Project **Fair Value Measurement**

Topic **Updated project plan**

Purpose

1. At their joint meeting on 28 October 2009, the boards committed to work on developing converged fair value measurement guidance. The boards decided to focus on eliminating differences, except for differences in style and grammar. As a result, both boards need to deliberate jointly some aspects of their respective fair value measurement guidance to the extent there are differences between the proposals in the IASB's exposure draft and the FASB's Accounting Standards Codification Topic 820 (Fair Value Measurements and Disclosures).

2. This paper outlines the proposed project plan for developing converged fair value measurement guidance.

Project timeline

3. The FASB published Statement of Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) in September 2006. The requirements in SFAS 157 are now included within Topic 820. The IASB used SFAS 157 (as amended through May 2009) as the basis for its exposure draft.

4. During its deliberations the IASB made some decisions that were different from those made by the FASB when developing SFAS 157 (these decisions are listed in paragraph BC110 of the basis for conclusions accompanying the exposure draft). In addition, the IASB added additional words to clarify the intent of some aspects of the fair value measurement guidance. Some respondents to the

IASB's exposure draft found these 'clarifications' helpful. Others found them confusing because in some cases they had interpreted Topic 820 differently.

Issues to be deliberated

5. The following table summarises:

   (a) the differences between the two documents, including those listed in paragraph BC110 of the basis for conclusions accompanying the exposure draft and other differences identified (eg clarifications);

   (b) other issues to be deliberated that do not result from differences between the two documents, but that are issues for which the IASB requested feedback in the invitation to comment; and

   (c) other activities the project team plans to undertake.

6. The table also contains the staff's recommendation on deliberating those issues.

7. The table does **not** contain editorial differences (ie grammar and style). However, the staff expects to make editorial changes to both documents for translation purposes as long as such changes do not change the intended meaning by the boards.

8. The staff recommends that most of the issues be deliberated jointly. Both boards will benefit from hearing the rationale for the other's decision, particularly for the more significant issues.

<table>
<tr><th>Issue</th><th>Type</th><th>Staff recommendation for deliberations</th></tr>
<tr><td colspan="3">Differences listed in paragraph BC110:</td></tr>
<tr><td>1. Scope. Topic 820 excludes from its scope the following:
• Share-based payments
• Leasing arrangements
• Measurements that are based on, or otherwise use, vendor-specific evidence of fair value
• Inventory pricing
The IASB's exposure draft proposes excluding from the scope financial liabilities with a demand feature. It also proposes replacing the term 'fair value' in the measurement of share-based payment transactions and reacquired rights in a business combination.</td><td>Decision</td><td>Deliberate separately.
The IASB will need to redeliberate the scope of an IFRS on fair value measurement in the light of the comment letters received on the exposure draft. Once the IASB deliberates this issue, the FASB can decide whether to deliberate the scope of Topic 820.
Issue 15 below addresses the definition of fair value as an exit price.</td></tr>
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Issue	Type	Staff recommendation for deliberations
2. *Reference market.* Topic 820 assumes the transaction to sell the asset or transfer the liability takes place in the principal market (or in its absence the most advantageous market). The IASB exposure draft proposes that the transaction takes place in the most advantageous market to which the entity has access.	Decision (with clarification)	*Deliberate jointly.* The FASB's fair value measurement exposure draft proposed a most advantageous market notion, but the final standard refers to the principal market based on feedback received during the comment letter process. The boards will discuss the benefits of each notion and practical application to date in the US. Furthermore, if the boards decide to use a principal (or most advantageous) market notion, they will need to clarify (a) whether an entity's access to that market matters, (b) whether the volume and level of activity relates to the entity's activity or the activity of the asset or liability generally and (c) whether transportation costs are included in the most advantageous market determination.
3. *Highest and best use.* The IASB exposure draft proposes presentation requirements when an entity uses an asset in a way that differs from the highest and best use of that asset. Topic 820 does not contain such presentation requirements.[1]	Decision	*Deliberate jointly.* The boards need to determine whether such presentation requirements are necessary based on (a) whether there are any practical issues in the US and (b) the comments received on the IASB's exposure draft.

[1] The IASB exposure draft proposes that an entity recognises the amount by which the fair value of an asset assuming its highest and best use differs from the value of that asset assuming its current use together with the asset to which it relates (measured at its current use value). See paragraphs 20 and 21 of the exposure draft.

Issue	Type	Staff recommendation for deliberations
4. *Blockage factors.* Topic 820 specifies that the unit of account for a financial instrument in Level 1 of the fair value hierarchy is the individual instrument. The IASB exposure draft is silent on the unit of account, although it clarifies that the unit of account of a financial instrument is the individual instrument at all levels of the fair value hierarchy (through a consequential amendment to IAS 39 *Financial Instruments: Recognition and Measurement*). In other words, in US GAAP an entity is prohibited from applying an adjustment for blockage only for Level 1 fair value measurements. In IFRSs an entity is prohibited from applying an adjustment for blockage for all fair value measurements.	Decision and Clarification	*Deliberate jointly.* The comment letters received on the IASB exposure draft indicate that this is a significant issue to many constituents. The boards need to clarify what is meant by 'blockage factor' and to determine whether a fair value measurement standard should contain unit of account guidance for financial instruments. (This project plan envisages that the boards will address blockage factors—and the unit of account for financial instruments—as part of this project.)
5. *Day 1 gains or losses.* The IASB exposure draft defers to the relevant standards for the asset or liability to determine whether to recognise a day 1 gain or loss. Topic 820 acknowledges that conceptually there might be circumstances where the transaction price is not equal to fair value and thus that there is a day 1 gains or loss. Topic 820 does not specify how to account for that gain or loss. For derivatives and items for which an entity has elected the fair value option, day 1 gains or losses are recognised in earnings.	Decision	*Deliberate jointly.* The staff does not see this as a difference between the fair value measurement guidance in each document. Rather, it is a difference in other projects, eg financial instruments. However, most of the comment letters on the IASB's exposure draft discussed the recognition of day 1 gains or losses. As a result, the boards need to decide whether they want to address this issue as part of the fair value measurement project. (This project plan envisages that the boards will address day 1 gains or losses as part of this project.)

Issue	Type	Staff recommendation for deliberations
6. *Valuation premise and financial assets.* The IASB exposure draft explicitly states that the in-use valuation premise is not relevant to financial assets. Therefore, financial assets must be valued using the in-exchange valuation premise regardless of the level of the fair value hierarchy. Topic 820 is less explicit and practice has interpreted that the in-use valuation premise can be used to value portfolios of financial assets (and liabilities).	Clarification	*Deliberate jointly.* This is a controversial topic. Both US GAAP and IFRS allow entities to value financial instruments at the portfolio level and make portfolio valuation adjustments (unless the financial asset is a Level 1 measurement or the IFRS equivalent, or when a standard states that the item must be valued individually). However, IAS 39 allows entities to make such adjustments through the bid-ask spread and some interpret Topic 820 to allow such adjustments through the application of the in-use valuation premise.
7. *Measurement of liabilities.* The IASB exposure draft proposes using the same methodology for measuring a liability that the counterparty would use to measure the fair value of a corresponding asset. The FASB issued Accounting Standards Update 2009-5 *Measuring Liabilities at Fair Value* in August 2009.	Clarification	*Deliberate jointly.* The principles in ASU 2009-5 are consistent with those proposed in the IASB's exposure draft. However, ASU 2009-5 provides more detailed guidance for applying a transfer notion. The boards need to determine whether additional guidance is necessary. Issue 16 below addresses non-performance risk in the fair value of liabilities.
8. *Measurement of equity instruments.* The IASB exposure draft discusses how to apply the exit price notion to equity instruments. Topic 820 is silent on equity instruments except for a statement that although the definition of fair value is written for assets and liabilities, it also applies to equity instruments.	Decision	*Deliberate jointly.* The IASB's proposed guidance is largely consistent with the guidance for liabilities. The boards need to decide whether to provide detailed guidance about equity instruments or to state that the guidance for liabilities also applies to equity instruments.

Issue	Type	Staff recommendation for deliberations
Other differences:		
9. *Unit of account and unit of valuation.* Many have asked for guidance on how to reconcile the unit of valuation to the unit of account when applying the in-use valuation premise. The IASB exposure draft states that the asset is sold individually (not necessarily as part of a group of assets) to a market participant buyer that has the complementary assets and liabilities necessary to operate and generate value from that asset. Topic 820 is less explicit about whether the market participant buyer is buying an individual asset or a group of assets.	Clarification	*Deliberate jointly.* The boards need to determine (a) how to articulate the in-use valuation premise and (b) whether more guidance should be provided about attributing value to assets in a group.
10a. *Market participant view – information symmetry.* The IASB exposure draft states that there is information symmetry between market participants and the reporting entity (ie the market participant knows everything the reporting entity knows about the asset or liability). Topic 820 does not explicitly state that information symmetry exists between the reporting entity and market participants. Rather, market participants have a reasonable understanding of the asset or liability based on all available information, including information that could be obtained through normal and customary due diligence efforts.	Clarification	*Deliberate jointly.* The boards need to determine whether the information symmetry assumption is necessary and the extent to which market participants can be expected to be knowledgeable about the asset or liability.

Issue	Type	Staff recommendation for deliberations
10b. *Market participant view – arm's length transactions between related parties.* The description of market participants states that the parties to the transaction are independent and are not related parties. (This is also an issue for fair value at initial recognition.) The comment letters on the IASB's exposure draft asked for clarification about whether a transaction between related parties can be considered if the pricing was at arm's length.	Clarification	*Deliberate jointly.* IFRSs and GAAP have different definitions of 'related parties'. Topic 850 (Related Party Disclosures) considers a transaction between related parties to be one in which the parties are prevented from pursuing their own separate interests. IAS 24 *Related Party Disclosures* does not have such a notion. The boards need to decide whether the description of market participants should allow for arm's length transactions between related parties.
10c. *Market participant view – using market participant assumptions.* The IASB's exposure draft articulated Level 3 inputs such that an entity begins with its own assumptions and then adjusts those assumptions when there is reasonably available information that market participants would make different assumptions. Topic 820 states that an entity needs to make assumptions about the assumptions market participants would make.	Clarification	*Deliberate jointly.* The boards need to decide which articulation of using market participant assumptions is most appropriate when measuring fair value.

Issue	Type	Staff recommendation for deliberations
11. *Investments in investment company entities.* The FASB issued ASU 2009-12 *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* in September 2009. ASU 2009-12 permits, but does not require, entities to use net asset value (NAV) as a practical expedient for reporting the fair value of investments in investment company entities (eg hedge funds, private equity funds, venture capital funds, etc.). The practical expedient may be applied if: • the fair value of the investment is not readily determinable (eg if the investment is not listed on a national exchange or an over-the-counter market); • the NAV is calculated in accordance with Topic 946 (Financial Services—Investment Companies), which requires that the investment company entity measure the underlying investments at fair value, and the NAV is current as of the reporting entity's measurement date; and • it is not probable that the entity will sell the investment for an amount different from the NAV. The IASB's exposure draft did not specifically address investments in investment company entities.	Decision	*Deliberate separately*. The IASB needs to determine whether the measurement principles in Topic 946 are appropriate for IFRSs when measuring the fair value of investments in investment company entities. Once the IASB deliberates this issue, the FASB can decide whether to deliberate it for Topic 820.

Issue	Type	Staff recommendation for deliberations
12. *Valuation of unquoted equity instruments.* The IASB removed the cost exception in IFRS 9 *Financial Instruments* for unquoted equity instruments (and some derivatives on such instruments), and included a description of when cost could represent fair value after initial recognition.	Decision	*Deliberate jointly.* The boards need to decide whether, and if so to what extent, specific guidance is needed for measuring the fair value of unquoted equity instruments.

Issue	Type	Staff recommendation for deliberations
13. *Fair value in markets that are no longer active.* The comment letters on the IASB's exposure draft suggested that some of the information from the Expert Advisory Panel's October 2008 report should be included in the final standard (eg 'Understanding the instrument', 'Evaluating available market information', 'Use of models') because it contains useful information for entities applying fair value measurement guidance.	Decision	*Deliberate jointly.* The boards need to determine whether the final standard should include any of the IASB's Expert Advisory Panel report.

Issue	Type	Staff recommendation for deliberations
14. *Disclosures.*[2] The FASB will issue an Accounting Standards Update about fair value measurement disclosures in December 2009. Some of these disclosures are consistent with those proposed in the IASB's exposure draft.	Decision	*Deliberate jointly.* The boards need to discuss the differences in the disclosure requirements (other than those created by other differences between IFRSs and US GAAP), such as sensitivity analysis, assets and liabilities not recognised at fair value but for which fair value is disclosed and changes in non-performance risk. The boards also need to discuss disclosures about fair value measurements at initial recognition for assets and liabilities not measured at fair value subsequently (eg financial instruments that are subsequently measured at amortised cost). The boards also need to agree on a definition of 'class' of assets and liabilities.

[2] Some disclosure differences exist due to differences between IFRSs and US GAAP requirements. For example, the exposure draft did not propose non-recurring disclosures (which are in Topic 820) because there are no 'true' non-recurring fair value measurements in IFRSs (eg impairments are based on 'recoverable amount'). The staff recommends that the boards deliberate such disclosures separately.

Issue	Type	Staff recommendation for deliberations
Other issues to be deliberated:		
15. *Definition of fair value.* The IASB's exposure draft and Topic 820 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.	Decision	*Deliberate separately.* The IASB will need to redeliberate the definition of fair value in the light of the comment letters received on the exposure draft. This can also be addressed in the scope assessment (Issue 1). If the IASB decides it needs to depart from the proposed definition in the exposure draft, it will discuss any changes with the FASB.
16. *Non-performance risk.* The IASB's exposure draft proposes and Topic 820 requires that the fair value of a liability reflects non-performance risk (the risk that an entity will not fulfil an obligation).	Decision	*Deliberate separately.* The IASB issued a discussion paper in July 2009 to address credit risk in liability measurement. The comment letters on that discussion paper and on the exposure draft indicated that the **fair value** of a liability reflects non-performance risk (although respondents indicated that non-performance risk might not be relevant for other measurement bases). However, many comment letters to the fair value measurement exposure draft asked how to quantify non-performance risk for non-financial liabilities. If the IASB decides to depart from the proposal in the exposure draft that the fair value of a liability reflects non-performance risk, it will discuss any changes with the FASB.

Issue	Type	Staff recommendation for deliberations
17. *Effective date and transition.*	Decision	*Deliberate separately*. Both boards need to determine which is the most appropriate for their respective jurisdictions.

Issue	Type	Staff recommendation for deliberations
Other activities:		
18. *Emerging and transition economies.* Entities in emerging and transition economies have asked the IASB for guidance on how to apply fair value measurement principles in their jurisdiction. The IASB staff is preparing a 'library' of issues faced by entities in emerging and transition economies to assess whether additional guidance is needed. Such additional guidance might be in the form of educational materials that would accompany the final standard. This is likely to involve additional outreach to entities in emerging and transition economies and might affect the effective date of the IASB's fair value measurement standard.	Decision	*IASB only.* The IASB needs to determine whether, and if so in what form, additional guidance is needed for entities in emerging and transition economies. If the IASB decides it needs to depart from any of the proposals in the exposure draft, it will discuss any changes with the FASB. The FASB can then decide whether these changes, if any, are applicable for entities in the US.

Format of deliberations

9. The boards have already had detailed technical discussions on the principles in the IASB's exposure draft and SFAS 157/Topic 820. As a result, the deliberations will focus on analysing the differences between those two documents, the comments received on the IASB's proposals and feedback received about the implementation of Topic 820.

(Re-)Exposure

10. Any amendments to Topic 820 will need to be exposed, with a comment period yet to be determined but likely to be no less than 60 days. The IASB will also need to consider whether re-exposure is necessary (and even if it is not necessary, whether it might be desirable).

Estimated timeline

11. Given the number of issues to be deliberated, the need for the FASB to expose any amendments to Topic 820, and the potential for the IASB to re-expose, the staff expects that a converged fair value measurement standard would be issued in the third quarter of 2010.

12. The estimated timeline in the table below assumes that:

    (a) there is sufficient time available at the joint board meetings to deliberate the issues listed in the table;

    (b) the boards do not add any additional issues to be deliberated; and

    (c) the boards do not need to discuss any of the issues identified more than once.

13. Having said that, should any additional issues arise during the deliberations, the staff will address them accordingly.

Item	Timing
Deliberate Issues 1-18	January – March 2010
Drafting, balloting and publication of the FASB exposure draft (including external review)[3]	April – May 2010
Comment period 45 days	June – July 2010
Comment letter analysis and redeliberations	August 2010
Drafting, balloting and publication of final standard (including external review and feedback statement)	September 2010
Emerging and transition economies education guidance (if applicable)	4Q 2010

[3] The IASB will need to decide whether it is necessary (or desirable) to re-expose.

Question 1 – Issues to be deliberated as identified by the staff
The staff will walk through Issues 1-18 at the meeting. For each of those issues, the staff will ask the boards: Do you agree with the staff recommendation? If not, what do you propose, and why?

Question 2 – Other issues to be deliberated
Are there any other issues, not identified above, that you think should be deliberated? If so, why?

Question 3 – Proposed timeline
Do you agree with the estimated timeline below paragraph 13 (subject to any additions from Question 2)?