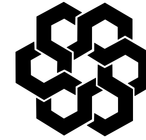

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International Accounting Standards Board

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:	**Day one gains or losses (Agenda paper 17A)**

Purpose of this paper

1. This paper discusses whether to require the recognition of day one gains or losses for assets and liabilities that are measured at fair value at inception.

2. This paper recommends the following:

    a. the Board should require entities to recognise day one gains or losses even when a fair value measurement is derived using unobservable inputs.

    b. if the Board decides to limit the recognition of day one gains or losses, the subsequent measurement of deferred gains or losses should not be addressed in the fair value measurement project.

Background

3. The Board issued the *Fair Value Measurements* discussion paper in November 2006. Issue 3 of the discussion paper addressed day one gains or losses, noting the differences between the guidance in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) and in

IAS 39 *Financial Instruments: Recognition and Measurement*. The Board did not reach a preliminary view on this issue.

4. The discussion paper asked respondents whether it is appropriate to recognise a gain or loss at inception when a fair value measurement is derived using inputs that are not observable in a market (“unobservable inputs”). The focus of the issue was on financial instruments, but it is worth noting that SFAS 157 pertains to all assets and liabilities measured at fair value, not just financial instruments.

5. Respondent views were mixed. The following themes emerged in the responses:

   a. the transaction price (entry price) is the best evidence of fair value (exit price) at initial recognition (ie it is inappropriate to recognise day one gains or losses). This is referred to in this paper as a “transaction price presumption”.

   b. the transaction price (entry price) is sometimes, but not always, the best indicator of fair value (exit price) (ie day one gains or losses should be required in some situations).

   c. day one gains or losses should be considered in the revenue recognition project, not in the fair value measurement project.

   d. the Board should consider the components of day one gains or losses in multiple element arrangements to identify the appropriate accounting treatment. In doing so, the Board should differentiate between components related to performance conditions prior to and subsequent to transaction execution.

6. Respondents focused mainly on financial instruments. However, some commented on matters pertaining to non-financial assets and liabilities such as business combinations, noting that IFRS 3 *Business Combinations* requires entities to recognise day one gains for bargain purchases.

7. A full summary of the comment letters received is available to Board members upon request.

8. This paper asks the Board 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.

9. This paper contains:

   a. an overview of the requirements in SFAS 157,

   b. an overview of the requirements in IAS 39,

   c. a summary of related Board discussions on this topic in various projects, and

   d. the staff's analysis and recommendations.

10. This paper focuses mainly on day one gains or losses for financial instruments. However, the conclusions reached are applicable to other assets and liabilities unless the Board decides otherwise. For example, the Board might decide to use a transaction price presumption at initial recognition for some assets and liabilities and not for others.

11. Furthermore, this paper only addresses situations in which fair value currently is the measurement basis for an asset or liability at initial recognition; it does **not** consider situations in which the measurement basis at initial recognition is cost (eg IAS 16 *Property, Plant and Equipment*) or situations in which the Board might require fair value measurement at initial recognition in the future.

12. The following table includes standards that currently require fair value measurements at initial recognition:

Standard	Title
IFRS 2	*Share-based Payment*[1]
IFRS 3	*Business Combinations*
IAS 17	*Leases*
IAS 19	*Employee Benefits* (for plan assets)

[1] The Board has not yet determined whether share-based payments will be within the scope of the exposure draft of an IFRS on fair value measurement.

IAS 39	*Financial Instruments: Recognition and Measurement*
IAS 41	*Agriculture*

SFAS 157 requirements

Recognition

13. Paragraphs 16 and 17 of SFAS 157 explain how an entity should determine the fair value of an asset or liability at initial recognition.

14. Paragraph 16 notes that entry prices and exit prices are conceptually different and that entities do not necessarily sell assets at the prices paid to acquire them, nor do they necessarily transfer liabilities at the prices received to assume them.

15. However, paragraph 17 states that the transaction price (entry price) will often equal the exit price for an asset or liability and will therefore represent fair value at initial recognition. Paragraph 17 further states that the transaction price might not represent fair value at initial recognition in the following circumstances:[2]

    a. transaction between related parties.

    b. transaction occurring under duress (eg forced sale).

    c. unit of account represented by transaction price differs from unit of account for measurement purposes.

    d. entry market differs from exit market (ie principal or most advantageous market).

16. By stating that the transaction price (an entry price) might not be indicative of fair value (an exit price) at initial recognition, SFAS 157 requires entities to recognise day one gains or losses when applicable. That is true even if the initial fair value measurement is derived using unobservable inputs.

17. In that respect, SFAS 157 changed EITF Issue No. 02-3, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities," footnote 3 of

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[2] In the July 2008 IASB meeting (see Agenda Paper 11A for that meeting), the staff asserted that the only difference of those listed here could be (d); that is, when the entry market differs from the exit market. The staff noted that (a) and (b) do not represent fair value and that (c) represents a different asset or liability (or form thereof) being measured. Agenda Paper 10F of the February 2006 IASB meeting identified recoverable origination costs as another potential difference between the transaction price and the exit price for an insurance asset or liability. Some have also noted that bid-ask spreads might be another difference (see footnote 3 below).

which prohibited day one gains or losses when fair value was determined using significant unobservable inputs.

18. It is important to note that the FASB considered a minimum reliability threshold as a means of limiting day one gains and losses in those circumstances. However, its constituents expressed concerns that any such threshold would add complexity in financial reporting. As a result, the FASB rejected the threshold in favour of expanded disclosure requirements for fair values using unobservable inputs.

Disclosure

19. To address concerns about the reliability of fair value measurements derived using unobservable inputs, paragraphs 32 and 33 of SFAS 157 require expanded disclosure for fair value measurements using those inputs and the effects of such measurements on earnings.

20. For assets and liabilities that are measured at fair value on a recurring basis (eg trading securities), paragraph 32 requires entities to disclose a reconciliation of beginning and ending balances for fair value measurements using significant unobservable inputs (Level 3 of the fair value hierarchy).

21. The reconciliation is required to present changes during the period attributable to each of the following:

    a. Total gains or losses for the period (realised and unrealised), segregating gains and losses included in earnings and describing where those gains or losses are reported in the statement of income.

    b. Purchases, sales, issuances, and settlements (net).

    c. Transfers into and/or out of Level 3 (eg transfers due to changes in the observability of significant inputs).

22. Entities are also required to disclose the amount of total gains or losses in (a) above included in earnings that are attributable to the change in unrealised gains and losses for those assets and liabilities held at the reporting date and describe where those unrealised gains and losses are reported in the statement of income.

23. Note: The exposure draft of proposed amendments to IFRS 7 *Financial Instruments: Disclosures* (issued 15 October 2008) includes the above requirements for recurring fair value measurements.

24. For assets and liabilities that are measured at fair value on a non-recurring basis (eg impaired assets), paragraph 33 requires entities to disclose a description of the inputs and the information used to develop those inputs for fair value measurements using significant unobservable inputs (Level 3).

IAS 39 requirements

25. The fair value measurement and disclosure requirements for day one gains or losses in IAS 39 and IFRS 7 differ from those in SFAS 157.

Recognition

26. Paragraph AG76 of IAS 39 states that the transaction price is the best evidence of fair value of a financial instrument at initial recognition unless the fair value of that instrument is evidenced by observable market data. In other words, IAS 39 requires day one gains or losses only when the initial fair value measurement is derived using entirely observable inputs.

27. The reason for this, as stated in the Basis for Conclusions, is that observable market data is needed to provide reasonable assurance that fair value is other than the transaction price for the purpose of recognising day one gains or losses.

28. Furthermore, the Board noted that its decision to prohibit day one gains or losses when initial fair value measurements are derived using unobservable inputs achieved convergence with US GAAP. This meant convergence with the requirements in EITF Issue 02-3 (namely, footnote 3), which have now been superseded by SFAS 157.

29. IAS 39 includes aspects of both entry and exit prices by contemplating the use of a transaction price and fair value evidenced by observable market data.

30. Some have argued that the Board intended to have an entry price measurement objective for initial measurements under IAS 39. This is evidenced by including a transaction price presumption at initial recognition.

31. Others believe that, based on the fair value measurement guidance in IAS 39, IAS 39 supports an exit price measurement objective for both for initial and subsequent measurements, and that measuring a financial instrument at its transaction price was meant to be an exception to that objective.

Disclosure

32. Paragraph 27(c) of IFRS 7 requires entities to disclose whether fair values recognised or disclosed in the financial statements are determined, in whole or in part, using unobservable inputs and the total amount of the change in fair value estimated using such a valuation technique that was recognised in profit or loss.

33. Entities are also required to state whether (and if so, the effect of) changing one or more of the assumptions related to unobservable inputs to reasonably possible alternative assumptions would change the fair value significantly.

34. If the application of paragraph AG76 of IAS 39 results in deferred gains or losses at inception, paragraph 28 of IFRS 7 requires entities to disclose:

    a. their policy for recognising those amounts in profit or loss, and

    b. a roll forward of amounts yet to be recognised in profit or loss.

35. As noted in paragraph 23 above, the IASB proposes amending IFRS 7 to include some of the disclosures required by SFAS 157 regarding fair value measurements derived using unobservable inputs. A copy of the proposed amendments is available to Board members upon request.

36. Although the objectives of the disclosure requirements in SFAS 157 and IFRS 7 are similar (and the exposure draft to IFRS 7 increases the similarity), SFAS 157 addresses all assets and liabilities measured at fair value, not just financial instruments.

Related Board discussions

37. The issue of whether to require day one gains or losses should be considered in the context of previous Board discussions in the fair value measurement, revenue recognition and insurance contracts projects.

Fair value measurement

38. At its July 2008 meeting, the Board considered whether it is necessary to distinguish between entry and exit prices for fair value measurements given that those prices are equal in many situations (eg when they relate to the same asset on the same date in the same form in the same market).[3]

39. The Board tentatively decided to define fair value as a current exit price.

40. The Board will assess at a future meeting whether each use of the term 'fair value' in IFRSs, for initial and subsequent measurement, should use this definition.

41. The staff note that, if the Board were to decide that a current exit price objective is appropriate for initial fair value measurements, day one gains or losses would follow as a direct consequence. That is, the difference (or a portion thereof representing the amount already earned) between the transaction price and initial fair value measurement would represent a day one gain or loss.

Revenue recognition

42. Before reaching a preliminary view in favour of the customer consideration approach, the Board considered a fair value measurement approach in which the performance obligations would be measured at current exit price (ie the amount that the entity would be required to pay to transfer those obligations to an unrelated party).

43. Under the fair value approach, entities would recognise gains (revenue) or losses at the inception of a contract for any difference between the amount received from a customer and the amount it would have to pay a third party to take on its remaining performance obligation (an exit price).

44. Board members cited practical concerns about estimating fair values and the pattern of revenue recognition as reasons for not supporting that approach.

45. Those concerns led to the development of the customer consideration measurement approach whereby performance obligations are measured using

[3] Some have questioned the assertion that entry and exit prices are equal in those situations, noting that entry and exit prices will be equal only if transaction costs are ignored. They cite bid-ask spreads as a potential difference between entry and exit prices in the same market. They believe such spreads represent transaction costs that should be ignored in the analysis. The composition of bid-ask spreads and the effect of transaction costs on the aforementioned assertion are beyond the scope of this paper.

an allocation of the customer consideration amount (ie transaction price) rather than at the fair value of the obligation.

46. The customer consideration measurement approach precludes the recognition of gains (revenue) at the inception of the contract. However, if the performance obligations are deemed onerous at contract inception, then losses would be recognised at that time.

Insurance contracts

47. In its discussion paper *Preliminary Views on Insurance Contracts*, the Board proposed to measure insurance liabilities at their current exit value.

48. Current exit value was defined as the amount an insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity.

49. The discussion paper noted that current exit value encompasses three building blocks for measuring insurance liabilities, including "an explicit and unbiased estimate of the margin that market participants require for bearing risk."

50. A minority of Board members indicated that any such margin should be calibrated to the observed price for the transaction with the policyholder and that an insurer should not recognise a gain at the inception of a contract (Implementation A in the discussion paper).

51. They reasoned that:

    a. deferring gains or losses at inception when not supported by observable market data is consistent with the approach in IAS 39.

    b. the transaction with the policyholder provides the only observable direct market benchmark for the margin and there is no reliable way to determine the margin on any other basis.

    c. insurers are contractually required to provide a service throughout the contract term and policyholders benefit from the provision of that service; a policyholder derives no separate utility when executing the contract.

d. recognising gains at inception is imprudent, especially if based on subjective estimates.

52. A majority of Board members, on the other hand, supported an unbiased estimate of the margin another party would require to assume the insurer's contractual rights and obligations (Implementation B in the discussion paper). In their view, the transaction price, although important as a reasonableness check, should not override such an estimate.

53. Those Board members would require entities to recognise gains or losses at inception for some elements of insurance contracts. Those elements might include:

a. an ability to sustain higher pricing than other market participants (eg in a niche market or if the insurer has superior distribution systems).

b. an element captured in pricing but not reflected in accounting measurements.

c. an element included in pricing but not relating to the insurer's remaining obligation, such as an implicit portfolio assembly fee.

54. They reasoned that:

a. prohibiting the recognition of gains at inception would result in liabilities (ie deferred profits) that do not represent obligations.

b. if an insurer added value by issuing a contract, the financial statements should report that added value.

c. reporting added value as income at inception would provide useful information about the level of new business for the entity.

d. deferring gains at inception could result in asymmetric accounting for gains and losses.

55. Respondent views were mixed, with some supporting a current exit value approach but many supporting an approach based on current fulfilment value.[4] The Board discussed similarities and differences between those two approaches

[4] The measurement objective of current fulfilment value is to capture the burden for the insurer of working out the obligations with the policyholder over time.

at its September and October meetings and the Insurance Working Group will discuss them in November.

56. The discussion paper on insurance contracts took the position that day one gains would be rare, except perhaps in some niche markets. However, some respondents believed that net profits at inception would be common and significant.

Staff analysis

57. The remainder of this paper includes the staff's analysis about whether to require the recognition of day one gains or losses even when a fair value measurement is derived using unobservable inputs. The analysis is based upon an evaluation of the salient accounting literature, related Board discussions and the responses to the *Fair Value Measurements* discussion paper. We first look at initial recognition and then look at subsequent measurement.

58. This section focuses mainly on financial instruments, but includes references to other assets and liabilities recognised at fair value at initial recognition where notable differences exist.

Initial recognition

59. The staff thinks that there are at least three possible ways to address this issue:

   a. **Approach 1:** Prohibit day one gains or losses in all circumstances.

   b. **Approach 2:** Require day one gains or losses in some circumstances, such as when the initial fair value measurement is based entirely on observable market inputs (the current IAS 39 approach).

   c. **Approach 3:** Require day one gains or losses in all circumstances, including when the initial fair value measurement is derived using unobservable inputs (the SFAS 157 approach).

Approach 1: Prohibit day one gains or losses in all circumstances

60. Proponents of this approach support an entry price objective for the initial fair value measurement, arguing that the transaction price is the best evidence of fair value because it is the amount negotiated between market participants.

61. Supporting arguments for Approach 1 include:

a. recognising day one gains before ongoing performance conditions are met is misleading; revenue amounts should be recognised over the period in which they are earned—and some think the entity "has not done anything" yet.

b. it is consistent with the customer consideration measurement approach favoured by the Board in the revenue recognition project.

c. an exit price measurement objective for liabilities could result in day one gains for inefficient operators.

62. It is important to note that most of the arguments focus on the deferral of day one gains. Recognising day one losses does not appear to be as contentious an issue. Even so, for the sake of neutrality, the staff gave equal consideration to day one gains and losses when performing its analysis.

63. Disadvantages of Approach 1 are that:

a. it creates an inconsistent measurement objective for initial and subsequent fair value measurements. There are presently no restrictions on subsequent fair value measurements derived using unobservable inputs.

b. it diverges from both SFAS 157 and IAS 39. Some banks reporting under IFRSs (eg non-US banks) argue that the approach in IAS 39 puts them at a competitive disadvantage to banks reporting under US GAAP (eg US banks). Those non-US banks may feel that a more restrictive approach than that in IAS 39 would put them at a further disadvantage.

c. it is inconsistent with IFRS 3 and IAS 41, which require day one gains in some circumstances.

Approach 2: Require day one gains or losses in some circumstances

64. One example of Approach 2 is the approach in IAS 39, which requires day one gains or losses only when the fair value of the financial instrument is evidenced solely by observable market data.

65. Proponents of this approach believe that the transaction price is the best evidence of fair value at initial recognition when observable market data is not available to corroborate a different value.

66. Supporting arguments for Approach 2 include:

   a. fair value measurements derived using unobservable inputs are unreliable and subject to manipulation, potentially allowing both parties to a transaction to recognise day one gains.

   b. model errors and subjective estimates are the primary drivers for day one differences when observable market data is not available.

   c. requiring observable market data as a precondition to recognising day one gains or losses isolates "genuine" economic gains and losses that can be observed in the market.

   d. deferring gains or losses at inception when not supported by observable market data is consistent with Implementation A in the discussion paper on insurance contracts (see paragraphs 50-51 above) and with the customer consideration approach for revenue recognition.

67. Some believe that entities must intend to sell an asset or transfer a liability in order to recognise day one gains or losses. They argue that the use of an exit price objective for initial recognition gives anomalous results when an entity has no intention to sell an asset or transfer a liability (eg measuring a held-to-maturity debt instrument at an exit price and recognising a day one gain or loss that subsequently results in greater or lesser interest income over the life of the instrument).

68. Others support a rebuttable presumption that the transaction price is the best evidence of fair value at initial recognition when the measurement includes unobservable inputs, in the absence of evidence to the contrary. They would allow day one gains or losses if an entity could demonstrate that the transaction price does not represent fair value under the circumstances. That demonstration would not necessarily require observable market data.

69. Disadvantages of Approach 2 are that:

   a. it is inconsistent with the framework to treat deferred gains or losses as if they were liabilities or assets.

b. it creates an inconsistent measurement basis for initial and subsequent fair value measurements. There are presently no restrictions on subsequent fair value measurements derived using unobservable inputs.

c. it diverges from SFAS 157. As with Approach 1, some banks reporting under IFRSs (eg non-US banks) would argue that Approach 2 puts them at a competitive disadvantage to banks reporting under US GAAP (eg US banks).

d. it is inconsistent with IFRS 3 and IAS 41, which do not require day one gains to be supported by observable market data.

Approach 3: Require day one gains or losses in all circumstances

70. This approach is consistent with the SFAS 157 approach, which requires day one gains or losses even when the fair value measurement is derived using unobservable inputs. It does not require an entity to recognise the entire difference between the transaction price and initial fair value measurement as a day one gain or loss; rather, it requires an entity to recognise the portion of that difference that has already been earned.

71. Proponents of this approach believe that the measurement basis for initial and subsequent fair value measurements should be consistent and that day one gains or losses are a direct consequence of a current exit price measurement objective.

72. Supporting arguments for Approach 3 include:

a. when valuation techniques are applied soundly and consistently with high quality controls, reasonable estimates of fair value can be derived using unobservable inputs.

b. reliability is a consideration when determining whether an asset or liability should be recognised; it is not an attribute of any particular measurement basis (including fair value). Furthermore, appropriate disclosure could mitigate reliability concerns.

c. day one gains are required for bargain purchases in business combinations, the measurement of which are often based on unobservable inputs.

d. recognising day one gains or losses helps to highlight the inherent strength or weakness of an entity's bargaining position.

e. requiring day one gains or losses would resolve diversity in practice related to the subsequent recognition of deferred amounts (see below).

f. requiring day one gains or losses is consistent, in large part, with Implementation B in the discussion paper on insurance contracts (see paragraphs 52-54 above).

g. convergence with US GAAP can no longer serve as a basis for deferring day one gains or losses since footnote 3 of EITF 02-3 has been superseded by SFAS 157.

73. Disadvantages of Approach 3 include:

a. it requires day one gains or losses even for fair value measurements derived using unobservable inputs (which may be subjective), possibly resulting in asymmetric accounting between the transacting parties.

b. it is inconsistent with the customer consideration measurement approach favoured by the Board in the revenue recognition project.

S*taff recommendation*

74. In view of the Board's tentative decision to define fair value as a current exit price, the staff recommend Approach 3 (ie require day one gains or losses even when the fair value measurement is derived using unobservable inputs).

75. The staff believe that day one gains or losses are a direct consequence of a current exit price measurement objective.

76. Furthermore, the staff believe there is no conceptual basis for having a different reliability threshold for initial and subsequent fair value measurements.

77. The staff note that IFRS 3 and IAS 41 require entities to recognise day one gains or losses resulting from initial fair value measurements even if those measurements are derived using unobservable inputs.

78. Though the staff recommend Approach 3, the staff is sympathetic to many of the arguments in favour of Approach 2, particularly those that relate to the reliability of fair value measurements derived using unobservable inputs.

79. However, the staff believe that concerns about the reliability of fair value measurements should be addressed when determining what to measure at fair value rather than how to measure fair value.

80. If the Board concludes that it should prohibit day one gains or losses for particular assets or liabilities, it can choose to measure those items at inception on a basis other than fair value.

81. If the Board decides not to pursue Approach 3, it should consider the circumstances in which to require day one gains or losses for assets and liabilities measured at fair value at inception, if any. To that end, the Board should consider:

    a. whether to retain the guidance in IAS 39 for financial assets and liabilities.

    b. whether to require day one gains or losses for non-financial assets and liabilities and, if so, for which assets and liabilities and under what circumstances.

82. The staff note that Approach 2 seems more appropriate for financial assets and liabilities than for non-financial assets and liabilities given that there is rarely observable market data for many non-financial assets and liabilities. Given the lack of observable market data, Approach 2 would require day one gains or losses for those assets and liabilities only in limited circumstances.

83. It is worth noting, however, that some non-financial assets (eg some property, plant and equipment) have observable market prices. Approach 2 might result in the recognition of day one gains or losses for those assets if fair value were to be required at initial recognition.

84. The staff note that few IFRSs require fair value at initial recognition (see table in paragraph 12). However, some people have expressed a concern about identifying and recognising (in goodwill) a day one gain or loss for individual assets or liabilities acquired in a business combination when there is a difference between the entry price and the exit price for the asset or liability. This might occur if the market for the business is different from the market for the individual assets and liabilities (or groups of assets and liabilities). We will

discuss this further when we discuss the valuation premise and the reference market in a future meeting.

85. In addition to the issues raised in paragraph 81 above, the Board should also consider whether to provide guidance on the subsequent measurement of deferred gains or losses if the Board decides not to pursue Approach 3.

Subsequent measurement

86. Paragraph AG76A of IAS 39 notes that the application of paragraph AG76 may sometimes mean that no gain or loss is recognised on the initial recognition of a financial asset or financial liability.

87. IAS 39 indicates that any such deferred gain or loss should be recognised after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price.

88. As noted in the Basis for Conclusions, constituents asked the Board to clarify that straight-line amortisation is an appropriate method of recognising the deferred gain or loss. The Board concluded that straight-line amortisation may be appropriate in some cases and not appropriate in others.

89. Practice in this area is diverse, with some entities choosing to amortise deferred gains or losses on a straight-line basis and others choosing to amortise those amounts when model inputs become observable. The result is that subsequent measurements are not comparable, nor are they indicative of fair value.

90. The question for the Board is whether this project should address the subsequent measurement of deferred gains or losses.

Staff recommendation

91. If the Board decides to prohibit the recognition of day one gains or losses in some or all cases, the staff recommend that the exposure draft <u>not</u> address the subsequent measurement of deferred gains or losses.

92. The staff believe that the subsequent measurement of those amounts should be addressed in the relevant project for each asset and liability for which this issue pertains. For example, the project on reducing complexity in reporting financial instruments will address this issue for financial instruments.

QUESTIONS FOR THE BOARD

93. **Are there other approaches, not addressed in this paper, that the Board thinks the staff should consider?**

94. **Does the Board agree that an entity should be required to recognise day one gains or losses even when the initial fair value measurement is derived using unobservable inputs (ie Approach 3)?**

95. **If the Board does not agree with Approach 3, does the Board believe that day one gains or losses should be required when the initial fair value measurement is derived using only observable inputs (ie Approach 2)?**

96. **If the Board does not agree with Approaches 2 and 3, does the Board want to prohibit the recognition of day one gains or losses in all circumstances (ie Approach 1)?**

97. **If the Board agrees with Approaches 1 or 2:**

    a. would the Board treat financial and non-financial assets and liabilities differently?

    b. does the Board agree that this project should not address the subsequent measurement of deferred gains and losses?