IASB Round-table Meetings
Fair Value Measurement

Issue A: Fair value as an exit price

The exposure draft proposes to define fair value as:

> the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date

The Board believes that an exit price is always a relevant definition of fair value. An exit price of an asset or liability embodies expectations about the future cash inflows and outflows associated with the asset or liability from the perspective of market participants at the measurement date.

An entity generates cash inflows from an asset by using the asset or by selling it. Even if an entity intends to generate cash inflows from an asset by using it rather than by selling it, an exit price embodies expectations of cash flows arising from the use of the asset by selling it to a market participant that would use it in the same way.

Similarly, a liability gives rise to outflows of cash (or other economic resources) as an entity fulfils the liability over time or when it transfers the liability to another party. Even if an entity intends to fulfil the liability over time, exit price embodies expectations of related cash outflows because a market participant transferee would ultimately be required to fulfil the liability.

In summary, fair value is a market-based measurement. It is an estimate of the price at which a transaction would take place between market participants at a particular date—ie it is an estimate of a market price. A particular entity's intention to hold or sell an asset or fulfil or transfer a liability does not influence the market price of the asset or liability.

Questions for participants
1. When does a market-based exit price not reflect the present value of the expected future cash inflows and outflows from an asset or a liability?

Issue B: Fair value of liabilities

The exposure draft proposes that the fair value of a liability is represented by the price at which it could be transferred to a market participant and provides guidance on measuring it.

During the redeliberations, the Board will discuss FASB Accounting Standards Update (ASU) No. 2009-5 *Measuring Liabilities at Fair Value*. ASU No. 2009-5 states that when a quoted price in an active market for an identical liability is not available, an entity measures fair value using the following techniques:

1. a valuation technique that uses:
   (a) the quoted price of the identical liability when traded as an asset
   (b) quoted prices for similar liabilities or similar liabilities when traded as assets

2. another valuation technique that is consistent with the principles in the FASB's fair value measurement guidance.[1] Two examples would be an income approach, such as a present value technique, or a market approach, such as a technique that is based on the amount at the measurement date that the entity would pay to transfer the identical liability or would receive to enter into the identical liability.

Questions for participants
1. Can the principles of ASU No. 2009-5 be applied in practice in IFRSs? If not, why not? 2. When might the fair value of a liability not be equal to the corresponding asset's fair value?

[1] FASB Accounting Standards Codification Topic 820 (Fair Value Measurements and Disclosures) (Topic 820), formerly FASB Statement of Financial Accounting Standards No. 157, or SFAS 157

Issue C: Fair value of non-financial assets and liabilities

The exposure draft provides proposed fair value measurement guidance for all assets and liabilities measured at fair value. It is meant to apply both to financial instruments and to non-financial assets and liabilities.

Some have indicated that the exposure draft is geared toward financial instruments and will not be sufficient for non-financial assets and liabilities (eg tangible and intangible assets, investment properties, agriculture, environmental cleanup obligations, performance obligations etc.).

Questions for participants
1. What specific additional guidance is needed to measure the fair value of non-financial assets and liabilities? 2. Are any of the proposals in the exposure draft inconsistent with measuring the fair value of non-financial assets and liabilities?

Issue D: Fair value in inactive markets

The exposure draft contains proposed guidance for measuring fair value when markets are not active, particularly when the market for an asset or liability was active at one point and then becomes inactive (eg as a result of the recent financial crisis). The exposure draft provides guidance for:

1. measuring fair value when the volume and level of activity for the asset or liability have significantly decreased and
2. identifying circumstances that indicate a transaction is not orderly.

Some have requested additional guidance, such as the information in the IASB's Expert Advisory Panel's report *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*.

Questions for participants
1. Is the proposed guidance sufficient for measuring fair value when markets have become inactive (when they previously were active)? If not, what additional guidance do you think is necessary?

Issue E: Fair value in emerging and transition economies

Some have indicated that the proposals in the exposure draft are suitable only for entities in developed economies and that they are not sufficient for entities in emerging and transition economies.

The main concerns of entities in these countries are:

1. the proposed fair value measurement guidance is not detailed enough to allow them to develop estimates of fair value on a consistent basis
2. there is limited availability of practitioners who have the skills to apply the guidance
3. there is limited access to market data to develop fair value measurements, even in Level 3, because there are few deep and active markets and there are often few willing buyers and sellers and prices fluctuate considerably
4. developing estimates of fair value will be expensive

Questions for participants
1. What proposals in the exposure draft are not applicable to emerging and transition economies? Why are they not applicable? 2. What specific additional guidance is needed?

Issue F: Jurisdiction-specific issues

The exposure draft was developed for application by entities applying IFRSs in jurisdictions around the world.

However, some have indicated that the exposure draft is best suited for application in the United States since the exposure draft was developed using the FASB's fair value measurement standard as a starting point.

Questions for participants
1. Are there measurement considerations specific to your jurisdiction that the exposure draft does not seem to have contemplated? If so, what are they?

Issue G: US GAAP convergence

US GAAP provides fair value measurement guidance in Topic 820 (formerly SFAS 157). The IASB's exposure draft was written using Topic 820, as amended through May 2009, as a starting point.

During its deliberations, the IASB made the following decisions that were different from those made by the FASB when developing its fair value measurement standard (as amended):[2]

- **Scope.** Unlike Topic 820, the exposure draft would apply to leasing arrangements. However, it would not apply to the measurement of reacquired rights in a business combination or financial liabilities with a demand feature.
- **Reference market.** Unlike Topic 820, which assumes the transaction to sell the asset or transfer the liability takes place in the principal market (or, in the absence of a principal market, the most advantageous market), the exposure draft proposes that an entity should assume that the transaction takes place in the most advantageous market to which the entity has access.
- **Highest and best use.** Unlike Topic 820, the exposure draft proposes presentation requirements for circumstances when an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset.
- **Blockage factors.** Unlike Topic 820, which specifies the unit of account for financial instruments measured within Level 1 of the fair value hierarchy, the exposure draft is silent on the unit of account for financial instruments. IAS 39 *Financial Instruments: Recognition and Measurement* specifies the unit of account for financial instruments as the individual instrument. This applies to all three levels of the fair value hierarchy.
- **Day 1 gains or losses.** Unlike Topic 820, which permits the recognition of day 1 gains or losses even if the fair value measurement uses unobservable inputs, the exposure draft defers to the relevant standards for the asset or liability (eg IAS 39 for financial assets and financial liabilities) to determine whether to recognise the gain or loss.
- **Valuation premise and financial instruments.** Unlike Topic 820, the exposure draft states explicitly that the in-use valuation premise is not relevant to financial assets.
- **Measurement of liabilities.** Unlike Topic 820, which includes limited guidance on the measurement of liabilities, the exposure draft proposes a framework for measuring a liability using the same methodology that the counterparty would use to measure the fair value of a corresponding asset. The FASB has finalised ASU 2009-5 clarifying the measurement of liabilities at fair value. ASU 2009-5 is largely consistent with the proposals in the exposure draft.
- **Measurement of equity instruments.** Unlike Topic 820, the exposure draft discusses how to apply the exit price notion to equity instruments measured at fair value.

Of the differences listed above, the IASB thinks that only the **reference market** and **blockage factors** have the potential to result in a numerical difference between a fair value measurement calculated using the proposals in the exposure draft and a fair value calculated using the Topic 820.

[2] These differences are listed in paragraph BC110 of the basis for conclusions accompanying the exposure draft.

There are also **wording differences** between the two documents, but the IASB these wording differences will not result in a difference in application or the resulting fair value measurements.

Questions for participants
1. Aside from the **reference market** and **blockage factors**, would you expect there to be a numerical difference between a fair value calculated using the proposals in the exposure draft and a fair value calculated using the Topic 820? 2. Have you learned anything from applying Topic 820 that the IASB should consider when finalising an IFRS on fair value measurement guidance?