



**30 Cannon Street, London EC4M 6XH, United Kingdom**  
**Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411**  
**Email: [iasb@iasb.org](mailto:iasb@iasb.org) Website: [www.iasb.org](http://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: 19 September 2008, London**

**Subject: Expert Advisory Panel update (Agenda Paper 4)**

---

### **Purpose of this paper**

- 1 This paper summarises the activities of the expert advisory panel about the measurement and disclosure of financial instruments in markets that are no longer active.

### **Background**

- 2 The recent illiquidity in some markets has led to difficulties in establishing the fair value of some financial assets and financial liabilities (financial instruments). The reduction in liquidity means that prices or inputs to models which previously have been readily observable are no longer observable. As a result, entities have had to switch from valuing financial instruments at quoted market prices in active markets or using models containing mainly observable inputs, to valuing instruments with models that use a greater number of unobservable inputs.
- 3 Following recent financial turmoil, the Financial Stability Forum (FSF) published a report to the G7 group of Finance Ministers and Central Bank Governors in April 2008 making recommendations for Enhancing Market and Institutional Resilience.

4 The report was the result of collaboration by the main international bodies and national authorities in key financial centres, including representatives from the IASB. It set out 67 recommendations, which the G7 endorsed on 11 April 2008. Of the recommendations, two call for enhancements to fair value measurement guidance and disclosures:

**Recommendation III.5** The IASB will strengthen its standards to achieve better disclosures about valuations, methodologies and the uncertainty associated with valuations.

**Recommendation III.6** The IASB will enhance its guidance on valuing financial instruments when markets are no longer active. To this end, it will set up an expert advisory panel in 2008.

5 In May 2008 the IASB announced its plans to form an expert advisory panel in response to the above recommendations. The first meeting was held in June 2008. The panel members comprised preparers of financial statements, users of financial statements, auditors and regulators. Participants were selected on the basis of their practical experience with the valuation of financial instruments in the current market environment. The panel member organisations are listed on our website.

### **Objective of the panel**

6 The panel's role was threefold:

- a to identify valuation and disclosure issues the panel members have encountered in the current market environment;
- b to discuss the solutions applied in practice; and
- c to identify any improvements to the related disclosures.

7 The panel members' discussions will assist the IASB in deciding what additional guidance and disclosures, if any, might be necessary with regard to the fair value of financial instruments in markets that are no longer active.

8 It was not within the remit of the panel to discuss whether fair value is an appropriate measurement basis for a particular financial instrument or class of financial instruments. The IASB is addressing this in its work on financial instruments and has

published a discussion paper *Reducing Complexity in Reporting Financial Instruments*, inviting respondents to comment by 19 September 2008.

## Overview of output

- 9 As a result of the panel's discussions, the IASB staff has prepared the following draft documents. These draft documents have been posted on the IASB Website for interested parties to provide feedback. Although the drafts have been posted on the Website in two parts, we expect to post a single final document.
- 10 **Part 1: Measurement:**
- a reminds readers of the objective of fair value measurement and summarises the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*;
  - b describes key issues identified by the panel members; and
  - c describes some of the approaches they have used to address these issues when measuring the fair values of financial instruments in markets that are no longer active.
- 11 **Part 2: Disclosure** addresses disclosures about fair value measurement in the light of the credit crisis. The document also summarises the requirements of IFRS 7 *Financial Instruments: Disclosures*.
- 12 The draft documents summarise the discussions of the panel members. They:
- a do not represent an official position of the panel member organisations or the representatives from the organisations; and
  - b are not official interpretations of IFRSs or any other body of accounting standards, nor do they establish new requirements for entities applying IFRSs or any other body of accounting standards.

## What we learned

### *Measurement*

- 13 The panel meetings suggest that the requirements and guidance in IAS 39 about fair value measurement are generally clear and well understood, and that there is much

consistency in the approaches, and thought processes, used to arrive at a fair value measurement.

- 14 However, this does not mean that entities find it straightforward to apply the requirements in IAS 39 in all cases. For example, some entities, particularly smaller financial institutions and corporates, might benefit from education about possible approaches to fair value measurement in markets that are no longer active. Describing how the panel members have dealt with these issues in practice might provide some help and reassurance to those entities.
- 15 In addition, the panel meetings have helped the staff to learn and better understand the challenges entities face in applying IAS 39 when measuring the fair value of financial instruments. This understanding will be useful for future standards, including the fair value measurement standard, and for changes to existing standards, such as IAS 39 and IFRS 7.
- 16 The measurement document does not contain detailed examples. The staff acknowledges that some interested parties might be expecting more detail, including in-depth examples, than the draft documents provide, particularly for measurement. For example, the measurement document does not contain enough detail to show exactly how to get from a requirement in IAS 39 to ‘measure the financial asset at fair value’ to ‘the fair value is CU10’. However, this is not the role of a principles-based document and the panel members advised against it because it would create rules for how to perform a valuation and what assumptions should be made.
- 17 Fair value measurement requires the use of judgement. The facts and circumstances for each instrument are different. The measurement document, like IFRSs, cannot take into account or solve every situation. Even if we tried to solve every problem, new problems would arise and any documented solutions could quickly become irrelevant.

### ***Disclosure***

- 18 The panel members note that market practice under IFRS 7 continues to evolve and that some entities prepare disclosures for IFRS 7 with the objective of improving consistency with US GAAP, particularly FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157). For example, in response to

requests from users, some entities are using a hierarchy for fair value disclosures under IAS 39 and IFRS 7 that is similar to that in SFAS 157.

- 19 The panel members note that users of financial statements need clear and consistent presentation of information about those fair value measurements subject to the greatest uncertainty and subjectivity. As a result, the staff makes recommendations to the Board for amending IFRS 7. We will discuss these recommendations at the September IASB meeting (see Agenda Paper 2B).

### **Process followed**

- 20 As noted above, in May 2008 the IASB announced its plans to form an expert advisory panel in response to the recommendations in the FSF report. The panel met six times between June and August, including two meetings of sub-groups of the panel.
- 21 In those meetings, the panel members identified specific valuation and disclosure issues encountered in practice in the current market environment and discussed the resolutions that have been found in practice over the past several months. They discussed specific examples to illustrate measurement issues and potential disclosures that would be helpful users. The draft documents on measurement and disclosure summarise these discussions.

### **Next steps**

- 22 We expect to have the draft documents on measurement and disclosure posted on the IASB Website by the time of this meeting, with a statement that we welcome comments.
- 23 We will post a final document, encompassing both measurement and disclosure, on the IASB Website once the staff has reviewed the feedback received. The staff expects to post the final document in October 2008.