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Project	<b>Fair Value Measurement</b>
Topic	<b>Comment letter summary</b>

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### **Purpose of this paper**

1. In May 2009 the Board published the exposure draft *Fair Value Measurement*. The comment period ended on 28 September 2009 and, by that date, the IASB had received 113 comment letters.
2. This paper provides a summary analysis of the comment letters that were received by the comment letter deadline.
3. We continue to receive responses. In total, 156 responses have been received as of the date of the posting of this paper. If we identify additional issues in the letters received since 28 September, we will provide an update to the Board at a later meeting.
4. Moreover, during re-deliberations we will include a more detailed analysis of each issue in the relevant agenda paper. Agenda paper 2B sets out our general strategy for re-deliberations.
5. This paper does not provide a quantitative review of responses or attribute comments to individual respondents. Moreover, this paper does not address drafting suggestions received from respondents.
6. Details about the respondents are in Appendix 1 (reflecting comment letters received through 12 October 2009).

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This paper has been prepared by the technical staff of the IASCF for discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper. They do not purport to represent the views of any individual members of the IASB.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

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**Key messages**

7. Nearly all respondents are in favour of the project. Overall, the comment letters had the following themes:
  - (a) having a single source of guidance will reduce complexity and improve consistency in application of fair value measurements
  - (b) the IASB and FASB should work together to develop fully-converged guidance for fair value measurements in IFRSs and US GAAP
  - (c) an exit price notion is not relevant for assets when an entity does not intend to sell the asset (ie when it is being used in the operations of the business or it is a financial asset not held for trading)
  - (d) liabilities should reflect a settlement notion, not a transfer notion, if the liability cannot legally be transferred or if the entity does not intend to transfer it
  - (e) some of the guidance for measuring fair value in inactive markets in the Expert Advisory Panel's report should be added to the final IFRS on fair value measurement guidance.

**Overview of comments received****General comments**

8. Several respondents think a discussion about how to measure fair value cannot be separated from a discussion about when to use fair value as a measurement basis (eg in the project to replace IAS 39 *Financial Instruments: Recognition and Measurement*) and whether the fair value of a liability includes non-performance risk (eg the discussion paper *Credit Risk in Liability Measurement*). Some also think the fair value measurement project should not be completed before the measurement phase of the conceptual framework project.

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9. Some respondents think fair value is an appropriate measurement basis only for assets and liabilities that are initially and subsequently measured at fair value.
10. Some respondents think that the proposed guidance is most appropriate for financial instruments, and is not appropriate for non-financial assets and liabilities. Those respondents think there should be separate guidance for financial versus non-financial items, although they did not say how such guidance might look different except to point out that non-financial items would have more Level 3 fair value measurements.
11. This paper separates the comments received into the following topics:
  - (a) the definition of fair value (paragraphs 13 to 16)
  - (b) proposed scope (paragraphs 17 to 20)
  - (c) the transaction (paragraphs 21 to 25)
  - (d) market participants (paragraph 26 to 29)
  - (e) highest and best use and valuation premise (paragraphs 30 to 36)
  - (f) valuation of liabilities (paragraphs 37 to 47)
  - (g) fair value at initial recognition (paragraphs 48 to 50)
  - (h) valuation techniques and guidance for markets that are not active (paragraphs 51 to 57)
  - (i) disclosures (paragraphs 58 to 62)
  - (j) issues for emerging and transition economies (paragraphs 63 to 66)
  - (k) other comments received (paragraphs 67 to 71)
12. The questions asked in the invitation to comment are listed in Appendix 2.

***The definition of fair value***

13. Some respondents think the proposal to define fair value as an exit price is appropriate because it retains the exchange notion in the current definition of fair value but provides a clear measurement objective. It also removes the

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complexity caused by the diverse guidance in IFRSs. Furthermore, it increases convergence with US GAAP.

14. Some respondents think that it is inappropriate to define fair value exclusively as an exit price. Rather, they believe that fair value reflects an entry price in some circumstances (eg business combinations) and an exit price in others (eg financial instruments). They think that if fair value is defined as an exit price, the resulting measurement provides useful information only when an entity intends to—and can—sell the asset or transfer the liability. If an entity cannot or does not intend to sell the asset or transfer the liability, they think an entry price is more relevant, although they do not specify whether that entry price is the transaction price or a market-based entry price.
15. Some respondents think fair value should not be market-based, but should instead reflect the value to the business. They think a measurement should take into account an entity's ability to generate future cash flows by using the asset or liability within the business.
16. Many respondents believe that the exit price notion is not appropriate for liabilities because, in most cases, an entity cannot transfer its liabilities and therefore there is no 'exit price'. They believe that the definition of fair value should instead refer to the settlement of a liability. Some think the settlement should be deemed to occur at the measurement date, others think it should be deemed to occur over time (eg in due course).

**Proposed scope**

17. Respondents generally agree with the proposal to exclude reacquired rights acquired in a business combination in IFRS 3 *Business Combinations* from the scope of an IFRS on fair value measurement.
18. Some respondents think that the 'broad brush' exclusion for IFRS 2 *Share-based Payments* is not appropriate because they think some uses of 'fair value' in IFRS 2 are consistent with the proposed definition and guidance. They are concerned that the language limiting the use of market participant assumptions

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changes the Board's original measurement objective for such transactions in IFRS 2.

19. Many respondents do not agree with the proposal that liabilities with a demand feature as described in IAS 39 *Financial Instruments: Recognition and Measurement* should be excluded from the scope. These respondents think if the Board believes that such liabilities are not consistent with the proposed guidance on fair value, it should not use the term fair value to describe them.
20. Some respondents think IAS 17 *Leases* should be excluded from the scope. Although many of these respondents agree with the Board that there is no difference between entry and exit prices for the same asset or liability in the same market, they argue that the entry transaction envisaged in IAS 17 is likely to occur in a different market from the exit transaction in the proposed definition of fair value. They are concerned that this could have implications for lease classification.

***The transaction***

21. Some agree with the proposal to base a fair value measurement on the price in the most advantageous market for the asset or liability. They think that profit-maximising entities will transact in the most advantageous market. Furthermore, some respondents think there will not be a significant difference in fair values whether they are measured using the most advantageous market or the principal market.
22. However, some find the guidance confusing. They think it is unclear whether the most advantageous market must be used, or if the principal market simply represents the most advantageous market. They also find it unclear how the market in which the entity normally transacts relates to the principal and most advantageous markets.
23. Some respondents are concerned that using the most advantageous market introduces an upward bias into the measurement. They prefer the principal market because it is unbiased.

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24. Many respondents are concerned about the lack of convergence with US GAAP on this point.
25. Some respondents think that the exposure draft does not provide sufficient guidance on what to do where there is no observable market (whether principal or most advantageous). Their primary concern is with how to measure a market-based fair value by reference to a price in a hypothetical market.

**Market participants**

26. Generally, respondents agree with the market participant notion. They think it helps clarify that fair value is a market-based measurement. Some also find it clearer to use the term ‘market participants’ rather than ‘knowledgeable, willing parties in an arm’s length transaction’.
27. Some respondents think the proposed guidance does not sufficiently address how to apply the market participant notion when there is no observable market. For example, when there are no identifiable market participants:
  - (a) how are market participant assumptions determined?
  - (b) how does an entity adjust its own data for market participant assumptions?
28. Some respondents think fair value should instead be measured from the entity’s perspective. Some think Level 3 fair value measurements that use the reporting entity’s own data are entity-specific measurements.
29. Some respondents note that arm’s length pricing can occur in a transaction between related parties. They suggest that the guidance acknowledge this point.

**Highest and best use and valuation premise**

*General comments about highest and best use*

30. Many respondents agree with the proposal that fair value reflects the highest and best use of an asset. Some point out that market prices reflect the market’s perception of the highest and best use of an asset and if the objective is to arrive

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at a market price then fair value also must reflect highest and best use. Some also note that in practice fair values measured in current IFRSs reflect highest and best use (eg for property, plant and equipment and investment properties), although others say they do not.

31. Some respondents think that it is inappropriate for a fair value measurement to consider the highest and best use of an asset. They believe that fair value should reflect an entity's current use of the asset. They think to do otherwise could over-inflate the value of an asset and will result in inconsistencies between the cash flows generated from using the asset (in the statement of financial performance) and the value of the asset (in the statement of financial position).

*Comments about incremental value (when highest and best use differs from current use)*

32. Several respondents have concerns about the proposal to require an entity to separate the fair value of an asset group when one or more of the assets is used in a way that differs from its highest and best use. Some think this is inconsistent with the valuation premise, which states that all assets within a group must be measured on the same basis (ie either in use or in exchange). They also think it will be costly to measure the value of an asset or an asset group on two different bases (one being the current use and the other being the highest and best use), particularly since they think it is costly enough to analyse whether an asset's current use is its highest and best use to comply with the proposed requirements. Some think presenting only the fair value that reflects the highest and best use, even if it is different from the value that reflects the current use, is decision useful. Some think the guidance needs to be clearer that the 'incremental value' is not recognised as a separate asset.

*Valuation premise*

33. Some respondents agree that the highest and best use concept is not relevant to financial assets and that they are measured using the in-exchange valuation premise. However, some disagree with the proposals. They think the in-use valuation premise better reflects the fact that financial assets often are managed

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as part of a portfolio of financial instruments (and therefore are ‘used’). They point in particular to the consequential amendment to IAS 39 that removed paragraph AG72, which states: ‘When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate’ and see this as a change in practice.

34. A few respondents were confused by the ‘clarification’ in the exposure draft that the in-use valuation premise assumes that the asset is sold individually, not as part of the sale of an asset group. They are mainly concerned about the level of synergies that would be included in the value of the group and excluded from the value of the individual asset. They think this could lead to a difference in fair value depending on whether using US GAAP or IFRSs.
35. Some respondents think the Board should consider changing the terms ‘in use’ and ‘in exchange’ to reduce confusion since both valuation premises reflect an exchange transaction.

*Application to liabilities*

36. Some respondents agree with the Board’s assertion that the highest and best use concept and the valuation premise are not relevant to liabilities. However, some disagree with the proposal. These respondents think entities will choose to discharge a liability in the least costly way, which might be by transferring it to another party (in exchange) or by settling it themselves (in use). As a result, they think highest and best use and the valuation premise are in fact applicable to liabilities.

**Valuation of liabilities***General comments about liabilities*

37. Some respondents agree with the proposal that the fair value of a liability reflects its transfer price because it means that the liability is not extinguished and it is consistent with an exit price notion. They also understand that the



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settlement and transfer notions will, in many cases, result in the same fair values.

38. However, many respondents disagree with the proposal, generally for three reasons:

- (a) liabilities cannot normally be transferred,
- (b) there are no observable transfer prices on which to base a fair value measurement and
- (c) they are concerned about applying risk and profit margins in the fair value measurement.

39. These respondents prefer a settlement notion.

*Using a corresponding asset value*

40. Some respondents agree with the proposal to base the fair value of a liability on the corresponding asset's fair value. They think in most cases the two will be equal.

41. However, some think the fair value of the liability will not necessarily be equal to the fair value of the corresponding asset value because assets and liabilities have different exit markets and therefore different market participant assumptions. Furthermore, they assert that asset values are influenced by their ability to be freely traded (or not), whereas liability values are influenced by the obligation to perform (and the amount to be incurred to fulfil the obligation).

42. Some think there is not enough guidance about how to determine a transfer price when there is no corresponding asset (eg for most non-financial liabilities). They believe that in these circumstances the transfer price will be the same as the settlement amount. They therefore believe that the definition of fair value should reflect a settlement notion in such situations.

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*Restrictions on transfer*

43. Some respondents agree with the proposal that the fair value of a liability does not reflect the value of a restriction on its transfer. However, some of these respondents prefer the guidance in FASB Accounting Standards Update No. 2009-5 *Measuring Liabilities at Fair Value*.<sup>1</sup>
44. Other respondents think the fair value of a liability should take into consideration the effect of a restriction because they think a market participant would demand less for an obligation that it could transfer to another party.

*Non-performance risk*

45. Many respondents wonder how the discussion paper *Credit Risk in Liability Measurement* fits into the fair value measurement project.
46. Many respondents believe that fair value reflects the effect of non-performance risk. However, they are concerned about the counter-intuitive effects of including changes in an entity's credit risk in the statement of financial performance (gains when credit risk increases, losses when it decreases).
47. In addition, they ask whether, and if so how, non-performance risk applies to non-financial liabilities.

***Fair value at initial recognition***

48. Respondents generally agree that the four situations listed in the exposure draft that might lead to a difference between entry and exit prices at initial recognition are sufficient and appropriate.<sup>2</sup>

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<sup>1</sup> In August 2009 (after the exposure draft was published), the FASB issued Accounting Standards Update 2009-05, *Measuring Liabilities at Fair Value*, which provides detailed examples of how to measure the fair value of a liability when there is not an observable transfer price or when there is not a corresponding asset. The Board will discuss this ASU during the redeliberations.

<sup>2</sup> The four situations are: (1) the transaction is between related parties, (2) the transaction takes place under duress or is forced, (3) the unit of account for the transaction price is different from the unit of account for the asset or liability and (4) the market for the transaction is different from the market to sell or transfer the asset or liability.

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49. Many respondents disagree with keeping the prohibition in IAS 39 to defer day 1 gains and losses if the fair value is not based solely on observable inputs for the following reasons:
- (a) it is inconsistent with US GAAP, creating an unlevel playing field;
  - (b) it infers that the Board believes that Level 3 (and perhaps Level 2) measurements are unreliable (ie that Level 1 is a 'good' fair value measurement and that Levels 2 and 3 are 'bad'); and
  - (c) they question whether the deferred amount meets the definition of an asset or liability.
50. Some respondents think the proposal to look to other IFRSs to determine whether a day 1 gain or loss can be recognised is appropriate because they think this is an issue of recognition, not of how to measure fair value. Others think there should be a clear principle and that the type of asset or liability should not influence the recognition of gains or losses.

***Valuation techniques and guidance for markets that are not active***

*General comments about valuation techniques*

51. Many respondents agree with the descriptions of valuation techniques in the exposure draft and find them helpful, although some ask for more guidance about which valuation techniques to use in which situations and a hierarchy of techniques. Some would like a similar level of detail about applying the market and cost approaches as is in Appendix C for the income approach.
52. Other respondents, mainly in the valuation community, believe that an IFRS on fair value measurement should not contain information about valuation techniques. They believe that valuation standards and practice guidance should (and already do) address this.
53. Some think the cost approach (eg replacement cost approach) as a valuation technique is inconsistent with the exit price notion.

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54. Some note that the net assets approach is not listed as a possible valuation technique.<sup>3</sup> They wonder whether that technique cannot be used to measure fair value, particularly for private equity investments.

*Guidance for inactive markets*

55. Some respondents find the guidance about measuring fair value in inactive markets to be helpful.
56. However, many think more information should be provided. For example, some prefer the wording in the Expert Advisory Panel report to that in the exposure draft.
57. Furthermore, some are concerned that the emphasis on market activity takes the focus off the objective of determining the price at which a transaction would take place. They also are concerned that the factors listed in the exposure draft are specific to the recent financial crisis and might not be relevant in the future.

**Disclosures**

58. Some respondents agree with the proposed disclosures. They think it will provide meaningful information to users about the relative subjectivity about fair value measurements.
59. Some respondents find the disclosure requirements to be onerous and do not believe that the benefit outweighs the cost. This is especially true for the Level 3 disclosures (eg the reconciliation table and the sensitivity analysis) and the requirements to provide financial instrument disclosures for interim periods in addition to annual periods. They think the principle in IAS 34 *Interim Financial Reporting* is clear. They are also concerned about the volume of disclosures and think there is a risk of overwhelming users with information.

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<sup>3</sup> The net assets approach is a valuation technique that involves the individual revaluation (eg to fair value) of all of an entity's assets (tangible and intangible) and liabilities (recorded and contingent).

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60. Some respondents are concerned about the differences between the proposed disclosures and those required in US GAAP. They suggest the Board consider the FASB's proposals to improve disclosures about fair value measurements.<sup>4</sup>
61. Some respondents ask for clarification about whether the proposed disclosure requirements are only for remeasurements or if they also apply at initial recognition. They also think an IFRS should be consistent with US GAAP regarding disclosures about recurring and non-recurring measurements.
62. Some respondents think disclosures should be addressed in each standard and that they might be different depending on the asset or liability being measured.

***Issues for emerging and transition economies***

63. The Board received comment letters from 21 respondents (as of the posting of this paper) in emerging and transition economies (ETEs).
64. The main concerns of entities in these countries are:
  - (a) the proposed fair value measurement guidance is not detailed enough to allow them to develop estimates of fair value on a consistent basis;
  - (b) there is limited availability of practitioners who have the skills to apply the guidance;
  - (c) 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; and
  - (d) developing estimates of fair value will be expensive.
65. Furthermore, there are concerns about misapplication and manipulation of fair value measurements, resulting in earnings management.

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<sup>4</sup> The proposed ASU on disclosures is open for comment until 12 October 2009.

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66. They are also concerned that any guidance on inactive markets, although similar to their situation, mainly considers the perspective of entities in developed economies.

***Other comments received***

67. The Board also received comments on the following:

- (a) effective date
- (b) unit of account
- (c) blockage factors

*Effective date*

68. Respondents in the process of transitioning to IFRSs are concerned about the possible effective date of the final IFRS on fair value measurement given the need to provide comparative information for periods before an IFRS on fair value measurement guidance is issued (eg countries adopting as of 1 January 2011 will need to provide comparative information from 1 January 2010). These respondents are hopeful that the effective date of the final IFRS will be 1 January 2012 or later.

*Unit of account*

69. Some respondents would like more guidance about determining the unit of account. Some ask what to do if both the IFRS on fair value measurement and a particular IFRS for an asset or liability do not specify the unit of account (eg IAS 16 *Property, Plant and Equipment* and IAS 40 *Investment Property*).

*Blockage factors*

70. Most respondents believe that the fair value of an equity investment should include a blockage factor if applicable. Although they disagree with US GAAP prohibiting blockage factors in Level 1 of the fair value hierarchy, they understand the rationale for using an observable market price when it is

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available. However, they prefer the approach in US GAAP that allows the application of blockage factors in Levels 2 and 3 of the hierarchy.

71. Many respondents disagree with the Board that the desire to hold or to sell a large number of instruments is based on entity intent and think the proposal will inflate the fair values of financial assets. They think it is more relevant that a fair value reflects the transactions the entity undertakes than the sum of the values of each individual instrument when market participants also would not transact at the individual instrument level.

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## Appendix 1: Respondents by geography

Respondent type	Africa	Asia-Pacific	Europe	International	North America	South America	Grand Total
Academics		2	4			1	7
Accounting Firms			1	6			7
Consultant (representative body):Valuation				1			1
Consultant: Valuation		2	2		1		5
Consulting Firm: Actuary				1			1
Individual	1	1	1		1	2	6
Other		1	2				3
Other (representative body): Accounting		1					1
Other: Not-for-profit/public sector		3		2	1		6
Preparer (representative body): Banking		1	4		2		7
Preparer (representative body): Banking and Insurance			1		1		2
Preparer (representative body): Insurance		1	4		1		6
Preparer (representative body): Other		4	6	4	2		16
Preparer: Banking		3	10	2	1		16
Preparer: Insurance		1	1				2
Preparer: Other		4	5	2	2		13
Pricing service				1			1
Professional body: Accounting	2	4	8	3	3		20
Professional body: Actuary		1	1	1	1		4
Professional body: Valuation			1		1		2
Regulator (representative body): Insurance				1			1
Regulator (representative body): Securities			2				2



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<b>Respondent type</b>	<b>Africa</b>	<b>Asia-Pacific</b>	<b>Europe</b>	<b>International</b>	<b>North America</b>	<b>South America</b>	<b>Grand Total</b>
Regulator: Banking				1			1
Regulator: Insurance			1				1
Regulator: Securities		2			1		3
Standard Setter: Accounting		5	9		1	1	16
Standard Setter: Other				2			2
User				1	1		2
User: Representative body		1		1			2
<b>Grand Total</b>	<b>3</b>	<b>37</b>	<b>63</b>	<b>29</b>	<b>20</b>	<b>4</b>	<b>156</b>

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**Appendix 2: Questions in Invitation to Comment*****Definition of fair value and related guidance****Question 1*

The exposure draft proposes defining 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’ (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.

Is this definition appropriate? Why or why not? If not, what would be a better definition and why?

**Scope***Question 2*

In three contexts, IFRSs use the term ‘fair value’ in a way that does not reflect the Board’s intended measurement objective in those contexts:

- (a) In two of those contexts, the exposure draft proposes to replace the term ‘fair value’ (the measurement of share-based payment transactions in IFRS 2 *Share-based Payment* and reacquired rights in IFRS 3 *Business Combinations*) (see paragraph BC29 of the Basis for Conclusions).
- (b) The third context is the requirement in paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term ‘fair value’, but instead proposes to exclude that requirement from the scope of the IFRS.

Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

***The transaction****Question 3*

The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

*Question 4*

The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions).

Is the description of market participants adequately described in the context of the definition? Why or why not?

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***Application to assets: highest and best use and valuation premise***

*Question 5*

The exposure draft proposes that:

- (a) the fair value of an asset should consider a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its highest and best use (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions).
- (b) the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions).
- (c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

*Question 6*

When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions).

Is the proposed guidance sufficient and appropriate? If not, why?

***Application to liabilities: general principles***

*Question 7*

The exposure draft proposes that:

- (a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions).
- (b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions).
- (c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS).

Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

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***Application to liabilities: non-performance risk and restrictions***

*Question 8*

The exposure draft proposes that:

- (a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).
- (b) the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

***Fair value at initial recognition***

*Question 9*

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).

Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

***Valuation techniques***

*Question 10*

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).

Is this proposed guidance appropriate and sufficient? Why or why not?

***Disclosures***

*Question 11*

The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

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**Convergence with US GAAP**

*Question 12*

The exposure draft differs from Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.

Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?

**Other comments**

*Question 13*

Do you have any other comments on the proposals in the exposure draft?