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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: November 2008, London

Project: Fair Value Measurement

Subject: Cover note (Agenda paper 17)

Agenda papers for this meeting

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

Agenda Paper No.	Title	Objective
17	Cover note	Outlines the meeting objectives and timeline
17A	Day one gains or losses	Addresses whether a fair value measurement can result in a day one gain or loss

Meeting objectives

- 2 At this meeting, the staff will ask you to decide whether, and if so, in what circumstances, to require the recognition of a day one gain or loss resulting from a fair value measurement.
- 3 As discussed at the July 2008 IASB meeting, the staff will complete a scope assessment for uses of fair value in current IFRSs. The Board's decision on this issue will give the staff input for this scope assessment. **If the Board is unable to reach a**

decision on this issue at this meeting, it is likely that the project timeline will be delayed.

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.

June 2008

- 5 In June 2008 the Board clarified the scope of the fair value measurement project. The Board reaffirmed its preliminary views for the following issues, as articulated in the *Fair Value Measurements* discussion paper:
- a **single source of guidance** (Issue 1 in the discussion paper): The Board’s preliminary view was that having a single source of guidance would be an improvement over the disparate guidance in IFRSs. However, the Board has not yet decided whether a single measurement objective should be applied to all fair value measurements. That decision will be made when the Board discusses Issue 2A, the exit price measurement objective.
 - b **market participant view** (Issue 2B): The Board’s preliminary view was 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.
 - c **attributes specific to an asset or liability** (Issue 5): The Board’s preliminary view was 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. The Board also had a 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. The Board will address the question of ‘which transaction costs to include’ when it discusses bid-ask spreads.

- d **the fair value hierarchy** (Issue 8): 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.
- e **measuring fair value within the bid-ask spread** (Issue 10): The Board’s preliminary view was 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. However, the Board has not decided 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. The Board also has not decided whether this guidance should apply only when bid and ask prices are observable in a market, or whether this concept should apply more broadly to fair value measurements in all levels of the fair value hierarchy (ie Level 1, Level 2 and Level 3 in SFAS 157).

July 2008

- 6 In July 2008 the Board tentatively decided to define fair value 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.
- 7 As a next step, 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.

September 2008

- 8 The Board discussed whether a fair value measurement should:
 - a reflect the highest and best use of an asset.

- b include an adjustment for the size of an entity's holding relative to trading volume (a blockage factor).

Highest and best use

- 9 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 include in an exposure draft on fair value measurement 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.

Blockage factors

- 10 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.

October 2008

- 11 In June 2008 the Board reaffirmed its preliminary view as articulated in the discussion paper *Fair Value Measurements* that a fair value measurement should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances. At this meeting, the Board 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.

Next steps

- 12 We plan to present the following topics in the next couple of months:
 - a principal (or most advantageous) market;
 - b the valuation premise (ie in-use or in-exchange);
 - c defensive value;
 - d valuation of liabilities (including non-performance risk and whether liabilities should be measured on a transfer basis or settlement basis); and
 - e fair value measurement disclosures.
- 13 We also plan to present 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.

- 14 Once the Board has deliberated the topics listed above, the staff will begin drafting an exposure draft of an IFRS on fair value measurement. A staff draft of the exposure draft will form the basis of the discussions at the round-table meetings, which are currently expected to be held in the first or second quarter of 2009.
- 15 This timing is consistent with the tech plan presented at the October IASB meeting.