



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: 13 March 2008, London

Project: Fair value measurement

Subject: Should this project have a working group? (Agenda Paper 2)

INTRODUCTION

- 1 The *Due Process Handbook for the IASB* states that the IASB normally establishes working groups or specialist advisory groups for its major projects. It is not mandatory that the IASB establish a working group or other specialist advisory group, but if the IASB decides to omit this step it must state its reasons for doing so.
- 2 This paper considers whether the fair value measurement project should have a working group or other type of specialist advisory group that could provide practical input to the IASB.
- 3 Working groups or other groups are set up during the project planning stage. They give the IASB access to additional practical experience and expertise. The composition of a working group reflects the diversity and breadth of interest involved in a particular area. Meetings of working groups are attended by some IASB members and technical staff. Although groups are not asked to develop formal recommendations, they are consulted on important decisions.

The IASB provides members with regular updates on the progress of the project. Meetings of the working group are announced in advance, open to the public and chaired by an IASB member.

- 4 The *Due Process Handbook* does not contain a description or the specific requirements for a specialist advisory group. However, it seems that a specialist advisory group would be similar to, but perhaps less formal than, a working group. Having a structure that is different from a working group would allow the IASB and the project team to get targeted advice in an efficient manner.

STAFF RECOMMENDATION

- 5 At this stage in the fair value measurement project, the staff is seeking practical input on the application of SFAS 157 in the US and elsewhere and about valuation issues generally. We have a framework for developing an IFRS on fair value measurement and are not starting at the beginning of the process.
- 6 The staff therefore recommends that the Board not establish a working group for this project due to the nature of the project and its stage in the process. Instead, the staff will establish an informal technical advisory group (TAG) through which the staff will obtain practical input on the proposals.

STAFF ANALYSIS

- 7 The IASB typically uses working groups to provide input when developing a standard, usually from the beginning of the process. Working groups deal with general, conceptual issues fundamental to building the principles on which to base a standard.
- 8 Because the issues raised in the fair value measurement project overlap with so many other projects, the staff thought initially that, instead of establishing a dedicated fair value measurement working group, we could use the working groups already in place (eg financial instruments, insurance, employee benefits). Upon further reflection, however, we think it could be cumbersome to manage a broad range of groups without a specific mandate for this project because these groups were not set up with this particular project in mind. In

addition, the members of these working groups are not valuation experts that would have the necessary in-depth knowledge about measuring fair value.

- 9 The fair value measurement project, although at an early stage, is not about developing a new model, but about taking existing literature and compiling it into a single source of measurement guidance. However, the project team does need to understand the practical application issues with regard to fair value measurement and valuation generally. We need to see how the proposals will affect constituents, particularly those preparing and using the financial statements.
- 10 The staff thinks that we can receive the detailed technical advice we need in other, more efficient ways, such as through the outreach on the standard-by-standard review¹ and by having an informal technical advisory group that we can contact about practical valuation issues as needed. We are therefore recommending such an informal advisory group.
- 11 A TAG could operate on an informal, as-needed basis, meeting in person when there is an issue that requires input from the entire group and by phone or email when contacting only those members who have expertise in the particular topic at hand. Meetings of the entire group could be held publicly. Furthermore, the membership of the group could be flexible so that members could be added or replaced as circumstances and needs change.
- 12 Unlike a working group that addresses general, conceptual issues, a TAG would provide a resource for the staff to draw upon to address specific questions about the how the proposed measurement guidance might work in practice for a particular type of asset or liability.
- 13 The project team could contact specific members of the TAG based on their specialty when and as needed and could bring the entire group together when we have general questions. For example, if we have questions about the practical application of highest and best use concepts, we could ask those TAG members familiar with real estate and tangible asset valuation, without

¹ The standard-by-standard review is a review of IFRSs whether the term 'fair value', as used in each IFRS, is interpreted or applied in practice as an entry price, an exit price or another measurement basis. We have asked a group of constituents to participate in the review.

involving the rest of the group. Similarly, if we have questions about how to measure the fair value of derivatives, we could ask those TAG members familiar with financial instrument valuation. Only when we are dealing with broad valuation issues would we need to bring together the entire group.

- 14 In addition to giving the staff access to practical feedback from a group of technical experts, TAG members would be able to raise practical issues and concerns throughout the process, giving us direct access to current practice. Clearly the staff cannot be expected to know everything that is happening in practice and such a group could make us aware of emerging valuation issues.
- 15 Although the telephone and email discussions with particular members would be private, the feedback received from the group would be available publicly through agenda papers (available to the public through observer notes) on a particular topic. The staff will consider whether it would be appropriate for the input received on particular topics (especially the more controversial issues) to be made available publicly, for example, on the IASB website.
- 16 The staff is in the initial stages of thinking about how we might organise such a group and will seek Board members' feedback and input as we progress. So far we envisage the following:
 - a One of the first steps will be to invite constituents with valuation experience to express their interest in participating in such a group.
 - b The TAG would be comprised of valuation experts (including finance academics) in various specialties, such as:
 - i financial instruments (derivatives, securitised assets, liabilities, equity instruments)
 - ii machinery and equipment
 - iii real estate
 - iv intangible assets
 - v real options valuation

vi share-based payments

vii non-financial liabilities (pensions, performance obligations)

viii private equity and hedge funds

QUESTIONS FOR THE BOARD

17 The due process requires the Board to state its reasons for not establishing a working group for a major project.

18 **Do you think a working group should be formed for this project? If not, please explain why not.**