



IASB-Exposure Draft “Measurement Uncertainty Analysis Disclosure for Fair Value Measurements”

Liesel Knorr

Public Discussion

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1. Introduction: Project steps (I)

- IASB-Decision for starting the project (Sep. 2005)
 - objective: separate standard for Fair-Value-Measurement
 - content: only regulations on **how** Fair Value is to be determined
- FASB published SFAS 157 „Fair Value Measurements“ (Sep. 2006)
- IASB-Discussion paper on FVM
 - content: previous IFRS regulation – SFAS 157 regulation – new proposal
 - published in Nov. 2006, comments to be received by Apr. 2007
 - evaluation of the comments
 - foundation of an Expert Advisory Panel (EAP, Oct. 2008)
- IASB-Exposure Draft on FVM
 - content: similar to SFAS 157; only regulations on **how** Fair Value is to be determined
 - publication: Mai 2009, comments to be received by Sep 2009, *round tables*: Dec 2009



1. Introduction: Project steps (II)

- IASB and FASB: joint deliberation for the purpose of convergence
 - contents completed by March 2010
 - agreed completely on congruent provisions
- FASB: ED of Proposed Amendments to Topic 820 (**ED 820**)
 - content: numerous changes to SFAS 157, partly as in IASB-ED (old), partly divergent
 - published on 29 June 2010, comments to be received by 7 September 2010
- IASB: limited new Exposure Draft (**New-ED**)
 - content: new proposal concerning disclosures for „measurement uncertainty analysis“
 - published on 29 June 2010, comments to be received by 7 September 2010



2. Topic „FVM“ – latitude of scope

balance sheet measurement:

- numerous financial instruments (IAS 39 / IFRS 9)
- assets and liabilities in business combinations (IFRS 3)
- government grants (IAS 20)
- agricultural products (IAS 41)
- plan assets (IAS 19)
- also as an option: IAS 16, IAS 38, IAS 40

indirectly as comparable figures:

- revenue recognition at FV of the consideration (IAS 18)
- evaluation of leasing contracts (present value of minimum lease payments vs. FV of leasing object)

additional disclosure in the notes:

- financial instruments (IFRS 7)



2. Topic „FVM“ – structure of the topic

1. Scope
2. Definition
3. Transaction and Price
4. (Reference-)Market and Market Participants
5. Valuation Premises
 - 5.1. Measurement of Assets
 - 5.2. Measurement of Liabilities
 - 5.3. Measurement of Equity Instruments
 - 5.4. Measurement at Initial Recognition
 - 5.5.-5.7. Measurement techniques
6. Disclosures
7. Effective Date / Transitional Provisions



3. Discussion needs for the IASB-ED

3.1 comparison of the IASB- and FASB-provisions:



Similarities



Differences

3.2 remarks / annotations of the GASB



3.1 Comparison of previous provisions (I)

Provision		IASB-ED	SFAS 157 / Topic 820	
Scope	x	+ share-based payments and leases	+ core deposit liabilities	
FV definition	✓	exact wording	=	
Transaction	✓	market or hypothetical transaction	=	
Reference market	x	Most advantageous market	Principal market	
Market, -participants	✓	Market-based assumptions	=	
	x	Independent from each other / no related parties	Independent of entity / n.s.	
Valuation premise	✓	<i>highest-and-best-use</i> -concept in general	=	
...for assets	x	No test for <i>alternative use</i>	n.s.	
	x	Disclosure if not <i>best-use</i>	n.s.	
	x	Disclosure of difference <i>in-use/in-exchange</i>	n.s.	
...for liabilities	✓	<i>Transfer</i> assumption	=	
	✓	<i>non-perform. risk</i> measured implicitly	=	
	✓	Transfer restrictions irrelevant	=	
	x	Some alternatives (e.g. corresponding asset)	Detailed alternatives	

3.1 Comparison of previous provisions (II)

Provision		IASB-ED	SFAS 157 / Topic 820	
...for equity instrum.	✘	Measurement like an asset	n.s.	
...at initial recognition	✔	FV may not equal transaction price	=	
	✔	Transportation cost incl., transact. cost not	=	
	✘	day-one-gains possible in level 1+2	...possible in level 1, 2, 3	
Inactive markets	✘	Volume decline or other indicators	Volume decline only	
Measurement of FI	✔	no portfolio considerations	=	
	✘	Discounts/premiums at no level	... not at level 1	
	✘	<i>in-use</i> not relevant for financial assets	n.s.	
Other	✘	n.s.	investments at net asset value	
Disclosures	✔	nearly identical	= (since ASU 2010-06)	
	✘	Sensitivity analysis for level 3	n.s.	
	✘	FV for each level for FI „not at FV“ only	...for FI & Non-FI „not at FV“	
	✘	FV-changes (credit risk) for FI & Non-FI	n.s.	
FV hierarchy	✔	3 level hierarchy	=	



3.2 Comments of GASB on the IASB-ED

fundamental concerns:

- Fair Value definition: exit notion critical → partly entry notion more appropriate
- for liabilities: transfer assumption critical
→ transfer and settlement scenario must be assumed
- at initial recognition: exit notion partly critical
→ if transaction impossible or not intended, then rather entry notion
- market: most advantageous market and market view critical
→ contradiction between existing markets and markets normally entered into
→ partly entity-specific perspective important
- valuation premise: highest-and-best-use-concept is to be rejected
→ current use is ignored, difference in-use/in-exchange not always given
- disclosure: FV-level disclosure is irrelevant for instruments not measured at FV



4. Results of the Discussion of IASB-ED (I)

Joint discussion of IASB and FASB

from IASB-point of view: numerous proposals are unchanged

- a) partly confirmation of the IASB-ED proposal, since already congruent before;
- b) partly adoption of the IASB-ED proposal by the FASB;
- c) few issues were not discussed (again) .

from IASB-point of view: now modified proposals for a few issues

- d) partly adoption of the current FASB-rules in SFAS 157 (Topic 820) by IASB
- e) partly entirely new proposals (different than Topic 820 and IASB-ED)

→ elimination of all differences between IASB and FASB

→ one single issue that is only covered by FASB („net assets values“)



4. Results of the discussion of the IASB-ED (II)

Impacts on the IASB approach:

- a) some issues unchanged compared to IASB-ED → no IASB-Re-Exposure necessary
- b) other issues amended → no complete IASB-Re-Exposure necessary
 - justification according to IASB-Observer Notes from April 8, 2010
 - one amended issue → **content of the IASB-New-ED**
 - Amendment due to new insights that were not part of previous discussions
 - Amendment due to explicit indication from comments concerning correlation
 - other amended issues → **IASB-Re-Exposure regarded as unnecessary**
 - amendments due to received comments that are to be regarded as direct feedback to the previous discussion
 - Previous discussion was exhaustive, no new insight
 - in addition, the IASB will jointly discuss the comments given to the FASB-ED 820



5. IASB-New-ED: Overview

Timetable:

- published on 29 June 2010
- Comments to be received by 7 September 2010

Structure:

- two paragraphs, a part thereof with meaningful content (= para. 2(a) in the New-ED; replaces para. 57(g) in IASB-ED FVM), the remaining (=para. 1, 2(b)) serve the context
- Basis for Conclusions (BC1-29)
- Illustrative Example (IE1-5)
- three questions to comment on

Content:

- Very limited focus → only disclosure concerning „measurement uncertainty analysis“
 - hence: only one issue of the entire “Fair Value Measurement” topic
 - hence: only one of several disclosure provisions



5. IASB-New-ED: Content (I)

Proposals in detail (para. 2(a)):

- For a measurement uncertainty analysis for FV measurement(s) within level 3, ...
- if changing one or more unobservable input(s) – used in a FV measurement –,
- to a different amount that could have reasonably been used...
- in case this would have resulted in a significantly higher/lower FV measurement, ...
- an entity shall disclose:
 - the effect of using those different amounts and
 - how it calculated that effect .
- In addition, an entity shall take into account the effect of correlation between unobservable inputs, if such correlation is relevant.
- Significance shall be judged with respect to profit or loss, and total assets or total liabilities, or, when changes in FV are recognized in OCI, with respect to total equity.



5. IASB-New-ED: Content (II)

In addition (only IN, BC8, 12, 23):

- disclosure, unless another IFRS specifies that such a disclosure is not required for a particular asset or liability

Example (IE 1-5)

- tabular comparison – disaggregated by classes – of
 - reported Fair Value (amount)
 - difference in FV if using different unobservable inputs (amount)
 - alternative input (verbal)

Effective Date / Transition:

- no proposal

Amendments to other IFRS:

- no proposals



5. IASB-New-ED: Questions

1. Are there circumstances in which taking into account the effect of the correlation between unobservable inputs
 - a) would not be operational (eg for cost-benefit reasons) or
 - b) would not be appropriate?If so, please describe those circumstances.

2. If the effect of the correlation between unobservable inputs were not required, would the measurement uncertainty analysis provide meaningful information? Why or why not?

3. Are there alternative disclosures you believe might provide users of financial statements with information about the measurement uncertainty inherent in FV measurements categorised within Level 3 of the FV hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.



5. IASB-New-ED: First evaluation

- GASB comments to the original IASB-ED (concerning sensitivity analysis):
 - basically „sensitivity analysis“ appropriate and useful
 - limitation to significant changes (in relation to total assets, equity, net income) important
- Other comments:
 - term „reasonably possible alternative assumptions“ unclear
 - numerous possible alternative inputs lead to rather arbitrary information
 - problem: many input factors, which are interdependent or correlating
 - if Fair Values by third party pricing service: proprietary model and unknown assumptions used
 - limited scope for sensitivity analysis → better: disclosure required in individual IFRS
- IASB’s reaction: amended proposal → significant comments taken into account
- To be discussed further:
 - circumstances, in which analysis is difficult, yet to be determined → **exclusion necessary!**
 - scope exemption in individual IFRS only, not explicitly in IFRS “FVM” → **norm conflict?**



6. FASB-ED: Overview

Timetable:

- published on 29 June 2010
- comments to be received by 7 September 2010

Structure:

- summary and 12 questions to comment on
- tabular overview of significant amendments (compared to current Topic 820)
- proposed amendments entirely (130 pages, “change modus“)
- Basis for Conclusions (BC1-77)
- Topic 820 as amended (40 pages) with Implementation Guidance and Illustrations

Content:

- contains proposals to all issues / subtopics within FVM
- partly identical with current Topic 820, partly changes due to convergence efforts
- the content of this FASB-ED will be included identically in the expected IFRS X „FVM“



6. FASB-ED: Content (I)

	Issue / Subtopic	Comparison with IASB-ED	... with Topic 820 as per today
1.	Scope	different	=
2.	FV definition	=	=
3.	Transaction and Price	=	=
4.1	(Reference-)Market	different	=
4.2	Market participants	mostly =, details different	different
5.	Valuation premise	=	=
5.1	Valuation of assets	partly =, partly different	mostly different, details unchg.
5.2	Valuation of liabilities	mostly =, details different	=
5.3	Valuation of equity instruments	=	n.s.
5.4	Valuation at initial recognition	mostly =, details different	mostly =, details different
5.5	Valuation techniques: inactive market	different	=
5.6	Valuation techniques: financial instr.	details different	details different
5.7	Other issues	=	=
6.	Disclosures	mostly =, details different	mostly =, details different
7.	Initial application / Transition	n.s.	not relevant



6. FASB-ED: Content (II)

Content: -- **from IASB-point of view**, i.e. compared to IASB-ED (not compared to current Topic 820)

Conclusion: -- IASB-ED and SFAS 157 already identical?

-- if not: convergence by modification towards SFAS, towards IASB-ED, or new proposal?

1. Scope:

- new: *share-based* **excluded**, „FV“ notion remains, but additional guidance
 - new: *Leases* **excluded**, „FV“ notion remains → reference to leases project
 - new: *demand deposits* (IAS 39.49) **not excluded**, „FV“ notion remains
 - similar: IAS 19.104D and IFRS 3.29 included, „FV“ **notion remains** (without guidance)
- Conclusion: previously divergent, convergence overall by modifications towards SFAS

2. Definition:

- definition unchanged
- Conclusion: unchanged compared to IASB-ED, since being already identical



6. FASB-ED: Content (III)

3. Transaction and price:

- unchanged: approval of “transaction”, especially market-based and hypothetically
 - unchanges: approval of “price”, especially
 - No adjustment for transaction costs when determining FV
 - FV is that amount within *bid-ask-spread*, which is most representative
- Conclusion: unchanged compared to IASB-ED, since being already identical

4.1. Reference market:

- new: „**principal market**“, possibly „**most advantageous market**“, if access
 - new: **disprovable presumption** that both are identical
 - unchanged (implicit): market in which entity normally transacts; market with access; if several markets, then best price; transport. and transaction costs to be considered (also unchanged: transaction cost considered if choosing relevant market but FV not adjusted)
- Conclusion: previously divergent, modification towards current SFAS-wording



6. FASB-ED: Content (IV)

4.2. Market participants:

- unchanged: general marked-based view, real or hypothetical transaction
 - new:
 - assumption of „**reasonable understanding**“ (regarding the content similar to IASB-ED, as follows: information uncertainty, but no information asymmetry)
 - explicit: market participants **can be related parties**, if transaction is orderly
- Conclusion: previously minor differences, marginal adjustments from both FASB and IASB, therefore overall nearly unchanged compared to IASB-ED



6. FASB-ED: Content (V)

5.1. Valuation of assets:

- unchanged: generally *highest and best use approach* = maximisation of value
 - new: modification of the distinction of *in-use* versus *in-exchange*
 - **divergence rarely** (but additional disclosure, if different)
 - **elimination of both notions**, now included as guidance only
 - **no separation of FV** (just disclosure of *incremental value*)
 - but: approval that measurement always based on a (potential) sale/transfer
 - new: if items used as a group (together with other assets and/or liabilities), then **measurement as a group**, assumption of sale/transfer of the group
 - unchanged: conditions: physically possible, legally permissible, financially feasible
 - unchanged: no need to undertake a search of all possible alternatives of use
 - unchanged: only relevant for non-financial assets
- Conclusion: previously slightly different; details of the valuation premise modified (different from IASB-ED and SFAS); for the remainder adjustment towards IASB-ED



6. FASB-ED: Content (VI)

5.2. Valuation of liabilities:

- unchanged compared to IASB-ED, additionally
 - **enhanced** guidance of **measurement hierarchy**
 - clarification for financial liabilities: *non-perform. risk=credit risk* (non-fin. liabilities: description)
 - Approval of *transfer amount* being simultaneously *settlement amount*
- Conclusion: previously nearly identical; slight adjustments towards SFAS

5.4. Valuation at initial recognition:

- unchanged: transaction price is *entry price*; *entry* often similar to *exit price*, therefore FV
 - unchanged: accordingly presumption that transaction price = FV
 - different: wording for circumstances when transaction price \neq FV → now: “positive” list
 - new: *day-one-gains* **not mentioned** (to be regulated beyond FVM)
- Conclusion: previously nearly identical, now adjustment towards SFAS, one new proposal, but overall nearly unchanged compared to IASB-ED



6. FASB-ED: Content (VII)

5.3. Valuation of equity instruments:

- unchanged compared to IASB-ED, i.e. exit notion applies, measured from the perspective of a holder of this instrument
- Conclusion: previously not mentioned in SFAS, now adjustment towards IASB-ED

5.5. Valuation techniques: inactive markets:

- new: guidance for inactive markets **only** when **significant decline** in the volume and level of activity (i.e. Market no longer active)
 - now explicit: focusing on whether a transaction is orderly or not and not whether a market is active/inactive
 - new (source EAP): overall **presumption of a transaction being orderly**, therefore presenting a FV, unless this assumption is disproved
 - new (source EAP): possible assumption that transaction price is no FV, in case volume and level of activity have declined
- Conclusion: previously different, now adjustment towards SFAS-requirements



6. FASB-ED: Content (VIII)

5.6. Valuation techniques: financial instruments

- new: definition of blockage factors vs. other premiums/discounts
 - unchanged: blockage factors not allowed in FV levels
 - new: **premiums/discount** not allowed in FV level 1, **allowed for the remaining levels**
 - new: FV modification due to **portfolio effects** (*market risk offset*), if FI within portfolio:
 - fundamentally similar risks, common characteristics
 - managing the net open risk positions in accordance with FV and with the entity's documented risk management strategy
 - new: possibility of **offsetting** the counterparty credit risk positions (with requirements)
- Conclusion: previously few differences, now enhancement regarding premiums/discounts and offsetting/*risk offset* completely new, overall unchanged compared to IASB-ED



6. FASB-ED: Content (IX)

5.7. Valuation techniques, other issues:

- unchanged: no guidance when historical costs present FV
 - unchanged: no guidance on the measurement of unquoted equity instruments
 - unchanged: no guidance on the measurement of “difficult to value” assets and liabilities
 - FASB only : special guidance on measuring alternative investments that calculate a “net asset value” per share
- Conclusion: altogether unchanged compared to IASB-ED
- previous difference remains: unilateral provision of FASB (sole remaining difference between IASB and FASB)



6. FASB-ED: Content (X)

6. Disclosures:

- Similar to IASB-ED, a few modifications:
 - „**Sensitivity analysis**“ mandatory on level 3, if not excepted by an individual IFRS; only non-observable factors; additional recognition of **correlation**
 - less: FV-modification due to *credit risk* **only for FI-liabilities** (not for non-FI-liabilities)
 - less: FV-disclosure limited to assets/liabilities that are accounted for at FV („recurring“)
 - more: FV depending on level only **for FI and non-FI**, that are not accounted for at FV
- Conclusion: previously a few differences, now a complete readjustment and several adjustments to SFAS



6. FASB-ED: Questions (I)

1. This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:
 - a) would **improve the understandability** of the fair value measurement guidance in U.S. GAAP? If not, why not?
 - b) would result in any **unintended consequences** on the application of the proposed amendments? If so, please describe those consequences....

2. The Board has decided to specify that the concepts of **highest and best use and valuation premise** are only to be applied when measuring the fair value of nonfinancial assets. Are there **situations** in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

3. Do you agree with the proposed guidance for measuring the fair value of an instrument classified in **shareholders' equity**? Why or why not?



6. FASB-ED: Questions (II)

4. The Board has decided to permit an **exception** to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's **net exposure** to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the **credit risk** of a particular counterparty.
- Do you think that proposal is appropriate? If not, why not?
 - Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.
5. The Board has decided to clarify the meaning of a blockage factor and to **prohibit the use of a blockage factor** when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?



6. FASB-ED: Questions (III)

6. The Board has decided to specify that **other premiums and discounts** (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized **within Level 2 and Level 3** of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.
- Do you think that proposal is appropriate? If not, why not?
 - When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.
7. The Board has decided to require a reporting entity to disclose a **measurement uncertainty analysis** that takes into account the effect of **correlation** between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not? ...



6. FASB-ED: Questions (IV)

8. Are there **alternative disclosures** to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.
9. The Board has decided to require **limited retrospective transition**. Do you think that proposal is appropriate? If not, why not?
10. There is **no link to the transition guidance** for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.



6. FASB-ED: Questions (V)

11. The amendments in this proposed Update would **apply to public and nonpublic entities** (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

12. How much **time** do you think constituents would need **to prepare for and implement** the amendments in this proposed Update?



7. Further Steps

- 7 September 2010: comment deadline for both documents
 - FASB-ED 820
 - IASB-New-ED
- until 12/2010 (current work plan): FASB and IASB jointly deliberate comments
- until 03/2011 (current work plan): FASB and IASB publication of *Amendment* to Topic 820 and IFRS X „Fair Value Measurement“



Dr. Jan-Velten Große

Zimmerstr. 30

10969 Berlin

Tel. 030 20 64 12 23

Fax 030 20 64 12 15

www.drsc.de

grosse@drsc.de