30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
E-mail: iasb@iasb.org Website: www.iasb.org

International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting:	**January 2009, London**
Project:	**Fair Value Measurement**
Subject:	**Transition Requirements (Agenda paper 3B)**

Purpose of this paper

1 This paper addresses the proposed transition requirements for an IFRS on fair value measurement. This paper does not propose an effective date for an IFRS on fair value measurement.

2 This paper recommends that the exposure draft includes:

a transition requirements that state that, when applying the proposed IFRS results in a different conclusion of fair value from that determined under previous IFRSs, a reporting entity should apply the requirements of the proposed IFRS prospectively from the date of first applying the proposed IFRS, except for financial instruments measured at fair value at initial recognition using the transaction price.

b transition requirements that permit early application.

c disclosure requirements that are to be presented from the date of first applying the proposed IFRS, and do not need to be presented in periods prior to initial application of the proposed IFRS.

Introduction

3 The proposed IFRS on fair value measurement will replace the fair value measurement guidance dispersed currently throughout IFRSs. The main changes to existing IFRSs proposed in the exposure draft are as follows:

a a new definition of fair value, which is an exit price notion rather than a more general exchange amount;

b additional guidance about the measurement of fair value for all assets and liabilities required or permitted to be measured at fair value; and

c revised disclosures about fair value measurements recognised and/or disclosed.

4 The exposure draft does not propose introducing new fair value requirements in IFRSs, nor does it propose changing the existing measurement basis for assets and liabilities in IFRSs.

Staff analysis

5 A change to the definition of fair value and the additional guidance on applying that definition might result in a reporting entity reaching different conclusions about the fair value of an asset or liability recognised under IFRSs.

Changes in accounting policy—retrospective application

6 A change in the definition of fair value, and the methods used to measure fair value, is a change in accounting policy upon initial application of the proposed IFRS.

7 IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* states that a change in accounting policy is applied retrospectively. When applying a new IFRS, the reporting entity adjusts retained earnings in the first statement of financial position presented for any difference between the amounts recognised before and after the application of the new IFRS, as would be the case if the new IFRS had always been applied (IAS 8.22).

8 A change in accounting policy is not applied retrospectively to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the change (IAS 8.23).

Changes in accounting estimates—prospective application

9 Applying the definition of fair value is similar to a change in accounting estimate because the methods used to measure fair value take into account inputs requiring judgement on the part of the reporting entity.

10 IAS 8 states that an estimate of the fair value of financial assets or liabilities, for example, might need revision if changes occur in the circumstances on which the estimate was based or as a result of new information or more experience.

11 By its nature, a change in estimate does not relate to prior periods and is not the correction of an error (IAS 8.34). Therefore, IAS 8 requires an entity to apply a change in accounting estimate prospectively by including it in profit or loss in the period of the change and, if applicable, in future periods (IAS 8.36).

12 When it is difficult to distinguish a change in accounting policy from a change in accounting estimate, the change is treated as a change in accounting estimate (IAS 8.35).

Staff recommendations and questions for the Board

13 A change in the methods used to measure fair value would be inseparable from a change in the fair value measurements themselves (ie as new events occur or as new information is obtained, for example, through better insight or improved judgement).

14 However, a change in accounting for a financial instrument measured at fair value at initial recognition using the transaction price in accordance with paragraphs AG76 and AG76A of IAS 39 *Financial Instruments: Recognition and Measurement* would result in a change in accounting policy and that change would be separable from the change in the fair value measurements.

15 Therefore, the staff recommends that the fair value measurement requirements in the exposure draft should be applied prospectively as of the beginning of the annual period in which the IFRS is initially applied, except for financial instruments measured at fair value at initial recognition using the transaction price in accordance with paragraphs AG76 and AG76A of IAS 39. **Does the Board agree? If not, what do you suggest? If the Board does agree, does the Board want to allow early application? If not, why not?**

16 The staff recommends that the difference between the carrying amount and the fair value of a financial instrument that was measured at initial recognition using the transaction price prior to the initial application of the proposed IFRS should be applied retrospectively as an adjustment to retained earnings *as of the beginning of the annual period in which the proposed IFRS is initially applied*, presented separately. This would take into consideration the practical limitations involved in applying the change in accounting policy in all prior periods. **Does the Board agree? If not, what do you suggest? If the Board does agree, does the Board agree not to require the disclosure requirements for a change in accounting policy under IAS 8?**

17 The staff also recommends that, to achieve comparability in future periods, all of the disclosures required by the proposed IFRS are required from the date of first applying the proposed IFRS, and that those disclosures do not need to be presented in periods prior to the initial application of the proposed IFRS. **Does the Board agree?**