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Mr Jon Nelson
International Accounting Standards Board
30 Cannon Street
London
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**Discussion Paper on Fair Value Measurements - Part 1: Invitation to Comment and relevant IFRS guidance**

Dear Mr Nelson

We are pleased to comment on the *Discussion Paper on Fair Value Measurements* (the "DP").

As we have stated in previous letters, we support global convergence around high quality accounting standards. As such, we support the inclusion of fair value measurement on the convergence agenda with the FASB.

In addition, constituents are better served with a consistent definition of fair value across different accounting standards when fair value is intended to have the same meaning across those accounting standards. As the Board recognises in its invitation to comment there are differences in the meaning of fair value in current standards. Before an exposure draft can be issued, a thorough analysis of all standards is needed to establish where the term fair value is currently used, what it is intended to mean. Without this analysis we do not believe an over-arching measurement standard, defining current value[1] measurements, can be developed. In addition, fair value measurement, as defined in the DP, is only one measurement attribute. We are not convinced that this represents the most relevant attribute for *all* items.

The DP concludes fair value is an exit price based on a transfer (as opposed to a settlement). Current IFRSs use the term fair value as meaning sometimes an entry price, sometimes an exit price, sometimes based on a transfer and sometimes based on a settlement. We believe that rather than removing these different terms by having a standardised definition of fair value which we believe in some instances would lead to an inappropriate treatment, recognition should be given to these different terms as we believe that all of them have a place in accounting literature. As such, the term 'fair value' should be dropped as it means different things to different people.

Firstly, for items that are *not* continuously measured at a current value we believe an entry price instead of an exit price is a more relevant measure. When an item is not measured at a

[1] The term 'current value', as opposed to fair value, is purposely used in this letter to mean the measurement attribute of reflecting what an item is currently worth. When describing this measurement attribute the term fair value is not always used as this results in confusion as there are many different definitions of fair value.

current value then the most appropriate initial value is the amount of resources incurred or received upon entering into the arrangement (presuming the transaction was between unrelated parties on an arms-length basis).

Secondly, for items that are continuously measured at a current value we believe it is appropriate to *initially* recognise these items at an exit price. This would apply to items where the relevant measurement attribute is an exit price, but it would not apply to items that are continuously remeasured based on a measurement attribute other than exit price. The identification of what items are subject to which measurement attribute is a prerequisite before issuing a fair value measurement exposure draft. For those items that are deemed to be continuously measured at fair value as defined by a fair value measurement standard we support exit price for initial recognition as it is consistent with the subsequent measurement at an exit price. We reiterate that this does not mean we consider that all items should be subsequently measured at exit value as this is only one measurement attribute. We support the exit price definition based on a transfer for financial instruments and those non-financial items that are traded in an active market as long as clarity is provided on how to apply the market participant view (see comment below). We have difficulty with the application of a transfer exit price for non-financial items that are not traded in an active market, for example a non-financial liability that will be settled through the delivery of goods or services, or property plant and equipment that is consumed where there is no intention of disposal. In these instances we believe measurement attributes other than current value may be more relevant. We would welcome debate on the appropriateness of current value as a subsequent measurement base for non-financial items as the DP does not discuss this.

To aid your analysis of current IFRS we have listed in Appendix 2 to this letter reference to the term 'fair value' in existing IFRSs and whether we believe that what is meant by fair value in each context is an exit price fair value, an entry price fair value or other. We would ask you to use this list and consider whether you agree with us, and if so, that such a list is incorporated as part of the debate before issuing an exposure draft. In putting context to the current use of fair value in IFRS it is important to recognise the interactions with other current IASB projects. We welcome Appendix C of the Discussion Paper 'Preliminary Views on Insurance Contracts' as an example of demonstrating how standards interact.

Thirdly, exit prices as defined in the DP are based on a 'market participant' view. We agree that a market based assessment of value may provide relevant information but we have difficulty in applying the current definition of a market participant and how that interacts with the reporting entity itself. This is particularly relevant where an item is not traded in an active market where the reporting entity has more information about the item (and the counterparty) than other parties simply because of the low volume of transactions in the market. Determining what a market participant is and what information that participant would reasonably expect to have at its disposal is very important and this will ultimately determine the current value that the reporting entity will recognise.

In short, we believe greater thought is needed about extending the application of the principles in the DP across all contractual arrangements including those involving non-financial assets and liabilities. We acknowledge that the objective of work currently being undertaken under the Conceptual Framework measurement project is to address this wider debate. However it is difficult to comment on the definition of current value outside of the debate on what measurement attribute should apply. For this reason, a disproportionately high number of our comments focus on the impact of the proposed fair value definition in the DP on financial instruments where IFRS currently requires subsequent measurement at fair value. We are not currently convinced that "one standard could fit all" particularly if all non-financial items were in its scope.

More detailed comments on the appropriateness of applying the SFAS 157 model under IFRS are contained in Appendix 1 to this letter.

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We appreciate the opportunity to provide our comments.

If you have any questions concerning our comments, please contact Ken Wild in London on +44 (0) 207 007 0907.

Yours sincerely

**Ken Wild**
**Global IFRS Leader**

## Appendix 1

### Issue 1. SFAS 157 and fair value measurement guidance on current IFRSs

*Q1 In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?*

Before pursuing an exposure draft on fair value measurement (FVM) we believe that it is necessary for the Board to clarify what is meant by the use of the term 'fair value' wherever it is used in existing IFRSs, particularly in respect of the measurement of non-financial items. This exercise will drive whether a FVM standard should apply to all standards that currently use this term or whether some standards should be amended if the term 'fair value' as defined by a FVM standard is no longer considered appropriate. To assist you in this regard we have included in Appendix 2 all references to fair value in the current IFRS literature.

*Q2 Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.*

For items that are *not* continuously measured at a 'current value' we believe an entry price is more relevant than an exit price for initial recognition. When an item is not subsequently measured at a current value then the most relevant initial value is the amount of resources incurred or received upon entering into the arrangement (presuming the transaction was between unrelated parties on an arms-length basis). Our view is consistent with the treatment currently applied in IFRS for financial instruments not subsequently measured at fair value, i.e. cost and amortised cost, where their initial measurement is based on an entry fair value and is consistent with the view of the IASB members in paragraph 14 of the DP that states 'an entry price also reflects current market-expectations of flows of economic benefit into or out of the entity'. We therefore propose that initial measurement should be called 'current entry price' rather than fair value.

Secondly, for items that are continuously measured at a current value we believe it is appropriate to *initially* recognise these items at an exit price (although we do not necessarily endorse the DP's definition of exit price in all instances – further explanation is given in response to the other more specific questions). It is consistent to use the same measurement attribute, exit price, for both initial and subsequent measurement. It should be noted that this does not mean we consider all items should be subsequently measured at current value as this is only one measurement attribute. We support the exit price definition based on a transfer for financial instruments (like IAS 39) and those non-financial items that are traded in an active market, though believe more clarity is needed on how to apply the market participant view (see our response to Q3). We have difficulty with the application of a transfer exit price for non-financial items that are not traded in an active market, for example a non-financial liability that will be settled through the delivery of goods or services, or property plant and equipment that is consumed where there is no intention of disposal. In these instances we believe other measurement attributes other than current value may be more relevant. We would welcome debate on the appropriateness of current value as a subsequent measurement base for non-financial items as the DP does not discuss this.

### Issue 2. Differences between the definitions of fair value in SFAS 157 and in IFRSs and Issue 2A. Exit price measurement objective

*Q3 Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?*

As discussed in our response to Q2, we do not believe an exit price definition of fair value should be universally applied to all existing IFRS that refer to 'fair value'. In addition, as

described later in our responses, we are not convinced that a transfer value is always preferable to a settlement value.

An appropriate amount for initially recognising an asset or liability that is not subsequently measured at fair value is the amount that would be achieved in a transaction at arms-length terms between a willing buyer and willing seller in the entity's principal market. We stress though that this is an entry price in order to *initially* recognise the asset and liability. The relevance of 'fair value' for initial recognition is to force an entity to recognise the difference between transaction price and fair value in the instances when transactions are not arms-length. If an entity was acquiring an asset in its principal market and the item will not be subsequently measured at fair value we do not believe it appropriate that the entity can at initial recognition realise an up-front gains/losses. If there were universal application of exit prices for initial recognition of *all* items, i.e. including those that were not subsequently measured at fair value, we believe this would be the result.

With respect to subsequent measurement, where a standard requires fair value measurement then we believe that, in many cases, exit prices are an appropriate definition of fair value. But, as highlighted in our covering letter, we are not convinced that this is the most relevant measurement attribute for non-financial items not traded in active markets, for example non-financial assets that will be consumed, rather than be transferred to a third party in an exchange transaction, or a non-financial liability that will be settled through the delivery of goods or services, rather than be settled or transferred to a third party in an exchange transaction for cash. For example, in a business combination all identifiable assets and liabilities are currently recognised at fair value. For subsequent measurement, some assets and liabilities will be retained at their initial entry price, less amortisation or impairment (which some users may think of as an 'adjusted cost' measurement), whereas some assets and liabilities will be measured at current exit price (which some users may think of as fair value measurement).

We agree with paragraph 17 of the DP that it is necessary for the Board to clarify for each standard and interpretation in existing IFRSs where 'fair value' means exit-price fair value and where it means entry-price fair value, before introducing a definition of fair value as an exit value. We encourage the Board to use the list in Appendix 2 and conclude whether they agree with our analysis, and if so, then the development of the exposure draft should reflect the existence of entry and exit price valuation. We also agree that for each new project the Board considers and standard the Board introduces it will be necessary to consider whether any FVM is an entry or exit price, and if it is an exit price whether it is based on the notion of transfer or settlement.

We note that FAS 157.17 states that in many cases "the transaction price will equal the exit price", yet this is confusing as FAS 157.16 states explicitly that "entry prices and exit prices are different". The Board should endeavour to provide clearer guidance on when exit and entry prices will differ and when it is appropriate to recognise a "day one" profit or loss.

We draw the Board's attention to a speech on FAS 157 by Joseph D. McGrath of the SEC on 11 December 2006 where a warning was made to preparers to be cautious about recognising upfront gains at initial recognition and that it is not "open season" to recognise these gains. Some have read this speech to indicate that generally a difference in fair value should not exist between entry and exit price, i.e. unless an entity is operating in two different markets then initial recognition fair value will equal the cash consideration given or received under FAS 157. We favour this view that if an entity acquires an item at an arms-length price and the entity does not operate in multiple markets where 'day 1 P&L' may be appropriate, it should not result in an upfront gain/loss *solely* because a fair value measurement standard could imply that at initial recognition exit prices should be used rather than entry prices. We believe that in large part confusion has been created as it not clear whether FAS 157 and the DP put forward by the IASB would result in upfront gains/losses simply due to all transactions prices being assumed to be an exit price. Throughout this letter we have assumed

there is an upfront difference at initial recognition because of the explicit statements in the DP about entry and exit prices being different, and therefore many of our comments are directed at ensuring that if an exposure draft is issued that upfront gains/losses do not arise at initial recognition simply because of the difference between entry and exit prices. We believe that much of this ambiguity can be overcome by ensuring that for initial recognition of items that are not subsequently going to be measured at fair value, that a current entry price concept is used instead of exit prices.

We believe greater clarity is needed as to how a 'market participant' is determined. In active markets where there is information symmetry and quoted prices reflect an equilibrium between multiple buyers and sellers the concept of market participant is easier to apply. Where items are not traded in active markets the reporting entity may in many instances be either dominant in that market, be subject to information asymmetry due to the long standing relationship with the counterparty, or because of a low volume of transactions in the market the assumed level of information from other market participants is difficult to impute. We note that FAS 157.30 recognises that unobservable inputs may include the reporting entity's own data in certain situations. We support this statement. We also support the use of the term 'independent' in the market participant definition as this removes the influence on fair values due to related party relationships. However, it is the interaction of the term independence and the inclusion of entity specific data that is not available to parties other than the reporting entity that causes confusion as to who is the identity of the market participant. We would like to see clarity on how these two concepts interact as determining what a market participant is and what information that participant would reasonably expect to have at its disposal is very important and this will ultimately determine the fair value of the item for the reporting entity.

*Q4 Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree with the view that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.*

As discussed in our response to Q2 and Q3 we believe that an entry price that is equivalent to a price for an arms-length transaction between the reporting entity and the counterparty is an appropriate valuation methodology for initial recognition only when an item will not be continuously measured at fair value.

In the instance where an asset or liability is subsequently measured at fair value under existing IFRS the difference between the entry and exit price will be recognised when the instrument is measured on 'day 2'. Crossing the bid-offer spread in active markets in this case is a transaction cost, and in the case of an asset it represents from the investor's point of view the cost incurred in investing, and from a dealer's point of view it represents their commission from selling. IAS 39.AG70 indicates this when it states that "the term 'the bid-ask spread' includes only transaction costs".

We believe it could be beneficial to provide guidance as to how initial recognition at fair value for financial instruments squares with the definition of the effective interest rate. For debt instruments held at amortised cost, or held at fair value with gains/losses recognised in equity (in the case of debt instruments classified as available-of-sale) an entity would need to apply the effective interest rate. The effective interest rate states that it includes transaction costs and IAS 39 acknowledges that the bid-ask spread is a transaction cost. If an entity is required to initially recognise the debt instrument at exit price how should the bid-ask spread be reflected in determining the effective interest rate? Depending on whether an entry or an exit price is used for initial recognition, the effective interest rate will differ, and in the case of an available-for-sale asset the amount recognised in equity will differ.

*Q5 Would it be advisable to eliminate the term 'fair value' and replace it with terms, such as 'current exit price' or 'current entry price', that more closely reflect the measurement objective for each situation? Please provide a basis for your views.*

Yes. As stated above, we agree that it is necessary for the Board to review and clarify for reference to fair value in each standard and interpretation in existing IFRSs whether 'fair value' means exit-price fair value or entry-price fair value. We believe that certain existing FVM requirements require an entry-price fair value, rather than an exit price fair value. Elimination of the term 'fair value' and the use of terms such as 'current exit price' or 'entry price' would remove the current confusion of the term 'fair value' being used for both initial and subsequent measurement. Also, as described later in our letter, we believe that settlement may be preferable to transfer in some instances, and therefore a 'current exit price' terminology could have a sub-set, being 'current settlement price' or 'current transfer price' as appropriate. Users could then understand how the exit price was determined, either by an assessment of how much the entity would receive or pay through settlement with the counterparty or via a transfer to a third party.

*Q6 Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.*

As discussed in our response to previous questions, for initial recognition in IFRS, the fair value objective is generally to reflect an entry price. Moving to exit prices may in certain cases result in upfront gains or losses on initial recognition that are inappropriate. In the instance when the instrument is *not* subsequently measured at fair value we fail to see the logic in this approach and the value to users of financial statements as those gains/losses will reverse in subsequent periods by a higher or lower amortisation in the case of financial instruments held at amortised cost, or through a higher or lower depreciation for non-financial instruments, or a higher or lower gain/loss on disposal or impairment for those items subsequently measured at cost. For example, an entity acquires a debt instrument that it classifies as held to maturity at initial recognition. The instrument is recognised at fair value which is equal to entry price for the reporting entity. The instrument is subsequently measured at amortised cost per IAS 39.9 as the entity has a "positive intention and ability to hold to maturity". The entity will realise the value of the asset through cash receipts not sale. It would seem anomalous to initially recognise the debt instrument at exit price and recognise an upfront gain or loss and then subsequently recognise a greater or lesser interest income when in the absence of sale the exit price is not intended to be realised. If the instrument is purchased at par and is initially recognised at entry price the effective interest will equal the cash receipts in excess of the initial investment, being the amounts that the entity has earned by not selling the asset.

Upfront losses and a higher effective interest rate would equally apply for loans and receivables as theoretically the entity should recognise a difference between entry and exit price at initial recognition. As loans and receivables are by definition not quoted in an active market the theoretical bid-ask spread could be significant, yet unless the loans and receivables are frequently sold it would be very difficult for an entity to determine this. In addition, if a receivable was recognised at exit price with an upfront loss, the net profit from selling goods that led to the recognition of the receivable would be less than the fair value of the good or service sold. This make less sense and therefore our recommendation is that for initial recognition of items that are not subsequently measured at fair value the entry price fair value is more appropriate.

**Issue 2B. Market participant view**

*Q7 Do you agree with how the market participant view is articulated in SFAS 157? Why or why not?*

Please see the last paragraph to our response on Q3 for our views on the market participant notion. In addition to these comments we have further more specific comments.

We note that the presumption in SFAS 157.10 is that the party is always independent of that reporting entity, that is, the market participant is not a related party. We support this assumption. However, with IFRS being increasingly applied for entity only financial statements we believe it is time that the IASB provide guidance on the accounting for the difference between the transaction price with a related party and fair value as defined by a market participant. A significant volume of transactions are with fellow subsidiaries, immediate or ultimate parents, associates etc, and current guidance is limited as to how to account for the difference in fair value as defined by this DP and the transaction price. It would be beneficial to include implementation guidance in this area.

Guidance should be provided as to how an entity is expected to determine the price that a market participant would pay for an asset or receive for taking on a liability in the absence of other transactions in that instrument. Inevitably the reporting entity will need to make assumptions of cash flows based on the information available to them which may or may not exist in a theoretical market for that instrument. For example, if an entity does not have a practice of selling trade receivables, to what extent does the entity include data about historic credit losses which may not be available to a buyer of those receivables unless the seller purposely divulges this information as part of the sale agreement. If the seller can maximise the value of the receivables through providing its own historic credit loss information to the buyer do we assume the market participant has this information when determining fair value?

Guidance on what information an entity would typically include in determining a market participants' view of that item would be helpful.

*Q8 Do you agree that the market participant view in SFAS 157 is consistent with the concepts of 'knowledgeable, willing parties' and 'arm's length transaction' as defined in IFRS? If not, how do you believe they differ?*

We do not expect there to be a difference in practice between the definition of the 'market participant view' in SFAS 157 and the concept of 'knowledgeable, willing parties' and 'arm's length transaction' in existing IFRSs.

We note that, within the explanatory paragraphs on each of the components of the definition of fair value (paragraphs 6-15), there are sections on each of the term, except for "the principal (or most advantageous) market". Currently, the following components are discussed in detail in this section: the asset or liability, the price, market participants, application of assets, and application of liabilities. It would seem appropriate for there to be a discussion or explanatory paragraphs on all of the components of the definition to be included in this section, including a detailed explanation of "the principal (or most advantageous) market".

**Issue 2C. Transfer versus settlement of a liability**

*Q9 Do you agree that the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant?*[2] *Why or why not?*

The amount by which an entity would have to pay another entity to take on its liability (i.e. a transfer value) is reasonable when the liability that is being transferred is a financial liability that is regularly transacted in an active market. The entity may have a choice as to whether to settle the arrangement with the counterparty at the balance sheet date (we consider this a current settlement value) or transfer the liability to a market participant other than the original counterparty. See also our comments to Q16 on determining the market participant when transferring liabilities.

Beyond active markets we believe that determining a transfer value will generally be difficult, and in some instances be inappropriate in the instance when the liability cannot be transferred to a party other than the counterparty.

As stated in our Comment Letter on the Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, we do not support a single measurement attribute for non-financial obligations, particularly not transfer value for discrete non-contractual obligations, such as a lawsuit against an entity, as this could have the effect of recognising the liability at an amount that is highly unlikely to ever be paid, hence is misleading.

In fact, in some instances, it is difficult to differentiate a current transfer value from a current settlement value. Consider a liability to deliver goods or services. It is very theoretical to try and determine how much a market participant would expect to be reimbursed for taking on that obligation, when the obligation is so specific to the party that has originally entered into the contract. Financial obligations are less problematic as discounting fixed or determinable cash flows is easier in many ways than calculating the theoretical value for the reimbursement of an obligation to deliver a good or service[3].

An entity may have a non-financial obligation to deliver a non-financial item such as a physical good. The contract may not be transferable and therefore it is only the entity that can deliver under the contract. If an entity wished to transfer the liability it would need to amend the contractual terms through renegotiation with the counterparty. If the contract cannot be transferred then determining a current transfer value is theoretical, and determining fair value in practice would likely default to current settlement value, being the amount the reporting entity would need to pay the counterparty at the measurement date for being relieved of its obligations under the contract. Moreover, any decision on how to measure a non-financial liability to deliver goods or services is inextricably bound up with the question of revenue recognition, and must also be considered in that context. It is for these reasons, as stated in our covering letter, that for non-financial items that are not traded in active markets that alternative measurement attributes other than current value are likely to be more relevant.

We therefore believe transfer value originates and has more relevance to valuation of traded financial instruments in active markets and therefore before recommending in an exposure draft the extension of transfer value to financial instruments not traded in active markets and non-financial obligations we believe further research is needed as to whether in practice for non-financial obligations settlement or transfer value will be any different.

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[3] We believe that this is the effect of the proposed amendments to IAS 37 arising out of Phase II of the Business Combinations project. If the outcome of those proposed amendments is measurement of non-financial obligations at fair value, our comments are relevant. We acknowledge that a footnote to paragraph 23 of the DP states that "as IAS 37 does not require provisions to be recorded at fair value, it is not in the scope of this project." However, we have concerns that the outcome of the proposed amendments to IAS 37 will be that provisions should be recorded at transfer value or 'fair value'.

*Q10 Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements required by IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?*

As most non-financial liabilities are not currently measured at fair value there are few examples to compare to the transfer measurement objective in the DP. For fair value measurement of financial liabilities in IAS 39 the approach that is usually applied is the amount that the obligor would have to pay to extinguish their liability with the counterparty (either in a buy-back from various counterparties that hold the contractual arrangement or in negotiation with a single counterparty in the case of a single lender). The transfer measurement objective would lead to differences compared to the application of current IFRS in this area.

The guidance in IAS 39.43 that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid, would not be applicable if the DP was implemented in IFRS for demand deposits that were subject to subsequent fair value measurement.

## Issue 3. Transaction price and fair value at initial recognition

*Q11 In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition, thereby potentially resulting in the deferral of day-one gains and losses? Please give reasons for your views.*

Yes. Please also refer to our response to Q3.

In an entry price model, for initial recognition, the focus is on determining whether the transaction price is the price that would be expected to be paid or received for an arms-length transaction between the reporting entity and an independent third party. If there is a difference between these two amounts (e.g. entity transacted in other than its principal market) and no other good or service can be identified and there is no capital contribution because the counterparty is not part of the same group, then, and only then, should an upfront gain/loss be recognised. This principle should apply irrespective of whether the item is valued using external prices or using an internal valuation technique. We therefore support the principle in SFAS 157 that 'day 1 P&L' may exist in some circumstances assuming that the item is being subsequently measured at fair value. The approach currently in IAS 39, copied from US GAAP's EITF 02-03, was an attempt to defer gains/losses for only those arrangements where a valuation technique is used and there is some unobservable data. We believe this approach is inconsistent with fair valuation methodology as it introduces differences at initial recognition that are 'held-up' on the balance sheet and effectively amortised. Amortisation is not consistent with fair value measurement. With that said, as noted in our response to Q3, we believe there should be the Board should endeavour to provide clearer guidance on when exit and entry prices will differ and when it is appropriate to recognise a "day one" profit or loss.

We support the approach in SFAS 157 of robust disclosure in the instance where unobservable data is used so that users of financial statements can appreciate the 'quality' of fair valuations ('quality' can be thought of as 'reliability') and can compare period to period and with other entities the extent to which gains/losses are derived from unobservable data.

*Q12 Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks*

*of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please give reasons for your views.*

We do not believe the portfolio-based valuation of identifiable risks in the DP is clear enough. It is our understanding that the portfolio-based valuation attempts to fair value the identifiable risks based on the assumption that the acquirer may acquire and hold more than one unit but ultimately is still trying to determine the value of a single unit. For example, if an entity acquires a portfolio of loans that have a prepayment option, but only expects there to be a 20% chance that each loan will be prepaid, that acquirer will pay a different amount for a single loan than for one million loans that have the same terms. A single loan will either be prepaid in its entirety or it will not. The risk of prepayment is different for the portfolio due to the 'law of large numbers' in that the price for the portfolio reflects a different risk profile, in that 1 in 5 is likely to be prepaid in their entirety. This approach is often referred to as a 'unit of valuation' approach and attempts to fair value a single unit assuming it is acquired and is retained in the portfolio. We do believe this approach is different to the approach that the unit of account is a single unit. The unit of account attempts to value a single unit with the objective of not applying discounts and premiums simply because the holding of the instruments is larger than a single unit.

We would note that lack of guidance in SFAS 157 contrasting the unit of account versus the unit of measurement often makes it difficult to answer these questions under SFAS 157. The Board should endeavour to provide clearer guidance in this area.

### Issue 4. Principal (or most advantageous) market

*Q13 Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?*

We agree that fair value should firstly be determined by reference to the principal market for the reporting entity, i.e. the market in which the reporting entity most usually transacts. This is appropriate as it reflects the price the entity will transact in, not a purely theoretical price. This also rightly reflects that not all entities can transact in the theoretically most advantageous market, usually because off barriers to entry that are either legal, regulatory, or economic barriers because of the volume being traded.

### Issue 5. Attributes specific to the asset or liability

*Q14 Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?*

Yes, we agree.

With respect to restricted securities we believe greater clarification would be helpful in clarifying the distinction between restrictions that are an attribute of the asset and those that are entered into voluntarily that do not form part of the contractual terms. For example, at IPO, certain investors may enter into separate agreements with the issuer or a third party to agree not to sell shares within a specified period while other investors are entitled to sell. The restriction will limit the investor from realising the fair value through sale in the restricted period but the restriction itself does not form part of the contractual terms of the shares. In these cases we presume the DP would require the share to be fair valued excluding the effect of the restriction as the restriction agreement is itself a separate contractual arrangement, though probably not recognised in the financial statements. In these instances we recommend that a requirement to disclose the terms of the restriction arrangement should be introduced that would provide useful information in the absence of the fair value of the security being

adjusted for the effects of the restriction. This disclosure would be similar to the current requirement to show assets that are pledged and therefore cannot be disposed of by the entity.

Another area that is need of clearer guidance is when a valuation may be based on the asset or liability transformed into another form. For example, in valuing a portfolio of loans, should the value be based on the whole loans or may it be derived from the price that could be obtained if the loans were securitized (and would the transformation costs be considered transaction costs or more akin to transportation costs)?

*Q15 Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?*

We agree that transaction costs that will be incurred on future disposal/transfer of an asset/liability do not represent an attribute of the asset/liability, but rather an attribute of the future transaction. We note that footnote 5 of SFAS 157 states that "transaction costs should be accounted for in accordance with the provisions of other accounting pronouncements". The Board should ensure that current and future IFRS literature requires that future transactions costs are not included as part of the carrying amount of assets and liabilities when those items are subsequently measured at fair value to ensure consistency between a FVM standard and other standards. We note that the current measurement basis under IAS 2, IAS 36 and IFRS 5 do include transaction costs.

We draw to the attention of the Board an inconsistency with transaction costs to be incurred with third parties that are excluded from the fair value measurement and the inclusion of transaction costs (included within the bid-ask spread) when recognising assets and liabilities at exit prices. The use of exit prices will generally result for non-dealers in measurement at a value lower than the purchase price for a recognised asset and a value higher than issuance proceeds for a recognised liability. IAS 39 recognises the bid-offer spread represents transaction costs, and therefore by recognising items at bid or offer the transaction costs are in effect *included* in the valuation in *advance* of disposal or transfer. We presume that the justification for this is that the transaction costs in this case are an "attribute" of the item, whereas transaction costs like transportation are not. It would be beneficial to make the distinction clearer between a transaction cost that is an attribute and one that is not.

## Issue 6. Valuation of liabilities

*Q16 Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?*

We agree that where a liability is measured at fair value, fair value must include the entity's ability to meet its obligations (i.e. an assessment of the risks and uncertainties that the cash outflows will not be paid as contractually required). It is appropriate that non-performance risk is determined by reference to the individual instrument, and not based on the entity as a whole. For example, in the instance of a bankruptcy remote special purpose entity the fair value of notes issued by that entity will be driven specifically by the underlying assets that are within the special purpose entity, yet from a consolidated level the credit risk of the entity as a whole would be very different. The fair value of the individual transactions should reflect the entity's ability to meet those individual obligations including the effect of credit enhancements associated with those obligations.

Paragraph A31 of the DP provides an example where two entities owe the same third party the same amount of cash to be delivered at the same time in the future. Yet, the fair value for each party is different because the fair value includes their individual non-performance risk (as illustrated by a credit rating), one rating being AA, one being BBB. As the DP proposes a transfer value, rather than settlement value, these different transfer values make sense only if

it is assumed that that the AA borrower transfers his liability to a borrower with the same credit status (i.e. AA) and the instrument has the same collateral, seniority etc, and the BBB borrower also transfers its liability to a borrower to someone with the same credit status (i.e. BBB) and the instrument has the same collateral, seniority etc. In both cases the transferee at initial recognition will discount its new obligations to the original lender by its individual credit status, reflecting the same collateral and seniority as the transferor. We assume therefore that in defining the market participant it will have same non-performance risk as the reporting entity.

We believe further guidance is needed on the interaction of 'transfer value' of liabilities and the inclusions of the effects of credit enhancements when determining fair value. For example, an interest rate swap that is a liability may be part of a wider master netting agreement that permits in the instance of default by the entity for the counterparty to offset the amount owed against amounts that the counterparty owes the entity relating to other derivative transactions. If the netting agreement is considered a credit enhancement then the fair value of the swap liability will depend on the relative fair value of any other derivative assets the entity has with the same counterparty. The greater the difference in fair value of the liability compared to the assets, i.e. the greater the 'open' credit position, the greater the non-performance risk. The specific credit exposure that a bank has with a counterparty will drive how they price any new instrument. A Bank that already has amounts owed to or from a counterparty will price new derivatives at a different price to a Bank that has no exposure to that counterparty. Yet, when determining transfer value of the liability, does SFAS 157 presume that the market participant which the entity would transfer the liability to has exactly the same derivative assets with the original counterparty? We presume they would, or otherwise the fair value would ignore the non-performance risk that is specific to that instrument. As ISDA master netting agreements are a form of security in the instance of default we presume that they are also included within the valuation of derivatives. A derivative liability in the hands of a corporate will have a different sensitivity to non-performance risk, if in default, the Bank can offset their loss against amounts owed to the corporate under other derivative contracts. As it is common to consider 'credit enhancements' as specified financial or non-financial collateral, we believe it would be beneficial to state whether master netting agreements are also considered credit enhancing.

### Issue 7. 'In-use valuation premise' versus 'value-in-use'

*Q17 Is it clear that the 'in-use valuation premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?*

Yes, we agree there is a difference between the two terms.

### Issue 8. Fair value hierarchy

*Q18 Do you agree with the hierarchy in SFAS 157? If not, why?*

We agree that a fair value hierarchy is necessary in order to provide a basis for disclosing the 'quality' of fair values. We believe it is right that judgement needs to be applied by entities in determining which level in the hierarchy a transaction is in, and that as markets develop transactions may move within the hierarchy. We endorse the inclusion of only three levels within the hierarchy, as opposed to five that were originally included in the exposure draft that preceded SFAS 157. Entities should be encouraged to disclosure the nature of Level 3 data as there will be differences in the verifiability of unobservable data. For example, an entity may have statistical evidence of bad losses for trade receivables from past experience that it uses in determining the fair value of trade receivables. The same entity may have also extrapolated data from short dated curves in determining rates for long dated curves for long-dated derivatives. The latter requires significantly more judgement than the former.

*Q19 Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?*

The differences between the levels in hierarchy are clear. As described in our response to Q18 the critical judgement will be determining which level of the hierarchy a transaction is in when the transaction has components within the various levels of the hierarchy. We believe it is appropriate that the level is determined based on the lowest level input that is significant to the measurement of the transaction in its entirety.

### Issue 9. Large positions of a single financial instrument (blocks)

*Q20 Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.*

The only clear guidance of unit of account currently in IFRS is in IAS 39.AG72. To extend a unit of account as a single unit to all items, whether financial or not, from items quoted in active markets to those that are not, would be a significant change to current guidance. We are not supportive of this extension without far greater research in this area.

The arguments in favour of a single unit of account are verifiability and comparability. We agree that these concepts are important, but question whether wholesale support of these concepts should come at the expense of the underlying principle in the DP which is to determine the value of items in a transfer in the entity's principal market (where an entity may transfer items in blocks). We note in SFAS 157.C78 the FASB reversed its initial decision to allow block discounts because it learned that for blocks held by broker-dealers, industry practice is often to sell the securities in multiple transactions involving quantities that might be large but that are not necessarily blocks. The change in thinking by the FASB between exposure draft and final statement was due to the lack of evidence that entities actually transact in blocks. We are reluctant to accept this justification for the prohibition of blocks under IFRS for *all* items, whether financial or not, until greater research is undertaken by the IASB, particularly in light of the fact that the FASB only prohibit blocks for Level 1 items where as the IASB is considering extending this prohibition to all items. We are particularly concerned that not enough thought has been given to non-financial items where items may be purchased and sold in blocks, for example in the case of distributors in the wholesale market.

### Issue 10. Measuring fair value within the bid-ask spread

*Q21 Do you agree that fair value measurements should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.*

We agree that fair value for subsequent measurement must be the most representative exit price for the entity transacting in its principal market. We believe this is the principle that must be made clearly in any FVM standard.

Overall, we believe further research is needed in the area of fair valuing within the bid-ask spread. We would not object to the Board endorsing the position in SFAS 157 where the price within the spread that "is most representative of fair value in the circumstances" is used if the Board undertakes research in this area to identify what price entities *actually* transact act.

We have a concern that the current requirement in IAS 39 to measure recognised assets at bid and recognised liabilities at offer leads to entities relying so much on quotes without considering what is the price that the market participant in the principal market would actually transact at. Quotes and prices that market participants transact act are likely to be the same in only very liquid markets where the buyer can force the seller to execute at quoted prices. For example:

- Many stock exchanges quote 'indicative prices' in the principal market which represent a price which an entity *may* be able to transact at. In reality, an entity will use this price as a basis for negotiating a transaction price in the same principal market.
- Many derivatives, e.g. swaps and forwards, are quoted using a fair valuation that is determined using mid-market prices, say AA swap curve. Quotes will often not include the current valuation of the credit risk of the counterparty as this is determined by the Bank on a portfolio basis which takes into account all the other instruments owed to and from that counterparty. If an entity were to transfer the instrument to a market participant the entity would not necessarily acquire the instrument at a valuation derived from mid-market prices, rather based on a price at bid or offer and reflecting the relative credit risk of itself and the Bank.
- Many quotes represent prices that may be transacted between dealers in the wholesale market. The inter-dealer market is not the price that an entity outside that market can achieve. If entities focus too much on bid or ask merely because they are "quoted" they will fail to appreciate that the price the entity will transact at which may in fact be *outside* the bid-ask spread.

We urge the IASB to not only conduct its own research to determine at what prices entities actually transact at but also work with entities that are currently adopting SFAS 157 to determine how the current wording in that standard is being interpreted. Discussions should be with Investment Banks and counterparties such as Corporates to identify how exit prices are actually determined and how they relate to quoted prices.

*Q22 Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not?*

As discussed in a response to Q21, we generally believe that fair value for subsequent measurement should be the most representative exit price for the entity transacting in its principal market. However, in the instance when an entity has offsetting risk position we do not object to an entity measuring the offsetting position at mid-market prices as it reflects the price of the net risk position. In addition, we support the guidance in SFAS 157 that mid-market pricing may be used as a practical expedient.

*Q23 Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?*

For instruments trading in an active market the spread represents the dealer's profit from executing a transaction. In inactive markets, the principle of exit prices is the same, and therefore even though the spread is not identifiable because there is no dealer standing ready to transact, the notion that the amount that can be recovered by selling an asset will be less than a price to buy an asset does equally apply. We do not therefore object to the principle of a bid-ask spread existing in all levels of the hierarchy, but in practice in many cases the spread is not going to be identifiable simply because of the low level of transactions at any given time.

**Issue 11 Disclosures**

*Q24 Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.*

It is right that SFAS 157 provides detailed disclosures to support the 'quality' of fair valuation in order for users to assess the extent of unobservability of gains/losses. We can imagine that entities may find the reconciliation of opening and closing fair values for those items that are included in Level 3 burdensome, but we believe this approach is necessary in order for users to judge the reliability of fair value in determining the strength of the balance sheet and the quality of earnings.

**Issue 12 Application Guidance**

*Q25 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why.*

We find the guidance in SFAS 157.A26 confusing. It states "that in many cases the transaction price, that is, the price paid (received) for a particular asset (liability), will represent the fair value of the asset (liability) at initial recognition, but not presumptively". This implies that the FVM allows initial recognition to be at entry price not exit price. Yet, footnote 17 states that this guidance applies to derivatives and other financial instruments that are measured at fair value which we believe is referring only to instruments that are initially *and* subsequently measured at fair value. We believe that the guidance on initial recognition is as important as the guidance on subsequent valuation and therefore we believe a clear distinction should be made.

Paragraph A20 focuses on bid and ask prices only in dealer markets. Yet, the IASB have provisionally stated that they believe the bid-ask spread exists in all markets. If this view is included in a FVM exposure draft, far greater guidance would be needed to assist entities determining the bid-ask spread in instances when the item is not quoted in a dealer market.

*Q26 Does the guidance in Appendices A and B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts).*

We acknowledge that many of the examples in the Appendix presume that an entity can clearly identify a current transfer price in their principal market. We recognise that in emerging or development markets this is a more difficult exercise. However, what is important is that the standard provides clear principles in order for entities in these markets to appreciate what price they are trying to replicate with their valuation models in the absence of quoted prices. We are not convinced that providing volumes of application guidance will necessarily make this exercise any easier. Entities must apply judgement in applying the fair value measurement principles to their evolving markets.

## Issue 13 Other Matters

*Q27 Please provide comments on any other matters raised by the discussion paper.*

FAS 157.2a scopes out share-based payment transactions. FAS 157.C8 states that "for certain share-based payment transaction with employees, the measurements at the grant date are fair-value-based measurements, not fair value measurements". The paragraph further states that FAS 123(R) would generally be consistent with the FVM guidance in FAS 157. In producing an exposure draft the Board must decide whether it agrees with the FASB that a FVM standard would not apply to IFRS 2.

## Appendix 2

## Comparing the objective of IFRS and the use of exit value in the standards

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| **IFRS 1** | ‡ App A | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 16 | An entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. | Specific override of otherwise applicable IFRS. Would suggest that fair value at the transition date is a surrogate for the measurement assertion in IAS 16. |
| | | | 18 | Fair value at the date of transition to IFRSs is permitted for IAS 40 assets and IAS 38 items for which the revaluation criteria are met. | Specific override of otherwise applicable IFRS. Would suggest that fair value at the transition date is a surrogate for the measurement assertion in IAS 38 and IAS 40. |
| **IFRS 2** | † App A | The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. | 10 | For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted. | Entry price at grant date (goods or services received under direct method or equity instruments granted under indirect method) |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IFRS 2 | | | 30 | For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in fair value recognised in profit or loss for the period. | Exit value (settlement of liability) initially and at each reporting date until settled |
| | | | 33 | The liability shall be measured, initially and at each reporting date until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date. | |
| | | | App B | Detailed measurement guidance on fair value of equity instruments granted looks at the inputs to the fair value measurement. | Entry price at grant date (goods or services received) for fair value of equity instruments granted |

| IFRS | | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|---|
| **IFRS 3** | † | App A | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 24 | The acquirer shall measure the cost of a business combination as the aggregate of:<br>(a) the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree; plus<br>(b) any costs directly attributable to the business combination. | Entry value |
| | | | | 36 | The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria in paragraph 37 at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, which shall be recognised at fair value less costs to sell. | Entry value (except IFRS 5 items - see below). |
| **IFRS 4** | ‡ | App A | | | | Mainly related to financial instrument items |

| IFRS | | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|---|
| **IFRS 5** | † | App A | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction | 15 | An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell. | Exit value (less costs to sell). |
| **IAS 2** | † | 6 | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 9 | Inventories shall be measured at the lower of cost and net realisable value. | Neither entry nor exit price. (See guidance in paragraph 7.) |
| | | | | 7 | Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business. Fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. The former is an entity-specific value; the latter is not. Net realisable value for inventories may not equal fair value less costs to sell. | |
| | § | | | 20 | In accordance with IAS 41 Agriculture, inventories comprising agricultural produce that an entity has harvested from its biological assets are measured on initial recognition at their fair value less estimated point-of-sale costs at the point of harvest. This is the cost of the inventories at that date for application of [IAS 2]. | IAS 41 'exit price' becomes IAS 2's entry price. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| **IAS 11** | | *Not defined* | 12 | Contract revenue is measured at the fair value of the consideration received or receivable. | Entry value |
| **IAS 16** | 6 | Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs | | | *Definition establishes the notion of 'cost' as being determined in relation to the value of consideration delivered (an entry price notion).* |
| | 6 | Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. | | | |
| | | | 23 | The cost of an item of property, plant and equipment is the cash price equivalent at the recognition date. | Entry price |
| § | | | 31 | *[Revaluation model]* After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. | Uncertain. Could be an exit price or a depreciated replacement cost. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 16 | § | | 32 | *[Revaluation model]* The fair value of land and buildings is usually determined from market-based evidence by appraisal that is normally undertaken by professionally qualified valuers. | Uncertain. Could be an exit price or a replacement cost. |
| | § | | 32 | *[Revaluation model]* The fair value of items of plant and equipment is usually their market value determined by appraisal. | Uncertain. Could be an exit price or a replacement cost. |
| | § | | 33 | *[Revaluation model]* If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach. | Uncertain. Could be an exit price, value-in-use or a depreciated replacement cost. |
| **IAS 17** | 4 | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 10(b) | the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised | Unclear. Could be an exit price or a replacement cost for lessor or entry price for leseee. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 17 | | | 10(d) | at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset | Context suggests entry price |
| | | | 11(b) | gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease) | Context suggests exit price (since it refers to a residual). |
| | | | 20 | At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. | Context suggests entry price |
| | | | 44 | The sales revenue recognised at the commencement of the lease term by a manufacturer or dealer lessor is the fair value of the asset, or, if lower, the present value of the minimum lease payments accruing to the lessor, computed at a market rate of interest. | Context suggests entry price for lessee and exit price for lessor |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 17 | | | 61 | If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss shall be recognised immediately... | Uncertain. Could be an exit price (sale) or a replacement cost (the lease-back of a used asset). |
| **IAS 18** | 7 | Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. | 9 | Revenue shall be measured at the fair value of the consideration received or receivable. | Entry price for consideration received and exit price for asset sold. |
| | † | | 12 | When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction which generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred... | Entry price (less cash component) for consideration received and exit price for asset sold. |
| | † | | 12 | ...When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. | Look to exit price (less cash component) when entry price is not measured reliably. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| **IAS 19** | † 7 | Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. | 102-104 | [Measurement guidance for plan assets. Plan assets are measured at fair value; some guidance for determining fair value in the absence of market prices; special guidance for certain items, including qualifying insurance policies.] | Neither entry nor exit price. Specific guidance overriding 'standard use' of fair value. |
| **IAS 20** | ‡ 3 | Fair value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction. | 23 | A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value... | Entry price |
| **IAS 28** | | | 23 | An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for in accordance with IFRS 3. | Entry value (except IFRS 5 items – see above) as under IFRS 3. |
| **IAS 32** | | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 23 | When the financial liability is recognised initially under IAS 39, its fair value (the present value of the redemption amount) is reclassified from equity. | Entry price for initial recognition. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 32 | | | 31 | Therefore, when the initial carrying amount of a compound financial instrument is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component. | Entry price when allocating proceeds of hybrid instrument into its liability and equity parts. |
| | | | AG31 | On initial recognition, the fair value of the liability component is the present value of the contractually determined stream of future cash flows discounted at the rate of interest applied at that time by the market to instruments of comparable credit status and providing substantially the same cash flows, on the same terms, but without the conversion option. | Entry price when determining value of the debt host as if the issuer has borrowed cash without the equity option attached. |
| **IAS 36** | 6 | Fair value less costs to sell is the amount obtainable from the sale of an asset or cash-generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal. | 25-27 | [Hierarchy of inputs to the 'fair value less costs to sell' determination. Paragraphs 25 and 26 addresses items similar to FAS 157 Level 1 and Level 2 inputs; and paragraph 27 addresses items that would probably be within Level 3.] | Exit value (less costs to sell). |
| **IAS 38** | 8 | | 24 | An intangible asset shall be measured initially at cost. | Entry price |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 38 | | | 33 | In accordance with IFRS 3, if an intangible asset is acquired in a business combination, the cost of that intangible asset is its fair value at the acquisition date. | Entry price |
| | | | 39, 40 | [Determination of fair value. Paragraph 39 addresses items similar to FAS 157 Level 1 and Level 2 inputs; paragraph 40 addresses items similar to Level 3.] | Entry price as equal to exit price |
| | § | | 75 | After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market... | Uncertain. Could be an exit price or a amortised replacement cost. |
| **IAS 39** | | The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 9 | Hedge effectiveness is the degree to which changes in the fair value or cash flows of the hedged item that are attributable to a hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. | Exit price as a fair value hedge adjustment is a subset of the overall fair value of the instrument which is also an exit price for subsequent measurement. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 39 | | | 24 | If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation shall be recognised at its fair value. | Entry value being the amount an entity would pay or receive to acquire or take on a servicing right. |
| | | | 33 | For the purpose of subsequent measurement, recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in accordance with paragraph 55, and shall not be offset. | If the asset 'transferred' is was previously measured at fair value the subsequent measurement of the continuing involvement liability is also at exit prices for consistent measurement. |
| | | | 43 | When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. | Entry value for initial recognition. |
| | | | 46 | After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal…. | Exit value for subsequent measurement. |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| **IAS 40** | ‡ 5 | Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. | 20 | An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. | Entry price (including transaction costs) |
| | | | 25 | The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease by paragraph 20 of IAS 17, i.e., the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments... | Entry price (equal to the exit price because of the liability element (see below)) [FAS 157.17] |
| | | | 25 | ...An equivalent amount shall be recognised as a liability in accordance with that same paragraph. | Exit price [FAS 157.15] |
| | | | 33 | After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value. | Exit price |
| | | | 37 | An entity determines fair value without any deduction for transaction costs it may incur on sale or other disposal. | (Consistent with FAS 157.9) |
| | | | 38 | The fair value of investment property shall reflect market conditions at the balance sheet date. | (Consistent with FAS 157.5) |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|
| IAS 40 | | | 46 | [Additional guidance for determining fair value in the absence of current prices in an active market] | (Similar to FAS 157.22-.30) |
| | | | 56 | IAS 16 'cost' model = Cost less amortisation and impairment | Amortised cost |
| | | | 60 | For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's deemed cost for subsequent accounting in accordance with IAS 16 or IAS 2 shall be its fair value at the date of change in use. | |
| | | | 61 | If an owner-occupied property becomes an investment property that will be carried at fair value, an entity shall apply IAS 16 up to the date of change in use. The entity shall treat any difference at that date between the carrying amount of the property in accordance with IAS 16 and its fair value in the same way as a revaluation in accordance with IAS 16. | |
| **IAS 41** | ‡ 8 | Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. | 12 | A biological asset shall be measured on initial recognition and at each balance sheet date at its fair value less estimated point-of-sale costs, except for the case described in paragraph 30 where the fair value cannot be measured reliably. | Exit price [in an active market] less estimated point-of-sale costs |

| IFRS | Ref | 'Fair Value' defined as | ¶ Ref | Measurement assertion | Suggests… |
|---|---|---|---|---|---|

**Notes**

† FAS 157 provides an exception for the equivalent FASB Statements (see FAS 157 paragraphs 2 and 3).

‡ No equivalent FASB Statement.

§ No equivalent accounting treatment under US GAAP