Financial Accounting Standards Board

International Accounting Standards Board

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INFORMATION FOR OBSERVERS

IASB/FASB Meeting:	**March 2009, London**
Project:	**Fair Value Measurement**
Subject:	**Project update (Agenda paper 8)**

Purpose of this paper

1 At the October 2008 joint meeting the staff updated both boards on tentative decisions reached by the IASB up to that date (Agenda Paper 5A of the October 2008 meeting). In this paper, the staff will provide an update of tentative decisions reached since the October 2008 joint meeting that differ from the approach taken in FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157).

2 This paper is for information purposes only. The staff will not ask either board to make any decisions at this meeting.

Differences between IASB tentative decisions and SFAS 157

3 The following table summarises the decisions reached since the October 2008 joint meeting that differ from SFAS 157.

Issue	SFAS 157	IASB tentative decision
Scope	Excludes accounting pronouncements that address share-based payment transactions.	Replace the term ‘fair value’ with another term that reflects the intended measurement objective for share-based payment transactions and reacquired rights in a business combination. Exclude paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* from the scope of the [draft] IFRS. This paragraph states that the fair value of a financial liability with a demand feature is not less then the amount payable on demand, discounted from the first date that the amount could be required to be paid.
Reference market	Assumes the transaction to sell the asset or transfer the liability occurs in the **principal** market. If there is no principal market in the most advantageous market for the asset or liability.	Assumes that the transaction takes place in the **most advantageous** market for the asset or liability. The market in which the reporting entity would normally enter into a transaction for the asset or liability is presumed to be the most advantageous market. However, if there is no 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.
Fair value at initial recognition	Day one profits or losses are recognised even if the fair value is based on unobservable data.	Day one differences are recognised in accordance with existing criteria in IFRSs. For example, financial instruments are measured at fair value at initial recognition. If the measurement is not based on observable market prices or based on a valuation technique whose variables include only data from observable markets,

Issue	SFAS 157	IASB tentative decision
		the entity defers the day one difference. However, the deferral is separate from the fair value measurement. The day one difference shall be recognised subsequently only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting the price.
Liabilities	The FASB agreed that the quoted price for the identical liability when traded as an asset in an active market (that is, the fair value of the asset would be categorized as a Level 1 measurement within the fair value hierarchy) will be the fair value for that liability. However, as with any input into a fair value measurement, an entity would need to determine whether an input (for example, the quoted price for the identical liability when traded as an asset in an active market) should be adjusted for factors specific to the liability and the asset. This will be reflected in FASB Staff Position No. 157-c (FSP 157-c)	In many cases, there will not be an observable market price to transfer a liability. In such cases, an entity shall measure the fair value of a liability using the same thought process that the counterparty would use to determine the fair value of its asset, where applicable. In other words the fair value of the holder's asset equals the fair value of the liability. (ie it is not simply an input).
Equity	No separate discussion for equity instruments. Footnote 4 of SFAS 157 indicates that the definition of fair value should be applied to equity instruments measured at fair value.	Include a separate discussion for equity instruments measured at fair value. When measuring the fair value of those instruments, an entity will evaluate the exit price from the perspective of the asset holder. This is because an entity cannot exit its own equity instruments without changing a fundamental characteristic of the investment (ie the identity of the investee).

4 In addition to the disclosures in SFAS 157, the IASB proposed to require the following disclosures:

a any significant transfers into or out of Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers.

b for fair value measurements using valuation techniques for which any significant input is not based on observable market data (Level 3), if changing one or more of those inputs to reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes for each class of asset or liability. This requirement has been carried over from existing disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*.

c for each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, an entity shall disclose the fair value by level of the fair value hierarchy.

d for a liability measured at fair value after initial recognition, an entity shall disclose:

i the amount of change, during the period and cumulatively, in the fair value of the liability that is attributable to changes in the non-performance risk of that liability, and the reasons for that change.[1]

ii how the amount in (i) above was determined.

iii the difference between the liability's carrying amount and the amount of economic benefits the entity is required to sacrifice to satisfy the obligation (eg for a contractual liability, this would be the amount the entity is contractually required to pay to the holder of the obligation). This requirement has been carried over from existing disclosure requirements in IFRS 7.

e when an asset is used together with other assets but its highest and best differs from its current use by the entity, the entity shall disclose, by class of asset:

[1] Paragraph 19(d) of SFAS 159 *The Fair Value Option for Financial Assets and Financial Liabilities* requires a similar disclosure.

i the value of the assets assuming their current use (ie the amount that would be their fair value if the current use were the highest and best use);

ii the amount by which the fair value of the assets differs from their value in their current use; and

iii the reasons why the assets are not being used at their highest and best use.

5 SFAS 157 requires fair value disclosures to be presented in a tabular format. The [draft] IFRS requires fair value disclosures to be presented in a tabular format *unless another format is more appropriate* (emphasis added).

6 The required disclosures in SFAS 157 apply to both annual and interim reports. The [draft] IFRS will not require specific disclosures in interim periods; rather it will rely on the principle in IAS 34 *Interim Financial Reporting* that entities need to disclose any significant event that occurred during the interim reporting period. Paragraph 41 of IAS 34 states that all material financial information that is relevant to an understanding of the financial position or performance of the entity should be appropriately disclosed.

7 SFAS 157 requires different disclosures depending on whether the fair value measurement is recurring (eg for financial assets held for trading) or non-recurring (eg for impairments). The [draft] IFRS will not distinguish between recurring and non-recurring fair value measurements.

Next steps

8 The IASB has completed its deliberations, subject to any matters that arise in drafting. The IASB expects to publish an exposure draft early in the second quarter of 2009.

9 The IASB staff is monitoring current FASB developments and will consider the implications of decisions reached on the [draft] IFRS. The FASB has four different projects on its project agenda regarding fair value measurements, these projects will likely result in four FSPs:

a FAS 157—Measuring Liabilities under FAS 157
The FASB issued an exposure draft in January 2008. The FASB plan to finalise this by end of June 2009.

b FAS 157—Determining When a Market for an Asset or a Liability is Active or Inactive and Determining When a Transaction Is Distressed
(Added to agenda 2/18/09) The FASB plan to finalise this at the beginning of April 2009.

c FAS 157—Improving Disclosures about Fair Value Measurements
(Added to agenda 2/18/09) The FASB plan to finalise this by end of December 2009.

d FAS 157—Applying Fair Value to Interests in Alternative Investments
(Added to agenda 2/18/09) The FASB plan to finalise this by end of June 2009.