Project	**Fair value measurement**
Topic	**Disclosing information about transfers between Levels 1 and 2 of the fair value hierarchy**

Purpose of this paper

1. This paper addresses the proposed disclosure of transfers between Level 1 and Level 2 of the fair value hierarchy.

2. This paper asks the boards whether to require an entity to disclose <u>any</u> transfers (as proposed) or <u>significant</u> transfers (as currently required) between Levels 1 and 2 of the fair value hierarchy.

Summary of the proposals

3. Paragraph 820-10-50-2(bb) of the FASB's exposure draft of a proposed Accounting Standards Update (ASU) *Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* states:

> For assets and liabilities held at the reporting date, [a reporting entity shall disclose] the amounts of any transfers between Level 1 and Level 2 of the fair value hierarchy, the reasons for those transfers, and the reporting entity's policy for determining when transfers between levels are recognized.

4. This proposal is identical to the IASB staff's draft of a forthcoming IFRS on fair value measurement posted to the IASB website in August 2010.

5. Topic 820 *Fair Value Measurements and Disclosures* in the *FASB Accounting Standards Codification*™ (which codified FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* [SFAS 157]) and IFRS 7 *Financial Instruments: Disclosures* currently require an entity to disclose significant transfers between Levels 1 and 2. The requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy originated from the discussions held by the IASB's fair value expert advisory panel, which discussed measurement issues arising from the financial crisis.

6. Paragraph 820-10-50-2(bb) of Topic 820 currently states that:

> Significance shall be judged with respect to earnings and total assets or total liabilities, or when changes are recognized in other comprehensive income, with respect to total equity.

7. The comparable requirement in IFRS 7 states that significance shall be judged with respect to profit or loss, and total assets or total liabilities.

Overview of comments received

8. Although not specifically asked in the FASB's exposure draft, many respondents commented on the proposal. The FASB did not receive any comment letters from users of financial statements, but the staff has solicited feedback from users in developing this paper.

Comments received on the exposure draft

9. Many of the respondents who commented on the proposal are preparers and auditors of financial statements and very few of those respondents were supportive of the proposal.

10. Their reasons for not supporting the proposal include:

    (a) They think users of financial statements need information about significant transfers between Level 1 and Level 2 of the fair value hierarchy, not all transfers, particularly since the distinction between less-active Level 1 measurements and the most-active Level 2 measurements can be unclear. They are concerned that the proposal to require information about all transfers could detract from important information or overwhelm users with information without addressing users' concerns about reliability or transparency. With limited space available for disclosures, preparers want to focus on what is most meaningful.

(b) They assert that it would be burdensome for an entity to monitor insignificant transfer activity because to do so properly, an entity would need to monitor all transfers on a daily basis. This is particularly onerous since management is only concerned with monitoring significant transfers between Levels 1 and 2, not all transfers.

11. As a result, they are concerned that the cost of preparing the disclosure would exceed the benefits.

Discussions with users of financial statements

12. Most of the users of financial statements the staff spoke with said that they were concerned mainly with significant transfers between levels, not with all transfers (except in Level 3, where they need all transfers for the reconciliation to be accurate).

13. However, some users said they were concerned that limiting the disclosure to significant transfers might result in entities determining that individual transfers are not significant, when they might be significant in the aggregate.

Staff analysis and recommendation

14. As noted above, the requirement to disclose transfers between Levels 1 and 2 of the fair value hierarchy originated from the discussions held by the IASB's fair value expert advisory panel. Users of financial statements on the panel were concerned about the lack of transparency in the financial crisis of information about movements between levels of the hierarchy, particularly when those

movements relate to changes in market activity. Those users were satisfied with a significance threshold for the disclosure.

15. The staff thinks the objective of the disclosure of transfers between Levels 1 and 2 of the fair value hierarchy is to provide information that will help users of financial statements assess changes in market and trading activity (the entity's or others') so that they can incorporate into their analyses the entity's future liquidity risk and can analyse the entity's fair value risk exposure. The staff thinks it would be difficult for an entity to justify not disclosing any information about transfers that it has deemed insignificant individually when those transfers are significant in the aggregate. Such behaviour would not meet the objectives of the disclosures about fair value measurements.

16. Furthermore, although the proposal states that an entity must disclose any transfers between Levels 1 and 2 of the fair value hierarchy, the entity actually must disclose any material transfers, given the materiality threshold in 105-10-05-6 and in IAS 1 *Presentation of Financial Statements*. Therefore, this is really a discussion about adding disclosures about transfers between Levels 1 and 2 of the fair value hierarchy that would currently be deemed material, but not significant under Topic 820. The staff does not plan to resolve the difference between 'material' and 'significant' in this project.

Staff recommendation

17. The staff recommends that the boards require an entity to disclose significant transfers between Level 1 and Level 2 of the fair value hierarchy because, given the objective of the disclosure to provide information about changes in market and trading activity, the disclosure of significant transfers would meet the needs of users of financial statements.

Question 1
Do the boards agree with the staff recommendation in paragraph 17?

If not, what do you propose and why?