and (c) prices are available to the public IAS 39: A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis
Fair value hierarchy	Prioritises inputs to the valuation techniques to increase consistency and comparability in the measurement and disclosures **Level 1 inputs:** Unadjusted quoted prices in active markets for identical assets or liabilities **Level 2 inputs:** Inputs other than quoted prices in level 1 that are observable for the asset or liability, either directly or indirectly **Level 3 inputs:** Unobservable inputs for the asset or liability Highest priority is to quoted prices (unadjusted) in active markets for identical assets and liabilities (level 1) Lowest priority is to unobservable inputs (level 3)	IAS 16: Fair value is usually determined from market-based evidence by appraisal. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach IAS 39: The best evidence of fair value is a quoted price in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs IAS 40: The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition and subject to similar lease and other contracts. In the absence of current market prices, an entity should use prices for comparable assets in active markets, prices in inactive markets, or a discounted cash flow approach IAS 41: If an active market exists for a biological asset, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses market-determined prices or values (such as the most recent market transaction price) when available. However, in some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset

Topic	SFAS 157 requirement	IFRS requirement
Highest and best use and the valuation premise	Fair value assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible and financially feasible Highest and best use refers to the use by market participants that maximises the value of the asset or of the group of assets within which the asset would be used (in-use or in exchange). The current use of an asset often is presumed to be the highest and best use Highest and best use is based on the use of the asset *by market participants*, regardless of how the entity intends to use the asset	IAS 36: Fair value is determined without consideration of the acquirer's intentions for the future use of the asset IAS 40: Willing buyers and sellers will take into consideration the characteristics of the investment property, including its actual and potential uses Other IFRSs are silent on highest and best use
Inputs to valuation techniques, including the use of market participant (market-based) assumptions	Inputs are the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk **Observable inputs:** Reflect the assumptions that market participants would use in pricing the asset or liability **Unobservable inputs:** Reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability	IFRSs require that the reporting entity maximise the use of market-based inputs IFRS 2: Fair value reflects factors that knowledgeable, willing market participants would consider in setting the price IAS 36: Fair value reflects the market's expectations of the present value of the future cash flows to be derived from the asset. It reflects the knowledge and estimates of knowledgeable, willing buyers and sellers. In contrast, value in use reflects the entity's estimates, including the effects of general factors that may be specific to the entity and not applicable to entities in general IAS 39: Fair value reflects market conditions at the measurement date. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs IAS 40: The fair value of an investment property reflects, among other things, rental income from current leases and reasonable and supportable assumptions that represent what knowledgeable, willing parties would assume about rental income from future leases in the light of current conditions

Topic	SFAS 157 requirement	IFRS requirement
Market participant view (compared to 'knowledgeable, willing parties in an arm's length transaction')	Market participants are buyers and sellers in the market that are: Independent; that is, they are not related parties Knowledgeable about the asset or liability and about the transaction Able to transact Willing to transact (they are not forced or otherwise compelled to transact—it is an 'orderly transaction')	**Independent:** IAS 40: An arm's length transaction is one between parties that do not have a particular or special relationship that makes prices of transactions uncharacteristic of market conditions. The transaction is presumed to be between unrelated parties, each acting independently **Knowledgeable:** IAS 40: Both the buyer and the seller are reasonably informed about the nature and characteristics of the investment property, its actual and potential uses, and market conditions **Willing and able to transact:** IAS 39: Underlying the definition of fair value is a presumption that an entity is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale IAS 40: Willing parties are buyers who are motivated, but not compelled, to buy at any price and sellers who are neither over eager nor forced, prepared to sell at any price
Non-performance risk (including own credit)	Non-performance risk is the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. It includes, but may not be limited to, credit risk The entity's credit risk and credit standing (own credit) are reflected in the fair value of a liability in all periods in which the liability is measured at fair value, potentially leading to a gain when credit standing decreases and a loss when credit standing improves	IAS 39: Fair value reflects the credit quality of the instrument. Changes in an entity's credit standing are reflected in its liabilities and the entity records a gain or loss accordingly

Topic	SFAS 157 requirement	IFRS requirement
Reference market	Use the price in the principal market, or if there is no principal market, the price in the most advantageous market The principal market is the market with the greatest volume and level of activity for the asset or liability The most advantageous market is the market with the highest price, after considering transaction costs The entity must be able to access the market	IAS 39: Use the price in the most advantageous active market [assumes the entity has access to that market] IAS 41: Use the price in the most relevant active market (ie the market the entity expects to use)
Transaction costs	The price used to measure the fair value of an asset or liability is not adjusted for transaction costs Transaction costs are not an attribute of the asset or liability; they are specific to the transaction and differ depending on how the reporting entity transacts	IAS 19: Fair value implies that no deduction is made for the estimated costs necessary to sell the asset, even when the entity intends to dispose of plan assets IAS 39: Financial instruments are recognised at their fair value plus transaction costs IAS 41: Biological assets and agricultural produce are recognised at their fair value less point of sale costs IAS 36, IFRS 5: Fair value less costs to sell IAS 40: An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal
Transportation costs	Transportation costs are deducted in the fair value measurement if location is an attribute of the asset or liability	IAS 41: Point of sale costs exclude transport and other costs necessary to get the asset to market (ie fair value is a market price less transport and other costs necessary to get an asset to market, but it does not include point of sale costs)
Unit of account (including blockage)	Determined in each standard (not in SFAS 157) However, for financial instruments traded in an active market (ie Level 1 of the fair value hierarchy), the unit of account is *the instrument*	Determined in each standard
Valuation techniques	The entity should choose valuation techniques appropriate for the circumstances and for which sufficient data are available If several valuation techniques are used (eg when valuing a reporting unit), the fair value is the point within the range indicated by the results	IFRS 2: If market prices are not available, the entity shall estimate the fair value of the equity instruments granted using a valuation technique to estimate what the price of those equity instruments would have been on the measurement date in an arm's length transaction between knowledgeable,

Topic	SFAS 157 requirement	IFRS requirement
	that is most representative of fair value in the circumstances **Market approach:** Prices and other information generated by market transactions involving identical or comparable assets or liabilities **Income approach:** Present value techniques (discounted cash flows) and option pricing models **Cost approach:** Current replacement cost (the amount that currently would be required to replace the service capacity of the asset)	willing parties. The valuation technique shall be consistent with generally accepted valuation methodologies for pricing financial instruments IAS 16: Fair value is usually determined from market-based evidence by appraisal. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach. IAS 39: The best evidence of fair value is a quoted price in an active market. If the market for a financial instrument is not active, an entity establishes fair value by using a valuation technique. The objective of using a valuation technique 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. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments IAS 40: The best evidence of fair value is given by current prices in an active market for similar property. If that is not available, an entity should use: • current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences; • recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

Topic	SFAS 157 requirement	IFRS requirement
		• discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows In some cases, the fair values estimated using each of these approaches might lead to different conclusions. An entity considers the reasons for those differences in order to arrive at the most reliable estimate of the fair value within a range of reasonable fair value estimates IAS 41: If an active market exists for a biological asset or agricultural produce, the quoted price in that market is the appropriate basis for determining the fair value of that asset. If an active market does not exist, an entity uses one or more of the following, when available, in determining fair value: • the most recent market transaction price, provided that there has not been a significant change in economic circumstances between the date of that transaction and the balance sheet date; • market prices for similar assets with adjustment to reflect differences; and • sector benchmarks such as the value of an orchard expressed per export tray, bushel, or hectare, and the value of cattle expressed per kilogram of meat In some circumstances, market-determined prices or values may not be available for a biological asset in its present condition. In these circumstances, an entity uses the present value of expected net cash flows from the asset