

Brussels, 5 November 2008

## **Accounting standards: Commission welcomes IASB guidance on the application of fair value measurement when markets become inactive**

*The European Commission welcomes the guidance on the application of fair value measurement when markets become inactive published by the International Accounting Standards Board (IASB) on 31 October 2008. The Commission considers that the IASB's position is fully consistent with the joint statement issued by the 3 European committees of supervisors and with similar guidance recently issued by the relevant US bodies.*

Internal Market Commissioner Charlie McCreevy said: *"I welcome the IASB's guidance, which addresses key concerns expressed by European stakeholders. This guidance provides the clarifications needed by European companies to apply internal models to calculate the value of financial instruments for which active markets no longer exist. It is also consistent with the approach taken in the US, thus ensuring that a level playing field exists in the Trans-atlantic capital market."*

### **Further action to mitigate the consequences of the financial turmoil**

As a follow-up to the recent adoption of amendments to IAS 39 and IFRS 7 (see [IP/08/1513](#)), on 21 October the European Commission organised a meeting with European stakeholders to identify other possible issues arising under IAS 39 and IFRS 7. During this meeting, an urgent need for further guidance on the application of fair value in inactive markets was expressed.

On 31 October, the IASB published a document<sup>1</sup> setting out guidance on important measurement issues affecting the valuation of financial instruments when an active market does not exist. The IASB's guidance makes clear *inter alia* that transaction prices and broker or pricing service quotes might be inputs when measuring fair value, but may not be determinate if an active market does not exist. This provides the clarifications needed by European companies to apply internal models to calculate the value of financial instrument for which an active market no longer exists. The staff summary takes into consideration the recent clarifications issued by the staff of the US Financial Accounting Standards Board (FASB) and of the US Securities and Exchange Commission (SEC) Office of the Chief Accountant. It is also fully consistent with the joint statement issued by the 3 European committees of supervisors on 21 October.

---

<sup>1</sup> <http://www.iasb.org/expert-advisory-panel>

The European Commission will continue to closely monitor developments in this area and urges accounting standards-setters to address remaining issues arising from the credit crisis. In particular, the IASB should urgently provide solutions to the issues raised in the Commission's letter of 27 October.<sup>2</sup> Moreover, the FASB-IASB joint advisory group should rapidly become operational and initiate work towards addressing other issues arising from the credit crisis.

More information on accounting in the EU is available at:

[http://ec.europa.eu/internal\\_market/accounting/news/index\\_en.htm](http://ec.europa.eu/internal_market/accounting/news/index_en.htm)

---

<sup>2</sup> [http://ec.europa.eu/internal\\_market/accounting/docs/letter-iasb-ias39\\_en.pdf](http://ec.europa.eu/internal_market/accounting/docs/letter-iasb-ias39_en.pdf)