



**IASB/FASB Meeting
Week commencing 17 October 2011**

IASB Agenda
reference
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**Staff
Paper**

FASB
Memorandum
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Project	Fair Value Measurement		
Topic	Updated plan for developing educational material		

Purpose of this paper

1. This paper discusses the staff's plans for developing educational material relating to fair value measurement. These plans were initially discussed by the boards in March 2010. In that meeting it was tentatively agreed that the educational material will describe, at a high level, the thought process that one might go through to meet the objective of fair value measurement.
2. It was also tentatively agreed that:
 - (a) the educational material will be prepared by the fair value measurement project team and published by the IFRS Foundation; and
 - (b) although the material will be published by the IFRS Foundation, the IASB and FASB staff will work together to ensure that the educational material is consistent with both IFRS 13 *Fair Value Measurement* and Topic 820 *Fair Value Measurement* in the *FASB Accounting Standards Codification*¹.

Why is educational material necessary?

3. Entities in emerging and transitioning economies have consistently expressed to the IASB their concerns about applying fair value measurement principles in

¹ Topic 820 codified FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157).

their jurisdictions. That message was reiterated to some members and staff of the IASB in a meeting held with the Emerging Economies Group (EEG) in July 2011.² Common concerns include the following:

- (a) The fair value measurement guidance is not detailed enough to allow them to measure fair value on a consistent basis.
 - (b) There is limited availability of practitioners in their jurisdictions who have the skills to apply the guidance (and as a result entities are often unfamiliar with applying the necessary judgements).
 - (c) There is limited access to market data to develop fair value measurements because there are few deep and liquid markets, there are often few willing buyers and sellers and prices often fluctuate considerably within short periods of time.
 - (d) Models, inputs and assumptions may be new and may not be comparable across entities because of rapidly developing socio-economic changes.
 - (e) Measuring fair value (and preparing the resulting disclosures) could be expensive.
4. In finalising IFRS 13, the IASB noted that the concerns raised are not specific to entities in emerging and transitioning economies. Entities in developed economies faced similar challenges during the global financial crisis that started in 2007 and asked the IASB for guidance for measuring the fair value of equity instruments without active markets, given the requirement to measure them at fair value, at that time, in IAS 39 *Financial Instruments: Recognition and Measurement*.
 5. In addition, during the development of IFRS 13 the IASB concluded that there should not be a different threshold for measuring fair value depending on jurisdiction. Only by performing fair value measurements will entities applying IFRSs learn how to do those measurements appropriately and robustly.

² The IASB set up the Emerging Economies Group (EEG) to collect recommendations from the emerging economies for the application of IFRSs in their jurisdictions. The EEG's first meeting was held in July 2011 in Beijing, China, and the topic of the meeting was fair value measurement.

6. As a result, this paper focuses on the need for educational material that will help constituents when measuring the fair value of assets and liabilities *regardless of their jurisdiction.*

What will be the process for developing the material?

7. This section discusses the staff's plans for developing educational material to help entities apply the principles in IFRS 13.
8. It is important to keep in mind that, because IFRS 13 and Topic 820 are nearly identical, any educational material developed for applying IFRS 13 might also be used by entities applying US GAAP. As a result, the FASB staff will be involved in the process of developing the educational material to ensure consistency with the requirements of both IFRS 13 and Topic 820.

Forming an advisory group

9. During the EEG's discussions, it became clear to the staff that some of the market dynamics (and cultural differences) are going to be difficult to address from London or Norwalk. As a result, the staff think that the educational material will be of most help if it is developed using the expertise of people who actually measure fair value in emerging economies, as well as those who have been measuring fair value in developed economies. In other words, the educational material could be used as a tool for facilitating the transfer of knowledge between developed and developing economies.
10. Therefore, we suggest forming an advisory group to assist the staff in developing the educational material.
11. In terms of membership, we think that the group should consist of valuation experts:
 - (a) who attended the EEG meeting in July 2011;
 - (b) from other emerging economies not present at the EEG meeting;
 - (c) from the International Valuation Standards Council (IVSC);

- (d) from the United States in order to gain their perspective on the implementation of SFAS 157; and
 - (e) from other parts of the world, as appropriate.
12. The advisory group would provide assistance to the fair value measurement project team (IASB and FASB staff) by:
- (a) helping to develop the educational material so that it covers the examples discussed at the EEG meeting in July 2011; and
 - (b) bringing any other examples they think are relevant for understanding the processes involved when applying the fair value measurement principles in IFRS 13.

Examples of areas for which the staff have heard more guidance is needed, including those from the EEG meeting, are included in Appendix 1.

13. We expect to undertake these activities with the advisory group via ad hoc phone/video conferencing and meetings as needed during the development of the material.

Format of material

14. The staff think it would be useful for the educational material to be similar in style to the IASB's fair value Expert Advisory Panel's report, which is a summary of practice for measuring the fair value of financial instruments in inactive markets.³ That document was not a detailed 'how to' valuation guide, but it summarised the thought process for performing valuations and emphasised the need for using judgement when measuring fair value in the absence of an observable market price.
15. Like the Expert Advisory Panel's report, the educational material would not be approved by the IASB.

³ In October 2008, the IASB staff published a report summarising the discussions of the Expert Advisory Panel entitled *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*.

Timing of material

16. IFRS 13 becomes effective on 1 January 2013. The staff envisage publishing the educational material during the first half of 2012, giving entities at least six months to have the educational material available to them while they prepare for applying IFRS 13.
17. We expect to inform the boards on a regular basis about the progress of the educational material through educational sessions that would be held publicly. We think that this would allow interested parties to be continually aware of the progress and status of the educational material.
18. We also expect that a draft document would be posted on the IASB website for a short period for interested parties to provide their views on the guidance that had been developed. After receiving these views, the staff would finalise the document for publication. This was the process used in the preparation of the Expert Advisory Panel report.

Question

Do the boards have any comments on the staff's plan for publishing educational material?

Appendix 1: Areas for which constituents have said additional guidance would be helpful

- Identifying the principal (or most advantageous) market for an asset or a liability in particular when different group entities (and businesses within those entities) have access to different markets.
- Determining whether observed market transactions are orderly.
- Identifying the relevant types and characteristics of market participants.
- Assessing the highest and best use of an asset.
- Valuing biological assets (since there is not an example of this in IFRS 13).
- Identifying what to take into consideration when quantifying restrictions on the sale or use of an asset.
- Selecting methodologies for measuring the fair value of unquoted equity instruments and equity instruments in inactive markets.
- Determining fair value based on bid and ask prices.
- Determining credit risk adjustments for financial instruments.
- Identifying which observable inputs are relevant to a valuation.
- Using unobservable inputs in a fair value measurement (level 3 fair value measurements).