Project	**Fair value measurement**
Topic	**Disclosing the level of the fair value hierarchy for fair values disclosed but not recognised**

Purpose of this paper

1. This paper addresses the proposal to require an entity to disclose the level in which a fair value measurement would be categorised within the fair value hierarchy (Level 1, 2 or 3) for assets and liabilities that are not subsequently measured at fair value in the statement of financial position, but for which fair value is required to be disclosed. For example, this proposal would be relevant for financial instruments subsequently measured at amortised cost and for investment property measured using the cost model in IAS 40 *Investment Property*.

2. This proposal is in 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* (as a proposed amendment to Topic 825 *Financial Instruments*) and in the IASB's May 2009 exposure draft *Fair Value Measurement*. The proposal originated from the discussions held by the IASB's fair value expert advisory panel, which discussed measurement issues arising from the financial crisis.

Overview of comments received

3. 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

4. Many of the respondents who are preparers of financial statements commented on the proposal. Nearly all of those respondents think information about the level of the fair value hierarchy for fair values that are not subsequently measured at fair value in the statement of financial position would be of little relevance to users of financial statements. They assert that since such items are not managed on a fair value basis, they do not provide information about the entity's future earnings. As a result, they are concerned that the cost of preparing the disclosure would exceed the benefits.

5. Many preparers who responded to the IASB's May 2009 exposure draft had similar concerns.

Discussions with users of financial statements

6. From our discussions with users of financial statements, the staff has learned that users would in fact find this information useful for assets and liabilities (eg financial instruments) for which fair value is used in their analyses.

7. Those users told us that understanding the relative subjectivity of the fair value measurement disclosures would help them to:

   (a) better understand the quality of the 'economic balance sheet' (ie what the balance sheet would look like if all assets and liabilities were recognised at fair value);

   (b) assess the level of fair value risk exposure of the entity; and

(c) forecast and understand better the possible variability of future earnings (on the basis of the entity's fair value risk exposure).

Staff analysis and recommendation

8. The staff and boards have consistently heard from users of financial statements that fair value information is useful, particularly for financial instruments and investment properties.

9. In fact, US GAAP and IFRSs already require fair values to be disclosed for financial instruments not subsequently measured at fair value because the boards wanted to ensure that investors, creditors and other users of financial statements could assess the consequences of an entity's investment and financing strategies.[1] The boards have concluded that in a changing economy, information about fair value permits continuous reassessment of earlier decisions in the light of current circumstances. Information about the relative subjectivity of a fair value measurement, whether recognised or disclosed, is important for making those assessments.

10. Many preparers are concerned about the cost of providing information about the level in which a fair value measurement would be categorised within the fair value hierarchy. However, in order to measure fair value, an entity needs to use a valuation technique and select inputs for the valuation technique. Entities are currently required to disclose information about the inputs and valuation techniques used for measuring these fair values under both IFRSs and US GAAP. As a result, the entity has the information necessary to make the determination of whether a fair value measurement would be categorised within Level 1, 2 or 3 of the fair value hierarchy. Because the fair value information disclosed already must be audited, the staff thinks that the incremental cost of auditing the hierarchy determination would not be significant.

[1] Similarly, when developing IAS 40, the IASC thought it was important to provide users with the fair value of an investment property even when an entity recognises its investment property at cost.

Staff recommendation

11. Therefore, the staff recommends that the boards retain the proposal to require an entity to disclose the level in which a fair value measurement would be categorised within the fair value hierarchy (Level 1, 2 or 3) for assets and liabilities that are not subsequently measured at fair value in the statement of financial position, but for which fair value is required to be disclosed.

Question 1
Do the boards agree with the staff recommendation in paragraph 11? If not, what do you propose and why?