



Project	Fair Value Measurement
Topic	Reference market

Purpose of this meeting

1. The staff prepared this Agenda Paper in response to comments the staff received from Board members on the first pre-ballot of the fair value measurement exposure draft.
2. Several other approaches for identifying the most advantageous market have been presented to the staff. This paper analyses the different approaches and asks Board members what alternative they prefer.

The most advantageous market

3. The exposure draft reflects the staff's understanding of the Board's decision regarding the identification of the reference market (ie the most advantageous market to which the entity has access).
4. Under the proposed approach, the most advantageous market is presumed to be the market in which the reporting entity would normally enter into a transaction for the asset or liability (for this paper, the 'normally transacts' presumption). In the absence of evidence to the contrary, an entity may assume that the principal market for the asset or liability is the most advantageous market, provided that the entity *could* sell the asset or transfer the liability in the principal market.
5. Three other approaches for identifying the most advantageous market have been presented to the staff.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

6. **Approach A:** Maintain the same framework as the proposed approach (ie most advantageous market principle and ‘normally transacts’ presumption) but specify when the principal market is used (eg when the entity has no history of transacting for the asset or liability). Unlike the proposed approach, Approach A would limit the circumstances in which an entity could refer to the principal market.
7. **Approach B:** Maintain the most advantageous market principle but remove the ‘normally transacts’ presumption. In lieu of that presumption, state that an entity may assume that the principal market for the asset or liability is the most advantageous market, provided that the entity *would* sell the asset or transfer the liability in the principal market. Using the term ‘would’ instead of ‘could’ reflects the objective of the ‘normally transacts’ presumption without introducing a third point of reference.
8. **Approach C:** Maintain the most advantageous market principle and ‘normally transacts’ presumption but remove the discussion of the principal market from the body of the standard. Rather, note in the basis for conclusions that:
 - (a) SFAS 157 requires a different approach: a fair value measurement assumes that the transaction to sell transfer the liability occurs in the principle market for the asset or liability. In the exposure draft that preceded SFAS 157, the FASB had proposed using the most advantageous market, but switched to the principal market in SFAS 157. The FASB did this to clarify that its intent was not to require that entities continuously search across all possible markets in which a transaction for the related asset or liability can be observed for the most advantageous price for the asset or liability.
 - (b) The Board selected the most advantageous market because the Board views this as more consistent with other consequences of the market participant perspective, for example the notion of highest and best use.
 - (c) The Board is not unduly concerned about the divergence from SFAS 157 because the principal and most advantageous markets will often be the same.

Question

Does the staff’s articulation of the most advantageous market reflect the Board’s intended meaning? If not, what other approach does the Board prefer?