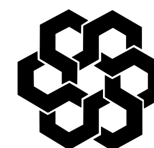

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International Accounting Standards Board

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: **January 2009, London**

Project: **Fair Value Measurement**

Subject: **Scope Assessment (Agenda paper 3C)**

Purpose of this paper

1. This paper discusses:

   a. whether to exclude from the scope of a fair value measurement standard any uses of 'fair value' in IFRSs that have a measurement objective that is inconsistent with the Board's proposed definition of fair value as a current exit price (and the related guidance). In such circumstances, the Board will need to decide whether to replace the term 'fair value' with another term or description that conveys the intended measurement basis more clearly. In doing so, the Board's objective is not to change the measurement basis of a particular standard.

   b. whether to place constraints on the use of 'fair value' in particular standards.

2. The staff focused on six of the standards analysed in the standard-by-standard review (see Agenda Paper 11A from the July 2008 IASB meeting) that, in the staff's view, merit additional consideration by the Board. Those IFRSs are:

   a. IFRS 2 *Share-based Payment*

   b. IFRS 3 *Business Combinations*

c. IAS 16 *Property, Plant and Equipment*

d. IAS 17 *Leases*

e. IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*

f. IAS 39 *Financial Instruments: Recognition and Measurement*.

3. **If Board members think that other standards merit further consideration, the staff welcome that feedback in advance of the upcoming Board meeting so that the staff can supplement its analysis, as needed.**

4. The Appendix lists the scope exclusions in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) and describes the reasons for those exclusions.

Background

5. The Board issued the *Fair Value Measurements* discussion paper in November 2006. In the discussion paper, the Board stated its intention to complete a standard-by-standard review of fair value measurements required in IFRSs to assess whether the IASB or its predecessor intended each fair value measurement basis to be a current exit price.

6. The staff presented the findings of the standard-by-standard review at the July 2008 Board meeting.[1] At that meeting, the Board defined fair value as a current exit price for assets, and in December 2008 did the same for liabilities. The definition of fair value tentatively agreed by the Board is identical to the definition of fair value in SFAS 157. That definition is:

> Fair value is 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.

7. At the July meeting, some Board members expressed concern with using an exit price notion of fair value at initial recognition (as did some respondents to the discussion paper). These Board members think it is illogical to require an entity to recognise an asset at initial recognition at the price for which the entity could sell it. They believe that an asset (for example) should be measured at the price at which a transaction

[1] Agenda Paper 11A from that meeting summarises the process undertaken for the review.

occurred in an arm's length exchange (ie the 'entry' side of the neutral exchange price definition of fair value currently in IFRSs).[2]

8. Because of those concerns, the Board agreed to apply an exit price definition of fair value to all IFRSs that require or permit a fair value measurement, subject to a scope assessment (ie whether a particular IFRS should be excluded from the scope of an IFRS on fair value measurement).

9. Even though most discussions about the use of an exit price have focused on fair value at initial recognition and the use of that objective for subsequent measurements generally has not been controversial, the staff did not limit its analysis to fair value measurements at initial recognition. Rather, for the six standards identified, the staff evaluated each use of fair value (both initial and subsequent measurements) to determine whether the intended measurement basis is consistent with the Board's proposed current exit price definition of fair value.

10. The following two sections address conceptual issues the staff encountered in the scope assessment.

What do we mean by 'entry equals exit'?

11. The staff note that because a transaction assumes an equal exchange, some people think the entry price of an asset for one party to a transaction (the receipt of the asset) will equal the exit price of that asset for the other party to the transaction (the sale of the asset). Although in most cases that will be true, that is not the entry and exit transaction contemplated in the fair value measurement approach.

12. The fair value measurement approach addresses the entry and exit transactions *from the perspective of the reporting entity*. As a result, that approach considers whether the reporting entity's entry price (buying the asset) equals the reporting entity's exit price (the hypothetical sale of that asset to another party, either in the same market or in a different market). It does not consider the exchange transaction between the reporting entity and the counterparty to the original transaction (the 'my entry price

[2] The use of an exit price for subsequent measurements of fair value is generally not controversial. Once an entity holds an asset or incurs a liability, the entity is more concerned with what it can generate from the asset (either by use or sale) or what it will incur to transfer (or settle) the liability than what it would have to pay (receive) to acquire (incur) a new asset (liability)—an entry price notion. For that reason, many seem comfortable with an exit price notion for most subsequent fair value measurements. However, some prefer an entry price notion for subsequent measurement. This stems from the capital maintenance concepts in the conceptual framework. Agenda Paper 11A from the July 2008 IASB meeting discusses financial and physical capital maintenance.

equals your exit price' approach). In other words, the fair value measurement approach considers two separate transactions (ie the actual transaction to buy the asset and the hypothetical transaction to sell the asset). For both of those transactions, the focus is the reporting entity's perspective.

How does fair value as an exit price apply to an entity's own equity instruments?

13. Some have questioned how to apply an exit price to equity instruments issued by an entity. Unlike assets and liabilities, an entity cannot 'exit' its rights and obligations associated with its own ownership interests unless those interests cease to exist (eg if the entity is acquired by another entity). This is because equity instruments represent a residual interest in the entity, irrespective of who holds them. SFAS 157 states that the definition of fair value focuses on assets and liabilities, but that it is equally applicable to an entity's own equity instruments measured at fair value.

14. There are three possible approaches to address this issue:

    a. Approach 1: deem the exit price of an equity instrument for the issuer to be the same as the exit price for a holder.

    b. Approach 2: deem the exit price of an equity instrument for the issuer to be the price that the issuer and holder would negotiate to cancel the instrument.

    c. Approach 3: be silent and allow practice to determine how to address it.

15. Because a transaction assumes an equal exchange, the staff think that the best way to address this conundrum is to deem the exit price of an equity instrument for the issuer to be the same as the exit price for a holder of that instrument (Approach 1). This seems to be the most practical solution. Under that approach, the focus is still the reporting entity's exit price. However, the exit price (fair value) for a holder of the equity instrument is used as a proxy for the fair value of the equity instrument from the perspective of the issuer. This is consistent with the approach suggested by the Board for the measurement of liabilities at fair value.

Staff analysis

Our approach

16. The objective of the fair value measurement project is not to change the measurement objective in any IFRS that uses the term 'fair value'. Once the measurement objective

and related guidance for fair value is clarified through the fair value measurement project, the Board can use that information to determine whether it thinks fair value is an appropriate measurement basis for particular assets and liabilities in IFRSs.

17. For example, if the Board agrees with the staff recommendation to exclude IFRS 2 from the scope of a fair value measurement standard because each use of 'fair value' does not seem consistent with the proposed fair value measurement objective and/or the related guidance, the Board can determine in a project to amend IFRS 2 whether it wants to retain the existing measurement basis and guidance (a fair value-*based* approach), or if it wants to amend IFRS 2 to adopt a pure fair value measurement approach. In the meantime, the fair value measurement project team would suggest retaining the current measurement basis and guidance in IFRS 2, although we suggest replacing the term 'fair value' with another term.

18. The staff's approach to the scope assessment was as follows:

    a. firstly, we considered whether each use of the term 'fair value' was consistent with an exit price measurement objective or whether it would yield the same result. If not, we suggest excluding the asset or liability from the scope of the fair value measurement standard and using a term other than 'fair value' to describe the measurement objective.

    b. secondly, if a use of 'fair value' is consistent with an exit price measurement objective, we considered whether the measurement guidance proposed in the exposure draft is consistent with the measurement guidance currently used for that asset or liability or whether it would yield the same result. If not, we suggest excluding the asset or liability from the scope of the fair value measurement standard and using a term other than 'fair value' to describe the measurement objective.

Scope assessment

19. The following table identifies those IFRSs identified by the staff as requiring further consideration by the Board. The table:

    a. summarises the fair value measurement requirements for each of those IFRSs;

b. analyses the measurement objective for those IFRSs (ie whether the intended measurement basis is consistent with the Board's proposed current exit price definition of fair value and related guidance);

c. recommends whether to exclude any uses of 'fair value' from the scope of a fair value measurement standard and, if so, whether to replace 'fair value' with another term in those circumstances; and

d. where applicable, recommends whether to place constraints on, or provide a practicability exception for, the use of 'fair value' in particular standards.

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
IFRS 2 ***Share-based Payment***	**Equity-settled share-based payments:** Equity instruments granted	For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted (¶10) For transactions with employees, the entity measures the fair value of goods and services received indirectly at the fair value of the equity instruments granted because it usually is not possible to measure reliably the fair value of employee services received (¶11) Vesting conditions, other than market conditions, are not taken into account when estimating the fair value of the equity instruments at the measurement date (¶19) Reload features shall not be taken into account when estimating the fair value of options granted at the measurement date (¶22)	The objective is to recognise the goods or services received as consideration for the entity's equity instruments, whether from employees or others (¶BC200) The reference to 'goods or services received' implies an entry price and 'equity instruments *granted*' implies an exit price Because the value of both sides of the contract is presumed to be substantially the same (¶BC96) and 'equity instruments granted' implies an exit price, one could argue that the Board intended an exit price measurement objective when the fair value of the equity instruments is used as a surrogate to measure of the fair value of the services received	Although the measurement objective for equity instruments granted might be consistent with an exit price, the measurement guidance for those instruments is not. Because the effect of service and performance conditions as well as reload features are not taken into account when estimating the fair value of the equity instruments granted, the measurement guidance results in a measurement that is fair value-*based*, not fair value	**Replace** the term 'fair value' with another term describing a type of current value that is consistent with the measurement objective described in paragraphs 16-17 of IFRS 2. This term will be used each time the value of the equity instruments granted is used as a surrogate to measure the fair value of the services received. The staff will suggest a term in drafting the ED. The staff note that paragraph 30 of IFRS 3 uses the term 'market-based measure' to describe the measurement of those instruments

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
	Equity-settled share-based payments: Goods or services received	For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably (¶10) For transactions with non-employees, there is a rebuttable presumption that the fair value of the goods or services received can be measured reliably (¶13) At grant date, it is reasonable to presume that the fair value of both sides of the contract are substantially the same, ie the fair value of the services expected to be received is substantially the same as the fair value of the equity instruments granted (¶BC96)	The objective is to recognise the goods or services received as consideration for the entity's equity instruments, whether from employees or others (¶BC200) The reference to 'goods or services received' implies an entry price; however, the Board has tentatively agreed that entry and exit prices are equal when they relate to the same asset in the same market at the same time	An entity that receives goods and services as consideration for its equity instruments might sell those goods or services in a different market than the market in which it obtained the goods and services (eg retail vs. wholesale markets), and the prices in each market might be different. This might cause a day one difference The staff does not believe that the Board intended for an entity to recognise a day one gain or loss upon the receipt of goods and services. This is evidenced by paragraph BC96, which suggests that the Board contemplated an exchange of equal value As a result, the staff think the fair value of goods and services received is not consistent with the definition of fair value as an exit price and it is not necessarily market-based because the contract price might not represent that price at which a market participant would buy the	Replace the term 'fair value' with a term describing another type of current value (Option 1). The staff think this is consistent with the Board's intended measurement objective for goods and services received. The staff will make suggestions for that term in drafting the ED. The staff think the measurement objective for goods and services received is different from that for equity instruments granted. Therefore, the staff does not expect to use the same term to describe both measurement objectives The staff does not favour using the term 'current entry price' because it represents a hypothetical transaction price between market participants in the most advantageous market for the goods or services received. This is not necessarily the entity's transaction price and therefore could result

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
				goods or services (eg the contract price might contain off-market terms) The staff believe that there are two options for addressing this matter: (1) Replace the term 'fair value' with another type of current value. This term will be used each time the value of the goods and services received is measured directly (ie not by reference to the value of the equity instruments granted) (2) Retain references to the 'fair value' of goods or services received but state that the contract price should be used unless there is evidence that the contract price is different from fair value. For example, for a transaction between related parties, under duress, with a different unit of account or in different markets	in the recognition of day one gains or losses
	Cash-settled share-based payments: Liability incurred in	The goods and services acquired and the liability incurred are measured at the fair value of the liability. The liability is measured initially and at each reporting period until settled, at	'Outflow of cash' implies an exit price measurement objective for SARs. Ultimately the liability will result in cash being paid out (estimated using an option pricing model that takes into account both intrinsic value and time	Service conditions are not included in the valuation of SARs, causing the measurement to be fair value-*based*, not fair value	Replace the term 'fair value' with 'estimated market value' for SARs. This would be the same term used for equity

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
	exchange for goods or services (share appreciation rights)	fair value through profit or loss (¶30) The fair value of the liability is measured at the fair value of the share appreciation rights (SARs) using an option pricing model (¶33) Because cash settled SARs involve an outflow of cash (rather than the issue of equity instruments) cash SARs should be accounted for in accordance with the usual accounting for similar liabilities (¶BC242)	value)		instruments granted
IFRS 3 *Business Combinations* (revised 2008)	Identifiable assets acquired	Acquirer measures the identifiable assets acquired at their acquisition-date fair values (¶18)	The entity has acquired the identifiable assets, which implies an entry price. However, the value of an asset is based on the inflows of resources from that asset, directly by using the asset or indirectly by selling the asset. In either case, the asset's value is represented by an exit price. Furthermore, the Board has tentatively agreed that entry and exit prices are equal when they relate to the same asset in the same market at the same time Entry and exit prices for assets that comprise a business will be the same in most circumstances. This is because the assets that comprise a business will reflect an in-use valuation premise (except financial assets, discussed in the IAS 39 section below) and it is likely that market participant buyers would use the assets in the same way. The in-use valuation premise limits the	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for identifiable assets acquired

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
			markets (and the pool of market participants) to which the entity would refer for measurement purposes. In the standard-by-standard review and this scope assessment, the staff has relied on work done in the Board's project to revise IFRS 3. In that project, the Board considered whether differing definitions of fair value in US GAAP and IFRSs would result in different measurements of assets acquired and liabilities assumed in a business combination for IFRSs versus US GAAP. The Board consulted valuation experts on the likely effects of differing definitions of fair value and understood that such differences are unlikely to occur often. The Board observed that the definitions use different words to articulate essentially the same concepts Because entry and exit prices will generally be the same, the staff think the distinction between those prices is not relevant. As a result, the proposed definition of fair value achieves the Board's intended measurement objective for identifiable assets acquired		
	Liabilities assumed	Liabilities assumed (if any) are measured at fair value at initial recognition (¶18)	The entity has assumed the liabilities of the acquiree. The measurement objective for the obligation is an exit price, even at initial recognition,	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for liabilities assumed

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
			because it represents an outflow of resources		
	Non-controlling interest in the acquiree	Non-controlling interest (NCI) is the equity in a subsidiary not attributable, directly or indirectly, to a parent (ie the subsidiary has other owners in addition to the parent's controlling interest) The acquirer can measure NCI at fair value (¶19)	The fair value of NCI represents the amount the entity would have to pay (or would have had to pay at the acquisition date) to acquire the shares from the NCI holders, which implies an exit price (payment of cash, extinguish the equity interest). This amount seems to reflect a settlement notion. The exposure draft will describe how a settlement amount relates to a transfer price	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for non-controlling interest in the acquiree
	Contingent liabilities assumed	Acquirer recognises a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably (¶23)	The entity has assumed the liabilities of the acquiree. The measurement objective for the obligation is an exit price, even at initial recognition, because it represents an outflow of resources	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for contingent liabilities assumed
	Indemnification assets	The seller agrees to compensate the acquirer for losses arising from specific assets or liabilities. This is an asset to the acquirer (¶27) Indemnification assets are measured at fair value, if they relate to an asset or liability recognised at fair value at the acquisition date (¶27) An asset representing an indemnification related to a specific liability should be recognised and measured on the same basis as that liability (¶BC302)	At initial recognition, indemnification assets appear to be measured at an entry price. However, the Board clearly intended for the indemnification asset to be measured on the same basis as the corresponding liability (eg contingent liability). In effect, an indemnification asset represents a cap on the net outflow of resources from an entity as a result of the liability and should be considered together with the liability	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for indemnification assets

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
	Reacquired rights	An acquirer may reacquire a right that it had previously granted to the acquiree to use one or more of the acquirer's recognised or unrecognised assets (for example, a right to use the acquirer's trade name under a franchise agreement). A reacquired right is an identifiable intangible asset that the acquirer recognises separately from goodwill (¶B35) The acquirer measures the fair value of a reacquired right recognised as an intangible asset on the basis of the remaining contractual term of the related contract regardless of whether market participants would consider potential contractual renewals in determining its fair value (¶29) If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the acquirer recognises a settlement gain or loss (¶B36)	The accounting for a reacquired right results in an immediate settlement of the contract (and a corresponding settlement gain or loss). This implies an exit price because the relationship effectively is extinguished	The measurement guidance in IFRS 3 for reacquired rights is not consistent with the proposed measurement guidance because it ignores information that market participants would consider when valuing the reacquired rights	Replace 'fair value' for reacquired rights with another type of current value. The staff will make suggestions for that term in drafting the ED
	Pre-existing relationships	The acquirer and the acquiree might have a relationship that existed before the business combination. If the relationship was non-contractual (eg in a lawsuit), the acquirer recognises a gain or loss based on the fair value (¶B52(a)) The amount of the gain or loss	The accounting for pre-existing relationships results in an immediate settlement of the relationship, resulting in a gain or loss. This implies an exit price because the relationship effectively is extinguished (whether it is an asset or liability)	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for pre-existing relationships

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		recognised might depend on whether the acquirer had previously recognised a related asset or liability (¶¶B51,B52)			
	Consideration transferred	Consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity interests issued by the acquirer (¶37)	Transferring assets is the same as selling the assets, which is consistent with an exit price Incurring liabilities is the same as assuming liabilities, which is consistent with an exit price Issuing equity instruments implies an exit price	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for consideration transferred
	Contingent consideration	Acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree (¶39) Contingent consideration classified as an asset or liability is measured at fair value at initial recognition (¶39) and subsequently measured at fair value if it is classified as a financial instrument under IAS 39 (¶58(b)(i))	This essentially is deferred consideration (subject to conditions), which implies an exit price at initial recognition	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for contingent consideration
	Previously-held equity interest in the acquiree	An acquirer sometimes obtains control of an acquiree in which it held an equity interest immediately before the acquisition date (this is referred to as a business combination achieved in stages) (¶41) A previously-held equity interest is remeasured at its acquisition date fair value. The amount that was recognised	The acquirer has given up its previously-held non-controlling interest (an asset) in exchange for a controlling interest, which implies an exit price at the acquisition date. This is reinforced by the recognition of amounts previously recorded in other comprehensive income as though 'the acquirer had disposed directly' of its	Limited guidance provided pending completion of fair value measurement project	Retain 'fair value' for previously-held equity interest in the acquiree

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		in other comprehensive income for available for sale equity interests shall be recognised on the same basis as would be required if the acquirer had disposed directly of the previously held equity interest (¶42)	previously held equity interest		
IAS 16 ***Property, Plant and Equipment***	Property, plant and equipment	PP&E may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of PP&E is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable (¶24) If an entity is able to determine reliably the fair value of either the asset received or the asset given up in a non-monetary exchange, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident (¶26) Subsequently, PP&E can be measured using the cost model [outside scope of FVM project] or the revaluation model (¶29) In the revaluation model, fair value is usually determined by market-based evidence by appraisal (¶32) If the item is rarely sold, an entity	For non-monetary exchanges, 'cost' implies an entry price; however, 'cost' is measured at the fair value of the asset given up unless the fair value of the asset received is more clearly evident. 'Fair value of the asset given up' implies an exit price For subsequent measurements in the revaluation model, fair value is usually determined from market-based evidence by appraisal. The reference to a sale in paragraph 33 implies that a market price is an exit price. When entities have assets appraised, it generally is for estimating a potential sale price. Presumably if a sales price is intended by a market price, it also is intended when using another valuation approach One of the valuation approaches mentioned is replacement cost. Current replacement cost is based on the economic principle of substitution. An entity will pay no more for an asset than it would cost to replace the asset with one of comparable utility. Current replacement cost is thought of	The fair value measurement reflects factors market participants would consider in setting a price, which is consistent with the proposed fair value measurement guidance	Retain reference to 'fair value' for non-monetary exchanges and revaluations

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		might need to estimate fair value using another approach (eg income or depreciated replacement cost approach) (¶33)	by some as an entry price. SFAS 157 refers to it as a valuation technique that can be used to measure an exit price. Some find this inconsistent. An entity can get to an exit price of an asset using the current replacement cost through the following thought process: "I would buy it (replace it) for X, and I can assume someone else in my position with the same knowledge and use for the asset would also buy it for X. Their entry price would be my exit price" An in-use valuation premise assumes that 'someone else in my position' (ie marketplace participants) has complementary assets		
	Consideration receivable upon disposal	If an asset is disposed of, the consideration receivable on disposal is recognised initially at its fair value. If payment for the asset is deferred, the consideration received is recognised initially at the cash price equivalent (¶72)	'Consideration receivable' implies an entry price	A willing party in an arm's length transaction would not pay more than the 'cash price equivalent' of the receivable (ie the amount that would yield a market rate of interest for the receivable). Therefore, it is consistent with the proposed fair value measurement guidance	Retain reference to 'fair value' for consideration receivable and provide guidance for its measurement (consistent with IAS 18)
IAS 17 *Leases*	Leased asset of the *lessee* (finance lease)	Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:	The principle underlying lease accounting is that a (finance) lease is equivalent to a purchase. Requiring an entity to recognise at the lower of the fair value of the asset or the present	IAS 17 does not contain fair value measurement guidance	Retain reference to 'fair value' for the leased asset

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		• the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised (¶10(b)) • at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset (¶10(d)) Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are: • gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease) (¶11(b)) If the lease is classified as a finance lease, the lessee recognises the leased asset at the lower of the fair value of the leased property or the present value of the minimum lease payments (¶20)	value of the lease payments emphasises that the entity should recognise the price it would have paid to acquire the asset outright, or a lower amount if it was able to negotiate a better price (or if the lease term is shorter than the economic life of the asset). This implies an entry price because the entity effectively has acquired an asset. However, the entity will generate cash flows through the use of the leased asset in its business (or by sub-leasing the asset). In either case, the asset's value is represented by an exit price		
IAS 20 *Accounting for*	Non-monetary assets	When an entity receives from the government a non-monetary asset, the asset and the government grant are	Receiving an asset implies an entry price. However, the entity will generate cash flows through the use of the asset	IAS 20 does not contain fair value measurement guidance	Retain reference to 'fair value' of the non-monetary asset

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
Government Grants and Disclosure of Government Assistance		recognised at the asset's fair value (or a nominal amount) (¶23)	in its business (or by selling it if permitted). In either case, the asset's value is represented by an exit price		
IAS 39 ***Financial Instruments: Recognition and Measurement***	Financial assets and liabilities	Financial assets and liabilities are measured initially at fair value (¶43) Financial assets and liabilities are measured subsequently at fair value when they are categorised as (¶45-46): 1. fair value through P&L • held-for-trading • fair value option 2. available-for-sale assets The best evidence of fair value is a quoted price in an active market (¶48A). The appropriate quoted market price for an asset held is usually the current bid price and, for an asset to be acquired, the asking price. For a liability held, it is usually the current ask price and, for a liability to be incurred, the bid price (¶AG72) The best evidence of the fair value of a financial instrument at initial recognition is the transaction price unless the fair value of that instrument is evidenced by comparison with other observable current market transactions or based on a valuation technique whose variables include only data	For initial recognition, 'unless the fair value of that instrument is evidenced by comparison with other observable current market transactions' implies an exit price measurement objective. This is further evidenced by reference to bid prices for assets and ask prices for liabilities. However, if the fair value is not directly observable or based solely on observable inputs, the entity must use the transaction price as the best evidence of fair value. Although the transaction price is an entry price, it seems the measurement objective is still an exit price The objective of subsequent measurement is to determine a price at which a transaction would occur at the measurement date. That is an exit price	The fair value measurement guidance in AG69-AG82 is consistent with the proposed measurement guidance with one exception. By requiring a fair value to be measured at initial recognition using solely observable market data, the Board limited the recognition of day one gains or losses for financial assets and liabilities The Board has tentatively agreed that a transaction price is the best estimate of the fair value of an asset or liability at initial recognition unless: (a) the transaction is between related parties. (b) the transaction occurs under duress or the seller is forced to accept the price in the transaction. (c) the unit of account represented by the transaction price is different	Retain 'fair value' for initial and subsequent measurements of financial assets and liabilities but emphasise the need for evidence to support the fair value measurement. If this evidence is not available, the entity would use the transaction price

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		from observable markets (¶AG76)		from the unit of account for the asset or liability measured at fair value. (d) the market in which the transaction occurs is different from the market in which the reporting entity would sell the asset or transfer the liability. The Board further agreed that, to recognise a day one gain or loss, an entity must provide evidence that the transaction price does not represent fair value at initial recognition The type of evidence required to justify the recognition of an amount different from the transaction price would be observable data or data that is based on or supported by observable data This is similar to the 'objective evidence' standard for impairments under paragraph 59 of IAS 39	
	Financial liabilities with a demand	The fair value of a financial liability with a demand feature is not less than the amount payable on demand,	'Amount payable on demand' implies an exit price. This amount seems to reflect a settlement notion. The	The measurement is not consistent with the proposed definition of fair value	To avoid changing the measurement of financial liabilities with a demand

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
	feature	discounted from the first date that the amount could be required to be paid (¶49) Some believe that the fair value of financial liabilities with a demand feature can be less than the demand amount, for reasons that include consistency of such measurement with how those financial liabilities are treated for risk management purposes (¶BC93) Recognising a financial liability with a demand feature at less than the demand amount would give rise to an immediate gain on the origination of such a deposit, which the Board believes is inappropriate (¶BC94)	exposure draft will describe how a settlement amount relates to a transfer price	because it assumes settlement with the customer at the earliest possible date, thereby ignoring market participant assumptions about the timing of payment The Board did not intend for entities to recognise a day one gain on the origination of such deposits	feature, replace 'fair value' for financial liabilities with a demand feature with another term (eg minimum carrying value). The staff will make suggestions for that term in drafting the ED
	Servicing obligations	If an entity transfers a financial asset in a transfer that qualifies for derecognition and retains the servicing rights, it recognises a servicing asset or a servicing liability for that servicing contract If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value (¶24)	This requirement focuses on whether the transaction price is adequate. It therefore appears that the initial measurement would not be based on the transaction price (contract price), but on an exit price	The fair value measurement guidance for servicing obligations is consistent with the proposed measurement guidance	Retain 'fair value' for servicing obligations
	Embedded non-option derivatives	An embedded non-option derivative (such as an embedded forward or swap) is separated from its host	Like the measurement objective for financial assets and liabilities, the measurement objective for embedded	The guidance for measuring the fair value of embedded non-option derivatives is not	Because this is a practical convention for separating an embedded derivative

IFRS	What is Being Measured?	Fair Value Measurement(s) and Related Guidance	Is this Consistent with an Exit Price Measurement Objective?	Is this Consistent with the Proposed Measurement Guidance?	Staff Recommendation
		contract on the basis of its stated or implied substantive terms, so as to result in it having a fair value of zero at initial recognition. The initial carrying amount of the host instrument is the residual amount after separating the embedded derivative (¶AG28) The terms of an embedded non-option derivative must be determined so as to result in the embedded derivative having a fair value of zero at the inception of the hybrid instrument. It is inappropriate to separate an embedded non-option derivative on terms that result in a fair value other than zero at the inception of the hybrid instrument (Question C.1 in Implementation Guidance)	non-option derivative assets or liabilities seems to be consistent with an exit price	consistent with the proposed measurement guidance as stated to the extent that there are stated terms in the contract for the embedded derivative	from a host contract, retain 'fair value' for embedded non-option derivatives and address this issue in the project to replace IAS 39

Staff recommendations and questions for the Board

20. The staff recommend that the Board exclude the following from the scope of the fair value measurement standard:

    a. share-based payment transactions,

    b. reacquired rights in a business combination and

    c. financial liabilities with a demand feature.

    Does the Board agree that those measurements should be excluded?

21. **Does the Board agree that 'fair value' should be retained for all other measurements identified by the staff in its analysis? If not, which measurements would the Board exclude and why?**

22. **Are there other standards that should be further analysed as part of the scope assessment?**

APPENDIX: Scope of SFAS 157

1. The FASB excluded two standards (and the related interpretive guidance) from the scope of SFAS 157:

   a. share-based payments and

   b. leases.

Share-based payments

2. Although the measurement objective in FASB Statement of Financial Accounting Standards No. 123 (revised 2004) *Share-Based Payment* (SFAS 123(R)) is generally consistent with the fair value measurement objective in SFAS 157, share-based payments were excluded from the scope of SFAS 157. This is because the measurement of some share-based payment transactions were fair value-*based*, and were not entirely consistent with a fair value measurement as described in SFAS 157.

3. The measurement objective in SFAS 123(R) is to estimate the fair value at the grant date of the equity instruments that the entity is obligated to issue when employees have rendered the requisite service and satisfied any other conditions necessary to earn the right to benefit from the instruments. For share-based payment transactions with employees, SFAS 123(R) excludes from the measure at the grant date some assumptions that would be considered by marketplace participants in an exchange at that date. For example, the estimated fair value of the instruments at grant date does not take into account the effect on fair value of vesting conditions and other restrictions that apply only during the requisite service period.

4. Even though some measurements in SFAS 123(R) are fair value measurements, the FASB decided for practical reasons to exclude the entire standard from SFAS 157 because share-based payment transactions with employees are the principal focus of the standard, the measurement objective of which is fair value-*based*, not fair value.

Leases

5. The exposure draft to SFAS 157 excluded leasing transactions from its scope. At the time of writing the exposure draft, the FASB was concerned that applying the fair value measurement objective to leasing transactions could have unintended consequences when considered together with longstanding valuation practices within the leasing industry.

6. However, respondents to the exposure draft to SFAS 157 indicated that the fair value measurement objective for leasing transactions is generally consistent with the fair value measurement objective in SFAS 157. Based on that input, the FASB decided to include leasing transactions in the scope of SFAS 157.

7. After SFAS 157 was published, the FASB received input from the leasing industry that there were two main practical issues with applying a current exit price definition of fair value to leasing transactions:

   a. **Lease classification**: The initial fair value of a leased asset determined under SFAS 157 might not equal its cost to a third-party lessor, thereby precluding the lease from being classified as a direct financing (or leveraged) lease.

   b. **Fair value of residual value**: The measurement guidance in SFAS 157 would change longstanding valuation practice for measuring the estimated residual value of leased property and, for national US banks, it would represent a departure from residual-value-setting guidelines established by the US Office of the Comptroller of the Currency.

8. As a result, SFAS 157 was amended to exclude FASB Statement of Financial Accounting Standards No. 13 *Accounting for Leases* (SFAS 13) from its scope.