To	David Sidwell, Chairman - Due Process Oversight Committee
From	Alan Teixeira, Director of Technical Activities +44 (20) 7246 6442 ateixeira@ifrs.org
Subject	**IFRS 13 *Fair Value Measurement***
Date	22 March 2011

In April the Board is planning to issue IFRS 13 *Fair Value Measurement*.

I am writing to you to summarise the steps the Board has taken to ensure that IFRS 13 has been developed in full compliance with the Board's due process requirements. I have also identified the steps the Board and staff have taken to address concerns raised during the development of the IFRS.

Overview of the improvements

IFRS 13 will be a single source of fair value measurement guidance that clarifies the definition of fair value, provides a clear framework for measuring fair value and enhances the disclosures about fair value measurements. It is also the result of the efforts of the IASB and the FASB to ensure that fair value has the same meaning in IFRSs and in US GAAP and that their respective fair value measurement and disclosure requirements are the same (except for minor differences in wording and style).

As a consequence of the new fair value measurement standard the fair value measurement and disclosure requirements in the IFRSs that require or permit fair value measurements has been removed from those IFRSs.

Areas likely to be controversial

People are concerned about when FV is used rather than how to measure it. Nonetheless, they are concerned that changing the definition of FV changes the measurement objective. Fair value is defined 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). Throughout the development of the IFRS some respondents have stated that they do not think of fair value as an exit price. The IFRS explains why an exit price notion is used and why it will generally be the same as an entry price. Nevertheless there may still be some strongly expressed views about this matter.

Some respondents, including the EFRAG TEG expressed concerns about applying the fair value requirements to non-financial assets. The Board always made it clear that the new IFRS would apply to a broad range of assets and conducted a standard-by-standard review of when fair value is used in IFRSs.

Due Process Concerns

The EFRAG TEG wrote to the Board asking why it had not undertaken a formal exposure of the Board's standard-by-standard review of the use of fair value. We sent an extensive reply to the TEG. As is noted later in this report, the Board received responses from 50 interested parties (including the large accounting firms, as well as preparers and users of financial statements) to its invitation for interested parties to participate in the review. The TEG has not raised any further concerns since our reply to their letter.

I am not aware of any other matters that the Due Process Oversight Committee should be concerned about in relation to the forthcoming IFRS 13.

Due process

The IASB Due Process Handbook includes mandatory and non-mandatory steps that need to be considered before an exposure draft is published or a new IFRS or amendments to existing IFRSs are issued. The Board is required to explain why it has not undertaken any of the non-mandatory steps (ie the 'comply or explain' approach).

Mandatory steps

Publishing an exposure draft, with a basis for conclusions and alternative views if relevant

The Board published the exposure draft *Fair Value Measurement* in May 2009. That exposure draft had a 4-month comment period, with comments due in September 2009. All Board members approved its publication.

Reviewing comments made within a reasonable period on documents published for comment

The Board received 160 comment letters on the May 2009 exposure draft. The comment period ended on 28 September 2009; a comment letter summary was presented to the Board at the October 2009 Board meeting. The Board also analysed comments received in further detail between December 2009 and April 2010.

Consulting the Advisory Council on major projects

The staff brought specific papers on the fair value measurement project to the Advisory Council in November 2007 and November 2009. The fair value measurement project was also discussed in the sessions on the financial crisis in November 2008, February 2009 and June 2009.

Including a basis for conclusions in the IFRS

IFRS 13 includes a basis for conclusions. No Board members have dissented to the publication of the IFRS.

Non-mandatory steps

Publishing a discussion document (eg a discussion paper)

The Board published a discussion paper in November 2006. The Board used the US GAAP fair value measurement standard (FASB Statement of Financial Accounting Standards No. 157 Fair Value Measurements at the time) as the basis for its preliminary views in the discussion period. That discussion paper had a 6-month comment period. The Board received 136 comment letters.

Establishing working groups or other types of specialist advisory groups

The Board decided not to form a working group for the fair value measurement project because (a) the project would not result in fundamental changes to the fair value measurement guidance already in IFRSs and (b) it had formed an *Expert Advisory Panel* in response to the financial crisis to address the fair value measurement of financial instruments when markets become inactive. The staff and Board consulted extensively with the Expert Advisory Panel and incorporated its recommendations in IFRS 13.

Holding public hearings

Public roundtables were held in November and December 2009 in London, Norwalk and Tokyo. In addition, non-public roundtables were held in Singapore and Kuala Lumpur at the same time. The roundtables offered participants a chance to provide feedback on the proposals in the May 2009 exposure draft.

Undertaking field tests (both in developed countries and in emerging markets)

The Board decided not to undertake field tests for the fair value measurement project because the project would not result in fundamental changes to the fair value measurement guidance already in IFRSs.

Additional steps taken

In addition to the activities outlined in the due process handbook, the staff and Board members undertook additional outreach.

- In February 2008 the Board asked interested parties to participate in a standard-by-standard review of where fair value is used in IFRSs to provide input on whether those uses of fair value were interpreted in practice to reflect an entry price or exit price notion. The Board received responses from 50 interested parties (including the large accounting firms, as well as preparers and users of financial statements).

- In late 2009 the Board published a Request for Input asking companies in emerging and transition economies to describe the issues they face with respect to preparing fair value measurements and the related disclosures. The Board received 30 responses in January 2010 and used that input to conclude that the IFRS Foundation should publish educational material to accompany IFRS 13. That educational material will be made available by the end of 2011.

- In November and December 2009 staff and Board members held non-public roundtables in Singapore and Kuala Lumpur. The roundtables offered participants a chance to raise their concerns about the application of the proposals in the May 2009 exposure draft to companies in emerging and transition economies.

- In March 2010 and January 2011 the staff and some Board members attended meetings with financial institution preparers to discuss the valuation of financial instruments held within portfolios to determine how to describe their measurement in IFRS 13.

A draft of the IFRS was sent for a fatal flaw review to a selected group of audit firms and preparers. Those preparers were from a variety of industries and geographic locations. National standard-setters were also given access to the drafts.

Fair value measurement was occasionally on the agenda of the Analysts Representative Group (mainly with respect to disclosure). Staff and Board members also discussed the topics at conferences hosted by the IASB and other organisations. Staff and Board members also gave presentations at IFRS Conferences and World Standard Setters meetings.

A project summary and a staff draft were made available on the IASB website in June 2010 and August 2010, respectively. The project summary outlined the project history and summarised the rationale for the conclusions reached so far in the project.

A feedback statement and an effect analysis of the IFRS will also be provided as public documents to accompany the publication of the IFRS. Those documents will explain in simple language the improvements made to IFRSs and the effects those changes will have for preparers, auditors and users of financial statements.

Re-exposure

The IASB Due Process Handbook states that the Board must consider whether a proposal should be re-exposed by:

- Identifying substantial issues that emerged during the comment period on the exposure draft that it had not previously considered;
- assessing the evidence that it has considered;
- evaluating whether it has sufficiently understood the issues and actively sought the views of constituents; and
- considering whether the various viewpoints were aired in the exposure draft and adequately discussed and reviewed in the basis for conclusions on the exposure draft.

In April 2010 the Board considered the changes made from the May 2009 exposure draft and decided that it was necessary to re-expose a proposed disclosure of the unobservable inputs used in a fair value measurement (*Measurement Uncertainty Analysis Disclosure for Fair Value Measurements*). The Board concluded that it was necessary to re-expose that proposal because in their discussions with the FASB, the boards agreed to require a measurement uncertainty analysis disclosure that included the effect of any interrelationships between unobservable inputs (a requirement that was not proposed in the May 2009 exposure draft and was not already required by IFRSs). That exposure draft had a 3-month comment period, with comments due in September 2009. All Board members approved its publication. The Board received 92 comment letters on the re-exposure draft.

Summary

The Board considered all of these matters at a public meeting and decided to ask the staff to prepare the IFRS for balloting. The staff are in the process of preparing those ballot drafts and our plan is to issue the documents in April.