Project **Fair Value Measurement**

Topic **Project update**

Purpose of this paper

1. The IASB published the exposure draft *Fair Value Measurement* in May 2009. The comment period for the exposure draft ended 28 September 2009. The IASB has received 156 comment letters as of the posting of this paper.

2. Most respondents to the exposure draft urge the IASB and FASB to have fully converged (ie identical) guidance for fair value measurements in IFRSs and US GAAP. They are concerned that using different words in IFRSs and US GAAP might result in different approaches to fair value measurements, and possibly to different fair value conclusions. Respondents believe that both boards should use this opportunity to create a single high quality standard for fair value measurement guidance.

3. This paper describes:

   (a) the differences between the IASB's exposure draft and FASB Accounting Standards Codification Topic 820 (Fair Value Measurements and Disclosures) (Topic 820) (formerly FASB Statement of Financial Accounting Standards No. 157, or SFAS 157); and

   (b) the possible approaches for moving forward.

Differences between the IASB's exposure draft and Topic 820

4. The IASB's exposure draft was written using Topic 820, as amended, as a starting point.[1]

5. The definitions of fair value in Topic 820 and IFRSs both were based on an exchange transaction. Also, many of the fair value measurement guidance in Topic 820 was similar to that in IFRSs.

6. In drafting the exposure draft, the IASB changed the text of Topic 820 to reflect the following:

   (a) decisions made by the IASB that were different from those made by the FASB (**Type 1**);

   (b) clarifications of the requirements in Topic 820 that the IASB was aware could lead to inconsistency in practice or questions about the application of fair value in a particular circumstance (**Type 2**); and

   (c) differences between American and British spelling and grammar and IASB and FASB styles (**Type 3**).

Type 1: Differences due to decisions taken by the IASB

7. During its deliberations the IASB made the following decisions that were different from those made by the FASB when developing Topic 820 (these are listed in paragraph BC110 of the basis for conclusions accompanying the exposure draft):

   (a) **Scope.** Unlike Topic 820, the proposed IFRS would apply to leasing arrangements. However, it would not apply to the measurement of

[1] The following documents have amended Topic 820 since the exposure draft was published:
(a) Accounting Standards Update (ASU) No. 2009-5 *Measuring Liabilities at Fair Value* and (b) ASU No. 2009-12 *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.
In addition, the FASB plans to issue an ASU amending the disclosure requirements of Topic 820. That proposed ASU is open for comment until 12 October 2009.
During the redeliberations, the IASB will discuss the most recent amendments to Topic 820 on each issue.

reacquired rights in a business combination or financial liabilities with a demand feature.

(b) **Reference market.** Unlike Topic 820, which assumes the transaction to sell the asset or transfer the liability takes place in the principal market (or, in the absence of a principal market, the most advantageous market), the exposure draft proposes that an entity should assume that the transaction takes place in the most advantageous market to which the entity has access.

(c) **Highest and best use.** Unlike Topic 820, the exposure draft proposes presentation requirements for circumstances when an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset.

(d) **Blockage factors.** Unlike Topic 820, which specifies the unit of account for financial instruments measured within Level 1 of the fair value hierarchy, the exposure draft is silent on the unit of account for financial instruments. IAS 39 *Financial Instruments: Recognition and Measurement* specifies the unit of account for financial instruments as the individual instrument. This applies to all three levels of the fair value hierarchy.

(e) **Day 1 gains or losses.** Unlike Topic 820, which permits the recognition of day 1 gains or losses even if the fair value measurement uses unobservable inputs, the exposure draft defers to the relevant standards for the asset or liability (eg IAS 39 for financial assets and financial liabilities) to determine whether to recognise the gain or loss.

(f) **Valuation premise and financial instruments.** Unlike Topic 820, the exposure draft states explicitly that the in-use valuation premise is not relevant to financial assets.

(g) **Measurement of liabilities.** Unlike Topic 820, which includes limited guidance on the measurement of liabilities, the exposure draft proposes a framework for measuring a liability using the same methodology that the counterparty would use to measure the fair value of a corresponding asset. The FASB has finalised an ASU clarifying the measurement of liabilities at fair value. The proposal is largely consistent with the proposals in the exposure draft.

(h) **Measurement of equity instruments.** Unlike Topic 820, the exposure draft discusses how to apply the exit price notion to equity instruments measured at fair value.

Type 2: Differences to clarify some of the principles in Topic 820

8. Except for the differences listed above, the IASB agreed with the principles in Topic 820. However, during its deliberations the IASB found that some of the concepts could be better understood if additional words where added to clarify the intent. The IASB believes these additional clarifying words are consistent with the principles in Topic 820.

9. Examples of such cases include:

(a) **Highest and best use.** The exposure draft explicitly states that an entity need not perform an exhaustive search for other potential uses if there is no evidence to suggest that the current use of an asset is not its highest and best use.

(b) **Valuation premise.** The exposure draft explicitly states that the in-use valuation premise and the in-exchange valuation premise assume that the asset is sold individually, ie that the in-use valuation premise does not assume that the asset is sold as part of a group of assets or a business. However, the in-use valuation premise assumes that market participants will use the asset in combination with other assets or liabilities, and that those assets and liabilities are available to those market participants.

(c) **Valuation techniques.** The exposure draft explicitly states that the cost approach is an appropriate method for measuring the fair value of tangible assets using the in-use valuation premise even though fair value is defined as an exit price. This is because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset.

Type 3: Differences in grammar, spelling and style

10. IFRSs are written using British English, while US GAAP is written using American English. This invariably results in different words being used depending on geography, and some of those words are spelled (or spelt) differently. Furthermore, some wording differences were made for ease of translation into other languages. In addition, both the IASB and the FASB have different styles, resulting mainly in differences in appearance.

11. Examples of this include:

    (a) "enter into a transaction with" versus "transact with"

    (b) "takes place" versus "occurs"

    (c) "characteristic of the asset or liability" versus "attribute of the asset or liability"

    (d) "transport costs" versus "transportation costs"

12. Such differences should not result in different interpretations of the fair value measurement guidance in IFRSs and US GAAP.

Possible approaches for moving forward

13. There are four possible approaches for moving forward on fair value measurement guidance:[2]

    (a) **Approach 1:** Eliminate all decision and wording differences (Types 1 and 2). This approach requires both boards to redeliberate all issues where differences have been identified.

[2] We have excluded from these approaches the possibility of having identical grammar, spelling and styles in both standards.

(b) **Approach 2:** Eliminate Type 2 wording differences only. Under this approach the boards would use the same words except for when each board has reached a different decision.

(c) **Approach 3:** Continue as before. The IASB would publish an IFRS on fair value measurement guidance independently. However, both boards would monitor the activities of the other to minimise differences between the two standards. This is the approach undertaken so far in the project.

Questions for the Board
Which approach do you prefer?