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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 September 2008, London

Project: Fair value measurement

Subject: Cover note (Agenda Paper 3)

Agenda papers for this meeting

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

Agenda Paper No.	Title	Objective
3	Cover note	Outlines the meeting objectives and timeline
3A	Highest and best use	Addresses the highest and best use concept for assets in SFAS 157
3B	Blockage factors in a fair value measurement	Addresses whether blockage factors should be excluded from a fair value measurement

Meeting objectives

- 2 At this meeting, the staff will ask you to decide on the following:
- a whether an exposure draft of an IFRS on fair value measurement should state that a fair value measurement reflects the highest and best use of an asset; and
 - b whether blockage factors should be excluded from a fair value measurement.

Tentative decisions to-date

- 3 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

- 4 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

- 5 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.
- 6 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.

Next steps

- 7 As noted during the technical plan discussion and the fair value measurement sessions at the June IASB meeting, we plan to present the following topics over the next few months:
 - a principal (or most advantageous) market;
 - b the valuation premise (ie in-use or in-exchange);

- c defensive value;
- d day one gains or losses;
- e bid-ask spreads (whether mid-market pricing should be allowed as a practical expedient and whether the guidance should apply at all levels of the fair value hierarchy; this also will include a discussion about which transaction costs should be included in a fair value measurement); and
- f valuation of liabilities (including non-performance risk and whether liabilities should be measured on a transfer basis or settlement basis).

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.

- 8 This timing is consistent with the tech plan presented at the June IASB meeting.