Wording differences between the IASB exposure draft *Fair Value Measurement* and FASB Statement of Financial Accounting Standards No. 157 *Fair Value Measurements*

Introduction

The IASB's starting point in developing the exposure draft *Fair Value Measurement* was Statement of Financial Accounting Standards No. 157 *Fair Value Measurements* (SFAS 157) issued by the US Financial Accounting Standards Board (FASB). The IASB believes that the proposals in the exposure draft are largely consistent with the requirements in SFAS 157 (as amended) except for the differences listed in paragraph BC110 in the Basis for Conclusions of the exposure draft.

To complement paragraph BC110, the staff have prepared a marked-up text showing wording differences between the exposure draft and SFAS 157. This marked-up text is a staff document and does not replace the exposure draft or SFAS 157. The marked-up text is not authoritative and is provided for the convenience of respondents. Neither the IASB nor the FASB have reviewed this marked-up text.

Documents and amendments included in the marked-up text

The marked-up text compares the exposure draft and the accompanying illustrative examples with SFAS 157. The marked-up text does not include the invitation to comment, scope paragraphs, effective date and transition provisions, and Appendix D (amendments to other IFRSs). Similarly, it does not include the appendix to the illustrative examples (amendments to guidance in other IFRSs). It also does not include the Basis for Conclusions.

The basis for this comparison was the text of SFAS 157, as amended by:

(a) FSP FAS 157-1—*Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*
(Issue Date February 14, 2008)

(b) FSP FAS 157-2—*Effective Date of FASB Statement No. 157*
(Issue Date February 12, 2008)

(c) FSP FAS 157-3—*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*
(Issue Date October 10, 2008)

(d) FSP FAS 157-4—*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*
(Issue Date April 9, 2009)

At the time of this comparison the FASB had out for public comment two exposure drafts that do not form part of this comparison:

(a) FSP FAS 157-f —*Measuring Liabilities under FAS 157*
(Publication Date May 1, 2009)

(b) FSP FAS 157-g —*Applying Fair Value to Interests in Alternative Investments*
(Publication Date June 8, 2009)

The marked-up text

The text compares each paragraph of the exposure draft with the wording in the related paragraph(s) in SFAS 157. Words added by the exposure draft are underlined and words that are not included in the exposure draft are struck through.

The marked-up text does not indicate which paragraphs in SFAS 157 are the source for each paragraph in the exposure draft. The staff has prepared a table of concordance to show this information. This table is available on the project page on our website at www.iasb.org.

Exposure Draft

Fair Value Measurement

[a marked up version prepared by the staff of the IASB, showing differences between the text of this exposure draft and the equivalent text of Statement of Financial Accounting Standards No. 157 Fair Value Measurements(SFAS 157). See separate document for more information about the scope and nature of this text]

CONTENTS

Introduction

[This section is not reproduced for the purpose of this mark up.]

[Draft] International Financial Reporting Standard X
Fair Value Measurement

Core principle

1 ***Fair value*** **is the price that would be received to sell an asset or paid to transfer a liability in an *orderly transaction* between *market participants* at the measurement date.**[*]

Scope

2 [This section is not reproduced for the purpose of this mark up.]

Measurement

Fair value

4 The following paragraphs discuss aspects of the core principle:

(a) the asset or liability (paragraphs 5 and 6)

(b) the transaction (paragraphs 7–12)

(c) market participants (paragraphs 13 and 14)

(d) the price (paragraphs 15 and 16)

(e) application to assets (paragraphs 17–24)

(f) application to liabilities (paragraphs 25–31)

(g) application to equity instruments (paragraphs 32 and 33).

The asset or liability

5 **A fair value measurement is for a particular asset or liability.**[‡] **Therefore, the measurement ~~should~~ shall consider ~~attributes specific to~~ the characteristics of the asset or liability~~, for example,~~ (eg the condition and~~/or~~ location of the asset ~~or liability~~ and restrictions, if any, on ~~the~~ its sale or use ~~of~~) if market participants would consider those characteristics when determining the price for the asset or liability at the measurement date.**

6 The asset or liability might be a stand-alone asset or liability (~~for example,~~eg a financial instrument or an operating asset) or a group of assets ~~and/~~or liabilities (~~for example, an asset group,~~eg a ~~reporting~~cash-generating unit~~,~~ or a business~~). Whether the asset or liability is a standalone asset or liability or a group of assets and/or liabilities depends~~) depending on ~~its~~ the *unit of account*~~. The unit of account determines what is being measured~~ prescribed by ~~reference~~ IFRSs applicable to the ~~level at which the~~ asset or liability ~~is aggregated (~~or ~~disaggregated) for purposes~~group of ~~applying other accounting pronouncements. The unit of account for the asset~~ assets or ~~liability should be determined in accordance with the provisions of other accounting pronouncements, except as provided in paragraph 27~~ liabilities.

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[*] The core principle focuses on assets and liabilities because they are a primary subject of accounting measurement. However, as discussed in paragraphs 32 and 33, the core principle shall also be applied when measuring the fair value of equity instruments.

[‡] ~~The definition of fair value focuses on assets and liabilities because they are a primary subject of accounting measurement. However, the definition of fair value also should be applied to instruments measured at fair value that are classified in stockholders' equity.~~

The transaction ~~The Principal (or Most Advantageous) Market~~

7 A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

8 **A fair value measurement shall assume that the transaction to sell the asset or transfer the liability takes place~~occurs~~ in the *most advantageous market* ~~principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.~~to which the entity has access. The most advantageous market is the market ~~in which the reporting entity would sell the asset or transfer the liability with the price~~ that maximi~~z~~es the amount that would be received ~~for~~ to sell the asset or minimi~~z~~es the amount that would be paid to transfer the liability, after considering *transaction costs* and *transport costs*.**

9 Because different entities (and businesses within those entities) with different activities enter into transactions in different markets, the ~~respective~~most advantageous market~~(s). In either case,~~ for the ~~principal (~~same asset or liability might be different for different entities. Therefore, the most advantageous~~)~~ market (and thus, market participants) ~~should~~ shall be considered from the perspective of the reporting entity~~, thereby allowing for differences between and among entities with different activities. If there is a principal market for the asset or liability, the fair value measurement shall represent the price in that market (whether that price is directly observable or otherwise determined using a valuation technique), even if the price in a different market is potentially more advantageous at the measurement date.~~ .

10 An entity need not undertake an exhaustive search of all possible markets to identify the most advantageous market. The market in which the entity would normally enter into a transaction for the asset or liability is presumed to be the most advantageous market.

11 In the absence of evidence to the contrary, an entity may assume that the *principal market* for the asset or liability is the most advantageous market, provided that the entity can access the principal market.[*] The principal market is the market ~~in which the reporting entity would sell the asset or transfer the liability with the~~ with the greatest volume and level of activity for the asset or liability. Regardless of the market used, an entity shall apply the fair value hierarchy as described in paragraphs 43 and 44.

12 In the absence of an actual transaction to sell the asset or transfer the liability at the measurement date, a fair value measurement assumes a hypothetical transaction at that date, considered from the perspective of a market participant that holds the asset or owes the liability. That hypothetical transaction notion establishes a basis for estimating the price to sell the asset or to transfer the liability. Because the transaction is hypothetical, it is necessary to consider the characteristics of market participants who would enter into a transaction for the asset or liability.

Market participants

13 Market participants are buyers and sellers in the ~~principal (or~~ most advantageous~~)~~ market for the asset or liability that are:

(a) independent of ~~the reporting entity; that is,~~each other,[†] ie they are not related parties[‡]~~.~~ (as defined in IAS 24 *Related Party Disclosures*);

(b) knowledgeable~~, having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might obtained through due diligence efforts that are usual and customary~~as, ie they are sufficiently informed to make an investment decision and are presumed to be knowledgeable as the reporting entity about the asset or liability;

(c) able to ~~transact~~enter into a transaction for the asset or liability; and

(d) willing to ~~transact~~enter into a transaction for the asset or liability~~; that is,~~, ie they are motivated but not forced or otherwise compelled to do so.

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[*] Although an entity must have access to the market at the measurement date, it does not need to be able to sell the particular asset or transfer the particular liability on that date, eg if there is a restriction on the sale of the asset (see paragraphs 46 and 47).

[†] The reporting entity is a market participant, but it is not the only market participant to consider when measuring fair value.

[‡] ~~This Statement uses the term related parties consistent with its use in FASB Statement No. 57, *Related Party Disclosures*.~~

14 **The fair value of the asset or liability shall be ~~determined based on~~measured using the assumptions that market participants would use in pricing the asset or liability.~~–~~ In developing those assumptions, ~~the reporting~~ an entity need not identify specific market participants.~~–~~ Rather, the ~~reporting~~ entity ~~should~~ shall identify characteristics that distinguish market participants generally, considering factors specific to :**

(a) the asset or liability,

(b) the ~~principal (or~~ most advantageous~~)~~ market for the asset or liability~~,~~ and

(c) market participants with whom the reporting entity would ~~transact~~ enter into a transaction in that market.

The price

15 Fair value is the price that would be received to sell an asset or paid to transfer a liability in the most advantageous market at the measurement date (an exit price), whether that price is directly observable or estimated using a valuation technique. In the absence of an observable market to provide pricing information, an entity shall consider the characteristics of market participants who would enter into a transaction for the asset or liability. ~~A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (for example, a forced liquidation or distress sale). The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore, the objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price).~~

16 Although transaction costs are considered when determining the most advantageous market, t~~T~~he price ~~in the principal (or most advantageous) market~~ used to measure the fair value of the asset or liability shall not be adjusted for ~~transaction~~ those costs. Transaction costs are ~~represent~~ the incremental direct costs to sell the asset or transfer the liability ~~in the principal (or most advantageous) market for the asset or liability~~. Transaction costs are not a characteristic ~~an attribute~~ of the asset or liability; rather, they are specific to the transaction and will differ depending on how the reporting entity ~~transacts~~ enters into a transaction for an asset or liability. ~~T~~However, transaction costs do not include the costs that would be incurred to transport the asset ~~or liability~~ to ~~(~~or from~~)~~ its ~~principal (or~~ most advantageous~~)~~ market. If location is a characteristic ~~an attribute~~ of the asset ~~or liability~~ (as might be the case for a commodity), the price in the ~~principal (or~~ most advantageous~~)~~ market ~~used to measure the fair value of the asset or liability~~ shall be adjusted for the costs, if any, that would be incurred to transport the asset ~~or liability~~ to ~~(~~or from~~) its principal (or most advantageous)~~ that market.

Application to assets: highest and best use

17 A fair value measurement considers a market participant's ability to generate economic benefit by using the asset or by selling it to another market participant who will use the asset in its *highest and best use*. ~~A fair value measurement assumes the highest and best use of the asset by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. In broad terms, h~~Highest and best use refers to the use of an asset by market participants that would maximi~~z~~e the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used~~. Highest and best use is determined based on the use of the asset by~~, considering uses of the asset that are physically possible, legally permissible and financially feasible at the measurement date. A use that is:

(a) physically possible takes into account the physical characteristics of the asset that market participants would consider when pricing the asset (eg the location or size of a property).

(b) legally permissible takes into account any legal restrictions on the use of the asset that market participants would consider when pricing the asset (eg the zoning regulations applicable to a property).

(c) financially feasible takes into account whether a use of the asset that is physically possible and legally permissible generates adequate income or cash flows (taking into consideration the costs of converting the asset to that use) to produce an investment return that market participants would require from an investment in that asset put to that use.

18 Highest and best use is determined from the perspective of market participants, even if the ~~intended use of the asset by the~~ reporting entity ~~is~~intends a different~~.~~ use. However, an entity need not perform an exhaustive

search for other potential uses if there is no evidence to suggest that the current use of an asset is not its highest and best use.

19 The highest and best use of an asset acquired in a business combination might differ from the intended use of the asset by the acquirer. For competitive or other reasons, the acquirer may intend not to use an acquired asset actively or it may not intend to use the asset in the same way as other market participants. This might be the case for some acquired intangible assets, eg an acquired trademark that competes with an entity's own trademark. Nevertheless, an entity shall measure the fair value of the asset assuming its highest and best use by market participants.

20 In some cases, an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset. For example, an entity might operate a factory on a parcel of land even though the highest and best use of the land is to demolish the factory and build residential property. In such cases, the fair value of the asset group has the following components:

(a) the value of the assets assuming their current use. This value differs from fair value when the current use of the assets is not their highest and best use. However, this value reflects all other factors market participants would consider when determining the price for the assets.

(b) the amount by which the fair value of the assets differs from their value in their current use (ie the incremental value of the asset group).

21 An entity shall recognise the incremental value described in paragraph 20(b) together with the asset to which it relates. Using the example in paragraph 20, the incremental value relates to the entity's ability to convert the land from its current use as an industrial property to its highest and best use as a residential property. Accordingly, the fair value of the land comprises its value assuming its current use plus the incremental value described in paragraph 20(b). The amount attributed to the factory reflects its current use as noted in paragraph 20(a). An entity shall account for the assets in accordance with the IFRSs applicable to those assets.

Application to assets: valuation premise

22 The highest and best use of the asset establishes the valuation premise used to measure the fair value of the asset. Specifically:

(a) ~~*In use.*~~ The highest and best use of the asset is 'in-use' if the asset would provide maximum value to market participants principally through its use in combination with other assets and liabilities as a group (as installed or otherwise configured for use). ~~For example, that might be the case for certain nonfinancial assets.~~ If the highest and best use of the asset is in-use, the fair value of the asset shall be measured using an *in-use valuation premise*. When using an in-use valuation premise, the fair value of the asset is ~~determined based~~ measured on the basis of the price that would be received in a current transaction to sell the asset assuming that the asset would be used with other assets and liabilities as a group and that those assets and liabilities (complementary assets and liabilities) would be available to market participants. ~~Generally, assumptions~~ Assumptions about the highest and best use of the asset ~~should~~ shall be consistent for all of the assets of the group within which it would be used.

(b) ~~*In exchange.*~~ The highest and best use of the asset is 'in-exchange' if the asset would provide maximum value to market participants principally on a stand-alone basis. ~~For example, that might be the case for a financial asset.~~ If the highest and best use of the asset is in-exchange, the fair value of the asset shall be measured using an *in-exchange valuation premise*. ~~When using~~ Using an in-exchange valuation premise, the fair value of the asset is ~~determined based on~~ the price that would be received in a current transaction to sell the asset ~~standalone.~~ to market participants who would use the asset on a stand-alone basis.

23 Because the highest and best use of the asset is determined ~~based~~ on the basis of its use by market participants, ~~the~~ fair value ~~measurement considers~~ reflects the assumptions that market participants would use in pricing the asset, whether using an in-use or an in-exchange valuation premise~~.~~[*],[†] Both the in-use valuation premise and the in-exchange valuation premise assume that the asset is sold individually, ie not as part of a group of assets or a business. However, the in-use valuation premise assumes that market participants will use the asset in

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[*] ~~The fair value of an asset in use is determined based on the use of the asset together with other assets as a group (consistent with its highest and best use from the perspective of market participants), even if the asset that is the subject of the measurement is aggregated (or disaggregated) at a different level for purposes of applying other accounting pronouncements.~~

[†] The fair value of an asset in use is determined on the basis of the use of the asset together with other assets and liabilities as a group (consistently with its highest and best use from the perspective of market participants), even if the asset is aggregated (or disaggregated) at a different level when applying other IFRSs.

combination with other assets or liabilities, and that those assets and liabilities are available to those market participants.

24 An entity shall use an in-exchange valuation premise when measuring the fair value of a financial asset. The fair value of a financial asset determined using the in-exchange valuation premise reflects any benefits that market participants would derive from holding that asset in a diversified portfolio. As a result, the in-use valuation premise is not relevant for financial assets.

Application to liabilities: general principles

25 A fair value measurement assumes that the liability is transferred to a market participant at the measurement date (the liability ~~to the counterparty~~ continues~~; it is not settled)~~ and ~~that the nonperformance risk relating to that liability is the same before and after its transfer.~~ the market participant transferee would be required to fulfil it; it is not settled with the counterparty or otherwise extinguished).

26 In many cases, there will not be an observable market price for the transfer of a liability. In such cases, an entity shall measure the fair value of a liability using the same methodology that the counterparty would use to measure the fair value of the corresponding asset.

27 If there is an active market for transactions between parties who hold debt securities as an asset, the observed price in that market also represents the fair value of the issuer's liability. An entity shall adjust the observed price for the asset for features that are present in the asset but not present in the liability, or vice versa. For example, in some cases the observed price for an asset reflects a combined price for a package comprising both the amounts due from the issuer and a third-party credit enhancement. In such cases, the objective is to estimate the fair value of the issuer's liability, not the price of the combined package. Thus, the entity would adjust the observed price for the asset to exclude the effect of the third-party credit enhancement, a feature that is not present in the liability.

28 If there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity shall estimate the price that market participants would demand to assume the liability using present value techniques (see Appendix C) or other valuation techniques (see paragraphs 38–40). When using a present value technique, an entity must, among other things, estimate the future cash outflows that market participants would incur in fulfilling the obligation. An entity may estimate those future cash outflows by:

(a) estimating the cash flows the entity would incur in fulfilling the obligation;

(b) excluding cash flows, if any, that other market participants would not incur; and

(c) including cash flows, if any, that other market participants would incur but the entity would not incur.

Although the technique is based, in part, on a settlement notion (ie cash flows incurred to fulfil the obligation), it produces the same price that would be paid to transfer a liability at the measurement date, provided that technique is applied in a manner consistent with Appendix C. This is because a market participant transferee would assume the same obligation to fulfil the liability. An entity need not undertake exhaustive efforts to determine the cash flows in (b) and (c) above. However, an entity shall not ignore information about market participant assumptions that is reasonably available.

Application to liabilities: non-performance risk

29 The fair value of a liability reflects the effect of *non-performance risk*, which is the risk that an entity will not fulfil an obligation. Non-performance risk is assumed to be the same before and after the transfer of the liability. ~~Nonperformance risk refers to the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. Therefore, the fair value of the liability shall reflect the nonperformance risk relating to that liability.~~ This is because market participants would not enter into a transaction that changes the non-performance risk associated with the liability without reflecting that change in the price. For example, a creditor would not generally permit a debtor to transfer its obligation to another party of lower credit standing, nor would a transferee of higher credit standing be willing to assume the obligation using the same terms negotiated by the transferor (debtor) if those terms reflect the transferor's lower credit standing.

30 Non-~~Non~~performance risk includes, but may not be limited to ~~the reporting~~, an entity's own credit risk. ~~The reporting~~When measuring the fair value of a liability, an entity shall consider the effect of its credit risk (credit standing) ~~on the fair value of~~ and any other risk factors that might influence the ~~liability in all periods in which~~likelihood that the ~~liability is measured at fair value.~~ obligation will not be fulfilled. That effect may differ depending on the liability, ~~for example,~~ eg whether the liability is an obligation to deliver cash (a financial liability) or an obligation to deliver goods or services (a non-financial liability), and the terms of credit enhancements related to the liability, if any.

Application to liabilities: restrictions

31 A restriction on an entity's ability to transfer a liability to another party does not affect the fair value of the liability. This is because the fair value of a liability is a function of the requirement to fulfil the obligation. A market participant transferee would be required to fulfil the obligation and would take that into account when determining the price it would demand to assume the liability from the entity.*

Application to equity instruments

32 As with assets and liabilities, the objective of a fair value measurement of an equity instrument is to estimate an exit price at the measurement date.

33 However, although the objective is the same, the issuer of an equity instrument can exit from that instrument only if the instrument ceases to exist or if the entity repurchases the instrument from the holder. For this reason, an entity shall measure the fair value of its equity instrument from the perspective of a market participant who holds the instrument as an asset.

Fair value at initial recognition

34 When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price ~~represents~~ is the price paid to acquire the asset or received to assume the liability (often referred to as an entry price). ~~-~~ In contrast, the fair value of the asset or liability represents the price that would be received to sell the asset or paid to transfer the liability (an exit price). ~~Conceptually, entry prices and exit prices are different.~~ Entities do not necessarily sell assets at the prices paid to acquire them. ~~-~~Similarly, entities do not necessarily transfer liabilities at the prices received to assume them. In some cases, eg in a business combination, there is not a transaction price for each individual asset or liability. Likewise, sometimes there is not an exchange transaction for the asset or liability, eg when biological assets regenerate.

35 Although conceptually entry prices and exit prices are different, in many cases an entry price of an asset or liability will equal the exit price (eg when on the transaction date the transaction to buy an asset would take place in the market in which the asset would be sold). In such cases, the fair value of an asset or liability at initial recognition equals the entry (transaction) price. ~~17. In many cases, the transaction price will equal the exit price and, therefore, represent the fair value of the asset or liability at initial recognition.~~

36 In determining whether ~~a transaction price represents the~~ fair value ~~of the asset or liability~~ at initial recognition~~, the reporting~~ equals the transaction price, an entity shall consider factors specific to the transaction and the asset or liability. ~~-~~ For example, ~~a~~ the transaction price ~~might not represent~~ is the best evidence of the fair value of an asset or liability at initial recognition ~~if:~~ unless:

(a) the transaction is between related parties.

(b) the transaction ~~occurs~~ takes place under duress or the seller is forced to accept the price in the transaction. ~~-~~ For example, that might be the case if the seller is experiencing financial difficulty.

(c) the unit of account represented by the transaction price is different from the unit of account for the asset or liability measured at fair value. ~~-~~ For example, that might be the case if the asset or liability measured at fair value is only one of the elements in the transaction, the transaction includes unstated rights and privileges that ~~should be~~ are separately measured~~,~~ or the transaction price includes transaction costs.

(d) the market in which the transaction ~~occurs~~ takes place is different from the market in which the ~~reporting~~ entity would sell the asset or transfer the liability, ~~that is,~~ ie the ~~principal or~~ most advantageous market. ~~-~~ For example, those markets might be different if the ~~reporting~~ entity is a securities dealer that transacts in different markets~~, depending on whether the counterparty is a~~ with retail customers (retail market) ~~or an~~ and with other securities dealers (inter-dealer market).

37 If an IFRS requires or permits an entity to measure an asset or liability initially at fair value and the transaction price differs from fair value, the entity recognises the resulting gain or loss in profit or loss unless the IFRS requires otherwise.

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* Because the transfer is hypothetical, it is necessary to consider the characteristics of market participants who would enter into a transaction for the liability.

Valuation techniques

38 The objective of using a valuation technique is to estimate the price at which an orderly transaction would take place between market participants at the measurement date. Valuation techniques consistent with the market approach, income approach~~, and~~ or cost approach shall be used to measure fair value. ~~Key~~The main aspects of those approaches are summaris~~z~~ed below:

(a) ~~*Market approach.*~~ The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). For example, valuation techniques consistent with the market approach often use market multiples derived from a set of comparables. Multiples might ~~lie~~ be in ranges with a different multiple for each comparable. The selection of ~~where within the range~~ the appropriate multiple ~~falls~~ within the range requires judgement, considering factors ~~specific to the measurement~~ (qualitative and quantitative~~).~~) specific to the measurement. Valuation techniques consistent with the market approach include matrix pricing. Matrix pricing is a mathematical technique used principally to value debt securities without relying exclusively on quoted prices for the specific securities, but ~~rather by~~ relying on the securities' relationship to other benchmark quoted securities.

(b) ~~*Income approach.*~~ The income approach uses valuation techniques to convert future amounts (~~for example,~~eg cash flows or ~~earnings~~ income and expenses) to a single present ~~amount~~ (discounted~~).~~) amount. The fair value measurement is ~~based~~ determined on the basis of the value indicated by current market expectations about those future amounts. Those valuation techniques include present value techniques (see Appendix C); option- pricing models, such as the Black-Scholes-Merton formula (a closed- form model) and a binomial model (a lattice model), which incorporate present value techniques~~;~~[*] and reflect both the time value and intrinsic value of an option; and the multi-period excess earnings method, which is used to measure the fair value of ~~certain~~ some intangible assets.[‡]

(c) ~~*Cost approach.*~~ The cost approach ~~is based on~~ reflects the amount that would currently ~~would~~ be required to replace the service capacity of an asset (often referred to as current replacement cost). From the perspective of a market participant (seller), the price that would be received for the asset is ~~determined~~ based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility, adjusted for obsolescence. Obsolescence encompasses physical deterioration, functional (technological) obsolescence~~,~~ and economic (external) obsolescence, and is broader than depreciation for financial reporting purposes (an allocation of historical cost) or tax purposes (based on specified service lives). The current replacement cost approach is generally appropriate for measuring the fair value of tangible assets using an in-use valuation premise because a market participant would not pay more for an asset than the amount for which it could replace the service capacity of that asset.

39 ~~V~~An entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available ~~shall be used~~ to measure fair value~~.~~, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Periodically, an entity shall calibrate the valuation technique(s) used to prices from observable current market transactions in the same asset or liability (at initial recognition, this might be the transaction price). In some cases, a single valuation technique will be appropriate (~~for example,~~eg when valuing an asset or a liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate (~~for example,~~eg as might be the case when valuing a ~~reporting~~cash-generating unit). If multiple valuation techniques are used to measure fair value, the results (respective indications of fair value) shall be evaluated and weighted, as appropriate, considering the reasonableness of the range of values indicated by those results. A fair value measurement is the point within that range that is most representative of fair value in the circumstances.

40 Valuation techniques used to measure fair value shall be consistently applied. However, a change in a valuation technique or its application (~~for example,~~eg a change in its weighting when multiple valuation techniques are used) is appropriate if the change results in a measurement that is equally or more representative of fair value in the circumstances. That might be the case if, for example, new markets develop, new information becomes available, information previously used is no longer available~~,~~ or valuation techniques improve. Revisions resulting from a change in the valuation technique or its application shall be accounted for as a change in accounting estimate in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and*

~~[*]The guidance in this Statement does not apply for the fair value based measurements using option pricing models under Statement 123(R).~~

~~[‡]The use of the multiperiod excess earnings method to measure the fair value of in-process research and development is discussed in AICPA Practice Aid, Assets Acquired in a Business Combination to Be Used in Research and Development Activities: A Focus on Software, Electronic Devices, and Pharmaceutical Industries.~~

Errors. ~~(FASB Statement No. 154, *Accounting Changes and Error Corrections*, paragraph 19). The disclosure provisions of Statement 154 for a change in accounting estimate are not required for revisions resulting from a change in a valuation technique or its application.~~

Inputs to valuation techniques

41 In this ~~Statement, *inputs* [draft] IFRS, 'inputs'~~ refer broadly to the assumptions that market participants would use ~~in~~when pricing the asset or liability, including assumptions about risk, ~~for example,~~eg the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) ~~and/~~or the risk inherent in the inputs to the valuation technique. ~~-~~ Inputs may be observable or unobservable:

(~~a.~~) *Observable inputs* are inputs that are developed on the basis of available market data and reflect the assumptions that market participants would use ~~in~~ when pricing the asset or liability ~~developed based on market data obtained from sources independent of the reporting entity. .~~

(~~b.~~) *Unobservable inputs* are inputs ~~that reflect the reporting entity's own assumptions~~ for which market data are not available and that are developed on the basis of the best information available about the assumptions that market participants would use ~~in~~ when pricing the asset or liability ~~developed based on the best information available in the circumstances. .~~

42 Valuation techniques used to measure fair value shall maximi~~z~~se the use of relevant observable inputs ~~(that is, Level 1 and Level 2 inputs that do not require significant adjustment)~~ and minimi~~z~~se the use of unobservable inputs. In some cases an entity may determine that observable inputs require significant adjustment based on unobservable data and thus the fair value measurement would be categorised in a lower level of the fair value hierarchy. For example, the entity may determine that an income approach valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs is equally representative of fair value as (or more representative of fair value than) a market approach valuation technique that would require significant adjustments using unobservable inputs.

Fair value hierarchy

43 To increase consistency and comparability in fair value measurements and the related disclosures, ~~the~~ this [draft] IFRS establishes a fair value hierarchy that prioriti~~z~~es into three levels (see paragraphs 45–54) the inputs to valuation techniques used to measure fair value ~~into three broad levels. .~~ The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). ~~-~~ In some cases, the inputs used to measure the fair ~~value~~value of an asset or a liability might ~~fall~~be categorised in different levels of the fair value hierarchy. The ~~level in the fair value hierarchy within which the~~ fair value measurement is categorised in its entirety ~~falls shall be determined based on~~in the same level of the fair value hierarchy as the lowest level input that is significant to the ~~fair value~~entire measurement ~~in its entirety. .~~ Assessing the significance of a particular input to the ~~fair value~~entire measurement ~~in its entirety~~ requires judgement, considering factors specific to the asset or liability.

44 The availability of ~~inputs~~ relevant inputs ~~to the asset or liability~~ and ~~the~~their relative ~~reliability of the inputs~~ subjectivity might affect the selection of appropriate valuation techniques. ~~-~~ However, the fair value hierarchy prioriti~~z~~es the inputs to valuation techniques, not the valuation techniques. ~~-~~ used to measure fair value. For example, a fair value measurement developed using a present value technique might ~~fall~~ be categorised within Level 2 or Level 3, depending on the inputs that are significant to the entire measurement ~~in its entirety~~ and the level in the fair value hierarchy within which those inputs ~~fall.~~ are categorised. If observable inputs require significant adjustment using unobservable inputs, the resulting measurement is a Level 3 measurement.

Level 1 inputs

45 *Level 1 inputs* are quoted prices (unadjusted) in active markets for identical assets or liabilities that the ~~reporting~~ entity ~~has the ability to~~ can access at the measurement date.

46 Although an entity must have access to the market at the measurement date, it does not need to be able to sell the particular asset or transfer the particular liability on that date, eg if there is a restriction on the sale of the asset. However, the entity must be able to access the market when the restriction ceases to exist.

47 If a market participant would consider a restriction on the sale of an asset when determining the price for the asset, an entity shall adjust the quoted price to reflect the effect of that restriction. Such an adjustment is not a Level 1 input and, if the adjustment is significant, the measurement would be categorised in a lower level of the fair value hierarchy.

48 An active market for the asset or liability is a market in which transactions for the asset or liability take place ~~occur~~ with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available, except as discussed in paragraphs 49~~25~~ and 50~~26~~.

49 If the ~~reporting~~ entity holds a large number of similar assets or liabilities (~~for example,~~ eg debt securities) that are ~~required to be~~ measured at fair value, a quoted price in an active market might be available but not readily accessible for each of those assets or liabilities individually. In that case, as a practical expedient, an entity may measure fair value ~~may be measured~~ using an alternative pricing method that does not rely exclusively on quoted prices (~~for example,~~ eg matrix pricing) ~~as a practical expedient~~. However, the use of an alternative pricing method ~~renders the~~ results in a lower level fair value measurement ~~a lower level measurement.~~.

50 In some situations, a quoted price in an active market might not represent fair value at the measurement date. That might be the case if, for example, significant events (principal-to-principal transactions, brokered trades~~,~~ or announcements) ~~occur~~ take place after the close of a market but before the measurement date. ~~The reporting~~ An entity ~~should~~ shall establish and consistently apply a policy for identifying those events that might affect fair value measurements.~~-~~ However, if the quoted price is adjusted for new information, the adjustment ~~renders the fair value measurement a lower level~~ results in a lower level fair value measurement.~~ If the reporting entity holds a position in a single financial instrument (including a block) and the instrument is traded in an active market, the fair value of the position shall be measured within Level 1 as the product of the quoted price for the individual instrument times the quantity held. The quoted price shall not be adjusted because of the size of the position relative to trading volume (blockage factor). The use of a blockage factor is prohibited, even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.~~[*]

Level 2 inputs

51 *Level 2 inputs* are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly~~.~~ (ie derived from prices). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. ~~-~~Level 2 inputs include the following:

(a) quoted prices for similar assets or liabilities in active markets

(b) quoted prices for identical or similar assets or liabilities in markets that are not active (~~P~~paragraph B5~~29A~~ provides~~includes~~ example~~s~~ of factors that may indicate that a market is not active ~~or that there has been a significant decrease in the volume and level of activity for the asset or liability when compared to normal market activity for the asset or liability (or similar assets or liabilities) depending on the degree to which the factors exist.~~)

(c) inputs other than quoted prices that are observable for the asset or liability (~~for example,~~eg interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks~~,~~ and default rates)

(d) inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

52 Adjustments to Level 2 inputs will vary depending on factors specific to the asset or liability.~~-~~ Those factors include the condition ~~and/~~or location of the asset ~~or liability~~, the extent to which the inputs relate to items that are comparable to the asset or liability, and the volume and level of activity in the markets within which the inputs are observed.~~-~~ An adjustment that is significant to the ~~fair value~~entire measurement ~~in its entirety~~ might ~~render the measurement~~ result in a Level 3 measurement, depending on ~~the level in the fair value hierarchy within which~~ where the inputs used to determine the adjustment ~~fall.~~ are categorised in the fair value hierarchy.

Level 3 inputs

53 *Level 3 inputs* are ~~unobservable~~ inputs for the asset or liability~~.~~ that are not based on observable market data (unobservable inputs). Unobservable inputs shall be used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. ~~-~~However, the fair value measurement objective remains the same, ~~that is,~~ie an exit price from the perspective of a market participant that holds the asset or owes the liability.~~-~~ Therefore, unobservable inputs shall reflect the ~~reporting entity's own assumptions about the~~

~~[*]The guidance in this Statement applies for positions in financial instruments (including blocks) held by all entities, including broker-dealers and investment companies within the scope of the AICPA Audit and Accounting Guides for those industries.~~

assumptions that market participants would use ~~in~~ when pricing the asset or liability ~~(~~, including assumptions about risk~~).~~ .

54 Unobservable inputs shall be developed ~~based on~~ using the best information available in the circumstances, which might include ~~the reporting~~ an entity's own data. ~~–~~ In developing unobservable inputs, ~~the reporting~~ an entity ~~need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity~~may begin with its own data, which shall ~~not ignore information about market participant assumptions that is~~be adjusted if reasonably available ~~without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if~~ information ~~is reasonably available without undue cost and effort that~~ indicates that (a) other market participants would use different ~~assumptions~~ data or (b) there is something particular to the entity that is not available to other market participants (eg an entity-specific synergy), and the entity is able to quantify these adjustments. An entity need not undertake exhaustive efforts to obtain information about market participant assumptions. However, an entity shall not ignore information about market participant assumptions that is reasonably available.

Inputs based on bid and ask prices

55 If an input used to measure fair value is based on bid and ask prices (~~for example,~~eg in a dealer market), the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorised in the fair value hierarchy ~~the input falls~~ (Level 1, 2~~,~~ or 3). ~~–~~ This ~~Statement~~[draft] IFRS does not preclude the use of mid-market pricing or other pricing conventions used by market participants as a practical expedient for fair value measurements within a bid-ask spread. ~~-~~If a bid-ask spread for an asset or a liability is not observable directly or indirectly (eg a bid-ask spread for a similar asset or liability), an entity need not undertake exhaustive efforts to estimate a bid-ask spread.

Disclosures

56 For assets and liabilities ~~that are~~ measured at fair value ~~on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting~~ , an entity shall disclose information that enables users of its financial statements to assess the methods and inputs used to develop those measurements and, for ~~recurring~~ fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on ~~earnings (~~profit or ~~changes in net assets)~~ loss or other comprehensive income for the period.

57 To meet the objectives in paragraph 56, an entity shall (except as otherwise specified below) determine how much detail to disclose, how much emphasis to place on different aspects of the disclosure requirements, how much aggregation or disaggregation to undertake, and whether users need any additional information to evaluate the quantitative information disclosed. ~~To meet that objective, the reporting entity shall disclose the following information for each interim and annual period separately for each major category of assets and liabilities (for equity and debt securities major category shall be defined as major security type as described in paragraph 19 of FASB Statement No. 115, *Accounting for certain Investments in Debt and Equity Securities* even if the equity securities or debt securities are not within the scope of Statement 115)~~ At a minimum, an entity shall disclose the following information for each class of assets and liabilities:

(a) the fair value measurement at the end of the reporting period ~~date~~.

(b) the level of the fair value hierarchy within which the fair value measurements are categorised in their entirety (Level 1, 2 or 3). ~~within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)~~

(c) for assets and liabilities held at the reporting date, any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers. Transfers into each level shall be disclosed and discussed separately from transfers out of each level. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

(d) the methods and the inputs used in the fair value measurement and the information used to develop those inputs. If there has been a change in valuation technique (eg changing from a market approach to an income approach), the entity shall disclose that change, the reasons for making it, and its effect on the fair value measurement. ~~The inputs and valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period.~~

(e) for fair value measurements categorised within Level 3 of the fair value hierarchy, a reconciliation from the opening balances to the closing balances, disclosing separately changes during the period attributable to the following: ~~For fair value measurements using significant unobservable inputs~~

~~(Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:*~~

(i) total gains or losses for the period recognised in profit or loss, and a description of where they are presented in the statement of comprehensive income or the separate income statement (if presented). ~~(realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities)~~

(ii) total gains or losses for the period recognised in other comprehensive income.

(iii) purchases, sales, issues and settlements ~~(net)~~ (each of those types of change disclosed separately).

(iv) transfers into or out of Level 3 (eg transfers attributable to changes in the observability of market data) and the reasons for those transfers. For significant transfers, transfers into Level 3 shall be disclosed and discussed separately from transfers out of Level 3. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities. ~~(3) Transfers in and/or out of Level 3 (for example, transfers due to changes in the observability of significant inputs)~~

(f) the amount of the total gains or losses for the period in ~~subparagraph (c)(1)~~ (e)(i) above included in ~~earnings (or changes in net assets)~~ profit or loss that are attributable to ~~the change in unrealized~~ gains or losses relating to those assets and liabilities ~~still~~ held at the reporting date, and a description of where those ~~unrealized~~ gains or losses are ~~reported~~presented in the statement of comprehensive income ~~(~~or ~~activities~~ the separate income statement (if presented).

(g) for fair value measurements categorised within Level 3 of the fair value hierarchy, if changing one or more of the inputs to reasonably possible alternative assumptions would change fair value significantly, an entity shall state that fact and disclose the effect of those changes. An entity shall disclose ~~the following information for each interim and annual period separately for each major category of assets and liabilities :~~ how it calculated those changes. For this purpose, significance shall be judged with respect to profit or loss, and total assets or total liabilities.

~~33. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period separately for each major category of assets and liabilities (for equity and debt securities *major category* shall be defined as *major security type* as described in paragraph 19 of Statement 115 even if the equity securities or debt securities are not within the scope of Statement 115):~~

~~a. The fair value measurements recorded during the period and the reasons for the measurements~~

~~b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3)~~

~~c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs~~

~~d. The inputs and valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) and related inputs used to measure similar assets and/or liabilities in prior periods.~~

58 For each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, an entity shall disclose the fair value by the level of the fair value hierarchy.

59 For each class of liability measured at fair value after initial recognition, an entity shall disclose:

(a) the amount of change, during the period and cumulatively, in the fair value of the liability that is attributable to changes in the non-performance risk of that liability, and the reasons for that change.

(b) how the entity estimated the amount in paragraph 59(a) attributable to changes in the non-performance risk of the liability.

~~*For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.~~

(c) the difference between the liability's carrying amount and the amount of economic benefits the entity is required to sacrifice to satisfy the obligation (eg for a contractual liability, this would be the amount the entity is contractually required to pay to the holder of the obligation).

60 If an asset is used together with other assets and its highest and best use differs from its current use (see paragraphs 20 and 21), an entity shall disclose, by class of asset:

(a) the value of the assets assuming their current use (ie the amount that would be their fair value if the current use were the highest and best use).

(b) the amount by which the fair value of the assets differs from their value in their current use (ie the incremental value of the asset group).

(c) the reasons the assets are being used in a manner that differs from their highest and best use.

61 An entity shall present t~~T~~he quantitative disclosures required by this ~~Statement shall be presented using~~ [draft] IFRS in a tabular format unless another format is more appropriate.~~. (See Appendix A.) 35. The reporting entity is encouraged, but not required, to combine the fair value information disclosed under this Statement with the fair value information disclosed under other accounting pronouncements (for example, FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*) in the periods in which those disclosures are required, if practicable. The reporting entity also is encouraged, but not required, to disclose information about other similar measurements (for example, inventories measured at market value under ARB 43, Chapter 4), if practicable.~~

Effective date and transition

62 [This section is not reproduced for the purpose of this mark up.]

Appendix A
Defined terms

This appendix is an integral part of the draft IFRS.

active market	A market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.
fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
highest and best use	The use of an asset by market participants that would maximise the value of the asset or the group of assets and liabilities (eg a business) within which the asset would be used.
International Financial Reporting Standards (IFRSs)	Standards and Interpretations adopted by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations developed by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
in-exchange valuation premise	A basis used to determine the fair value of an asset that provides maximum value to market participants principally on a stand-alone basis.
in-use valuation premise	A basis used to determine the fair value of an asset that provides maximum value to market participants principally through its use in combination with other assets and liabilities as a group (as installed or otherwise configured for use).
Level 1 inputs	Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 inputs	Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
Level 3 inputs	Inputs for the asset or liability that are not based on observable market data (unobservable inputs).
market participants	Buyers and sellers in the ~~principal (or~~ most advantageous~~)~~ market for the asset or liability that are: (a) independent of ~~the reporting entity; that is,~~each other,[13] ie they are not related parties[14]~~–~~ (as defined in IAS 24 *Related Party Disclosures*); (b) knowledgeable ~~having a reasonable understanding about the asset or liability and the transaction based on all available information, including information that might~~

[13] The reporting entity is a market participant, but it is not the only market participant to consider when measuring fair value.

[14] ~~This Statement uses the term related parties consistent with its use in FASB Statement No. 57, *Related Party Disclosures*.~~

~~obtained through due diligence efforts that are usual and customary~~as, ie they are sufficiently informed to make an investment decision and are presumed to be knowledgeable as the reporting entity about the asset or liability;

(c) able to ~~transact~~enter into a transaction for the asset or liability; and

(d) willing to ~~transact~~enter into a transaction for the asset or liability~~; that is,~~, ie they are motivated but not forced or otherwise compelled to do so.

most advantageous market The market ~~in which the reporting entity would sell the asset or transfer the liability with the price~~ that maximi~~z~~es the amount that would be received ~~for~~to sell the asset or minimi~~z~~es the amount that would be paid to transfer the liability, after considering *transaction costs* and *transport costs*.

non-performance risk The risk that an entity will not fulfil an obligation.

observable inputs Inputs that are developed on the basis of available market data and reflect the assumptions that market participants would use ~~in~~when pricing the asset or liability~~ developed based on market data obtained from sources independent of the reporting entity.~~ .

orderly transaction A transaction that assumes exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction (eg a forced liquidation or distress sale).

principal market The market ~~in which the reporting entity would sell the asset or transfer the liability with the~~ with the greatest volume and level of activity for the asset or liability.

transaction costs Incremental costs to sell an asset or transfer a liability. Incremental costs to sell an asset or transfer a liability refer to those costs that are directly attributable to the disposal of an asset or transfer of a liability (similar to costs to sell as defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*).

transport costs The costs that would be incurred to transport an asset to or from its most advantageous market.

unit of account The level at which an asset or liability is aggregated or disaggregated in IFRSs.

unobservable inputs Inputs ~~that reflect the reporting entity's own assumptions~~ for which market data are not available and that are developed on the basis of the best information available about the assumptions that market participants would use ~~in~~when pricing the asset or liability~~ developed based on the best information available in the circumstances.~~ .

Appendix B
Application guidance

This appendix is an integral part of the [draft] IFRS.

The fair value measurement approach

B1 The objective ~~This Statement clarifies fair value in terms~~ of a fair value measurement is to determine the price ~~in an orderly transaction between market participants~~ that would be received to sell an asset or paid to transfer a liability ~~in the principal (or most advantageous) market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction~~ at the measurement date~~, considered from the perspective of a market participant that holds the asset or owes the liability. Therefore,~~ . ~~objective of a fair value measurement is to determine the price that would be received to sell the asset or paid to transfer the liability at the measurement date (an exit price). Because that exit price objective applies for all assets and liabilities measured at fair value, any~~ . A fair value measurement requires an ~~that the reporting~~ entity to determine:

(a) the particular asset or liability that is the subject of the measurement (consistently with its unit of account).

(b) for an asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).

(c) the ~~principal(or most advantageous)~~ most advantageous market for the asset or liability~~(for an asset, consistent with its highest and best use).~~

(d) the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use in pricing the asset or liability and the level ~~in~~ of the fair value hierarchy within which the inputs ~~fall.~~ are categorised. ~~A3. The judgments applied in different valuation situations often will be different. The examples in this appendix illustrate, in qualitative terms, the judgments a reporting entity that measures assets and/or liabilities at fair value might apply in varying valuation situations.~~

In-use valuation premise

B2 ~~The valuation premise used to measure the~~ When measuring the fair value of ~~an~~a non-financial asset ~~depends on the highest and best~~ in use, the effect of ~~the asset by market participants. If the asset would provide maximum value to market participants principally through its use in combination with other assets as a group (highest and best use is "in use"), the asset would be measured~~ using an in-use valuation premise~~. If the asset would provide maximum value to market participants principally on~~ depends on the circumstances. For example:(a ~~standalone basis (highest and best use is "in exchange"), the asset would be measured using an in exchange valuation premise. A5. When measuring~~) ~~the fair value of an asset in use, the in use valuation premise can be incorporated in the measurement differently, depending on the circumstances. For example:~~

(a) the fair value of the asset might be the same whether using an in-use or an in-exchange valuation premise. ~~For example, that~~ That might be the case if the asset is a business ~~(such as a reporting unit)~~ that market participants would continue to operate. In that case, the transaction would involve the business in its entirety. The use of the assets as a group in ~~the context of~~ an ongoing business would generate synergies that would be available to market participants (market participant synergies).

(b) the in-use valuation premise might be incorporated in the fair value of the asset through adjustments to the value of the asset ~~in exchange. For example, that~~'in exchange'. That might be the case if the asset is a machine and the fair value measurement is determined using an observed price for a similar machine (not installed or otherwise configured for use), adjusted for transport~~ation~~ and installation costs so that the fair value measurement reflects the current condition and location of the machine (installed and configured for use).

(c) the in-use valuation premise might be incorporated ~~in~~ into the fair value of the asset through the market participant assumptions used to measure the fair value of the asset. For example, if the asset is work-in-~~process~~ progress inventory that is unique and market participants would ~~complete~~ convert the inventory into finished goods, the fair value of the inventory would assume that market participants have or would acquire any specialis~~z~~ed machinery necessary to ~~complete~~ convert the inventory into finished goods ~~would be available to market participants. In that case, market participants would have~~

~~the specialized machinery in place or would acquire the specialized machinery in conjunction with the inventory~~.

(d) the in-use valuation premise might be incorporated ~~in the fair value of the asset through~~into the valuation technique used to measure the fair value of the asset. ~~For example, that~~That might be the case when using the multi-period excess earnings method to measure the fair value of ~~certain~~ some intangible assets because that valuation technique specifically considers the contribution of any complementary assets in the group in which such an intangible asset would be used.

(e) in more limited situations, when an entity uses an asset within a group of assets, the ~~asset~~ entity might ~~be measured~~ measure the asset at an amount that approximates its fair value in- use when allocating the fair value of the asset group ~~within which the asset is used~~ to the individual assets of the group. ~~For example, that~~ That might be the case if the valuation involves real property and the fair value of improved property (an asset group) is allocated to its component assets (such as land and improvements).

Fair value hierarchy

Level 2 input

B3 ~~Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs). If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. An adjustment to a Level 2 input that is significant to the fair value measurement in its entirety might render the measurement a Level 3 measurement, depending on the level in the fair value hierarchy within which the inputs used to determine the adjustment fall.~~ Examples of Level 2 inputs for particular assets and liabilities follow.

(a) *Receive-fixed, pay-variable interest rate swap based on the LIBOR swap rate*. A Level 2 input would include the LIBOR swap rate if that rate is observable at commonly quoted intervals for the full term of the swap.

(b) *Receive-fixed, pay-variable interest rate swap based on a foreign-denominated yield curve*. A Level 2 input would include the swap rate based on a foreign- denominated yield curve that is observable at commonly quoted intervals for substantially the full term of the swap. That would be the case if the term of the swap is 10 years and that rate is observable at commonly quoted intervals for 9 years, provided that any reasonable extrapolation of the yield curve for year 10 would not be significant to the fair value measurement of the swap in its entirety.

(c) *Receive-fixed, pay-variable interest rate swap based on a specific bank's prime rate*. A Level 2 input would include the bank's prime rate derived through extrapolation if the extrapolated values are corroborated by observable market data, for example, by correlation with an interest rate that is observable over substantially the full term of the swap.

(d) *Three-year option on exchange-traded shares*. A Level 2 input would include the implied volatility for the shares derived through extrapolation to year 3 if (~~1)~~ i) prices for one-year and two-year options on the shares are observable and (~~2)~~ ii) the extrapolated implied volatility of a three-year option is corroborated by observable market data for substantially the full term of the option. In that case, the implied volatility could be derived by extrapolating from the implied volatility of the one-year and two-year options on the shares and corroborated by the implied volatility for three-year options on comparable entities' shares, provided that correlation with the one-year and two-year implied volatilities is established.

(e) *Licensing arrangement*. For a licensing arrangement that is acquired in a business combination and ~~that~~ was recently negotiated with an unrelated party by the acquired entity (the party to the licensing arrangement), a Level 2 input would include the royalty rate at inception of the arrangement.

(f) *Finished goods inventory at a retail outlet*. For finished goods inventory that is acquired in a business combination, a Level 2 input would include either a price to customers in a retail market or a wholesale price to retailers in a wholesale market, adjusted for differences between the condition and location of the inventory item and the comparable (similar) inventory items so that the fair value measurement reflects the price that would be received in a transaction to sell the inventory to another retailer that would complete the requisite selling efforts. Conceptually, the fair value measurement ~~should~~ will be the same, whether adjustments are made to a retail price (downward) or to a wholesale price (upward). Generally, the price that requires the least amount of subjective adjustments ~~should~~ shall be used for the fair value measurement.

(g) *Building held and used*. A Level 2 input would include the price per square ~~foot~~ metre for the building (a valuation multiple) derived from observable market data, ~~for example,~~eg multiples derived from prices in observed transactions involving comparable (similar) buildings in similar locations.

(h) *Cash-generating~~Reporting~~ unit*. A Level 2 input would include a valuation multiple (~~for example,~~eg a multiple of earnings or revenue or a similar performance measure) derived from observable market data, ~~for example,~~eg multiples derived from prices in observed transactions involving comparable (similar) businesses, considering operational, market, financial~~,~~ and non-financial factors.

Level 3 inputs

B4 ~~Level 3 Inputs are unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances. Assumptions about risk include the risk inherent in a particular valuation technique used to measure fair value (such as a pricing model) and/or the risk inherent in the inputs to the valuation technique.~~[15] Examples of Level 3 inputs for particular assets and liabilities follow.

(a) *Long-dated currency swap*. A Level 3 input would include interest rates in a specified currency that are not observable and cannot be corroborated by observable market data at commonly quoted intervals or otherwise for substantially the full term of the currency swap. The interest rates in a currency swap are the swap rates calculated from the respective countries' yield curves.

(b) *Three-year option on exchange-traded shares*. A Level 3 input would include historical volatility, ~~that is,~~ie the volatility for the shares derived from the shares' historical prices. Historical volatility typically does not represent current market participant expectations about future volatility, even if it is the only information available to price an option.

(c) *Interest rate swap*. A Level 3 input would include an adjustment to a mid-market consensus (non-binding) price for the swap developed using data that are not directly observable and ~~that~~ cannot otherwise be corroborated by observable market data.

(d) *Decommissioning liability assumed in a business combination*. A Level 3 input would include a current estimate of the cash outflows to be paid to fulfil the~~Asset retirement~~ obligation ~~*at initial recognition*. A Level 3 input would include expected cash flows (adjusted for risk)~~ developed using the ~~reporting~~ entity's own data if there is no ~~information~~ reasonably available ~~without undue cost and effort~~ information that indicates that market participants would use different assumptions. That Level 3 input would be used in a present value technique together with other inputs, ~~for example (1~~eg (i) a current risk-free ~~interest~~discount rate that adjusts the estimated future cash outflows for the time value of money or ~~(2)~~ a credit-adjusted risk-free rate if the effect of the ~~reporting~~ entity's credit standing on the fair value of the liability is reflected in the discount rate rather than in the ~~expected cash flows.~~[16] estimate of future cash outflows and (ii) an estimate of the premium, if any, that market participants would require for bearing risk arising from the obligation (the risk premium) and to generate the profit they would require for undertaking to fulfil the obligation. The risk premium takes into account the uncertainty inherent in the estimate of the future cash outflows (ie the price market participants would require for bearing the risk of possible variations in the amount or timing of the cash flows).

(e) *Cash-generating~~Reporting~~ unit*. A Level 3 input would include a financial forecast (~~for example,~~eg of cash flows or ~~earnings~~profit or loss) developed using the ~~reporting~~ entity's own data if there is no ~~information~~ reasonably available ~~without undue cost and effort~~ information that indicates that market participants would use different assumptions.

Not active markets and transactions that are not orderly

B5 The presence of the following factors may indicate that a market is not active~~The reporting entity should evaluate the following factors to determine whether~~:

~~[15] A measurement (for example, a "mark-to-model" measurement) that does not include an adjustment for risk would not represent a fair value measurement if market participants would include one in pricing the related asset or liability.~~

~~[16] FASB Statement No. 143, *Accounting for Asset Retirement Obligations*, illustrates the application of the expected present value technique to an asset retirement obligation measured at fair value at initial recognition under that Statement. (See Appendix C of Statement 143.)~~

(a) there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability (or similar assets or liabilities). ~~The factors include, but are not limited to:~~

(b) there are few recent transactions.

(c) price quotations are not based on current information.

(d) price quotations vary substantially ~~either~~ over time or among market ~~-~~makers (~~for example,~~eg some brokered markets).

(e) indic~~ex~~es that previously were highly correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability.

(f) there is a significant increase in implied liquidity risk premiums, yields~~,~~ or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the ~~reporting~~ entity's estimate of expected cash flows, considering all available market data about credit and other non~~-~~performance risk for the asset or liability.

(g) there is a wide bid-ask spread or significant increase in the bid-ask spread.

(h) there is a significant decline or absence of a market for new ~~issuances (that is, a~~ issues (ie primary market) for the asset or liability (or similar assets or liabilities).

(i) little information is released publicly (~~for example,~~eg a principal-to-principal market).

~~The reporting~~ An entity ~~shall~~ evaluates the significance and relevance of the factors (together with other pertinent factors) to determine whether, ~~based~~ on the ~~weight~~ basis of the evidence~~, there has been~~ available, a ~~significant decrease in the volume and level of activity for the asset or liability~~market is not active.

B6 If ~~the reporting~~ an entity concludes ~~there has been~~ that a ~~significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability (or similar assets or liabilities)~~market is not active, transactions or quoted prices in that market may not be determinative of fair value (~~for example,~~eg there may be ~~increased instances of~~ transactions that are not orderly). Further analysis of the transactions or quoted prices is needed, and a significant adjustment to the transactions or quoted prices may be necessary to ~~estimate~~ measure fair value ~~in accordance with this Statement~~. Significant adjustments also may be necessary in other circumstances (~~for example,~~eg when a price for a similar asset requires significant adjustment to make it more comparable to the asset being measured or when the price is stale).

B7 This ~~Statement~~[draft] IFRS does not prescribe a methodology for making significant adjustments to transactions or quoted prices ~~when estimating fair value~~. Paragraphs ~~18–20~~38–40 discuss the use of valuation techniques ~~in estimating~~when measuring fair value. Regardless of the valuation technique used, an entity includes appropriate risk adjustments, including a risk premium reflecting the amount market participants would demand because of the risk (uncertainty) inherent in the cash flows of an asset or liability (see paragraph C5). Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment. The risk premium should be reflective of an orderly transaction between market participants at the measurement date under current market conditions.

B8 If ~~there has been a significant decrease in the volume and level of activity for the asset or liability~~a market is not active, a change in valuation technique or the use of multiple valuation techniques may be appropriate (~~for example,~~eg the use of a market approach and a present value technique). When weighting indications of fair value resulting from the use of multiple valuation techniques, ~~the reporting~~ an entity ~~shall~~ considers the reasonableness of the range of fair value estimates. The objective is to determine the point within ~~that~~ the range that is most representative of fair value under current market conditions. A wide range of fair value estimates may be an indication that further analysis is needed.

B9 Even ~~in circumstances where there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used,~~ when a market is not active, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (~~that is,~~ie not a forced liquidation or distress~~ed~~ sale) between market participants at the measurement date under current market conditions. ~~Determining the price at which willing market participants would transact at the measurement date under current market conditions if there has been a significant decrease in the volume and level of activity for the asset or liability~~

B10 Measuring fair value in a market that is not active depends on the facts and circumstances and requires the use of significant judgment. However, the reportingjudgement. An entity's intention to continue to hold the asset or liability is not relevant in estimatingwhen measuring fair value. Fair value because fair value is a market-based measurement, not an entity-specific measurement.

B11 Even if there has been a significant decrease in the volume and level of activity for the asset or liabilitya market is not active, it is not appropriate to conclude that all transactions in that market are not orderly (that is, distressed or ie are forced or distress sales). Circumstances that may indicate that a transaction is not orderly include, but are not limited to the following:

(a) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions.

(b) there was a usual and customary marketing period, but the seller marketed the asset or liability to a single market participant.

(c) the seller is in or near bankruptcy or receivership (that is,ie distressed), or the seller was required to sell to meet regulatory or legal requirements (that is,ie forced).

(d) the transaction price is an outlier when compared with other recent transactions for the same or similar asset or liability.

The reportingAn entity shall evaluateevaluates the circumstances to determine whether the transaction is orderly based, on the weight of the evidence. available, the transaction is orderly.

29F. The determination of whether a transaction is orderly (or not orderly) is more difficult if there has been a significant decrease in the volume and level of activity for the asset or liability. Accordingly, the reporting entity shall consider the following guidance:

B12 If the weight of the evidence indicates thethat a transaction is not orderly, the reportingan entity shall placeplaces little, if any, weight (compared with other indications of fair value) on that transaction price when estimating measuring fair value or estimating market risk premiums.

B13 If the weight of the evidence indicates the that a transaction is orderly, the reportingan entity shall considerconsiders that transaction price when estimating measuring fair value or estimating market risk premiums. The amount of weight placed on that transaction price when compared with other indications of fair value will depend on the facts and circumstances such as the volumesize of the transaction, the comparability of the transaction to the asset or liability being measured at fair value, and the proximity of the transaction to the measurement date.

B14 If the reportingan entity does not have sufficient information to conclude that the whether a transaction is orderly or that, it considers the transaction is not orderly, it shall consider that transaction price when estimating measuring fair value or estimating market risk premiums. However, that transaction price may not be determinative of fair value (that ie the transaction price is, that transaction price may not be not necessarily the sole or primary basis for estimating measuring fair value or estimating market risk premiums). The reporting entity shall place less weight on transactions on which the reporting When an entity does not have sufficient information to conclude whether the transaction is orderly when compared with other particular transactions that are known to be orderly., the entity places less weight on those transactions.

B15 In its determinations, the reporting An entity need not undertake all possible exhaustive efforts, to determine whether a transaction is orderly but it shall not ignore information that is reasonably available without undue cost and effort. The reporting entity would be expected. When an entity is a party to a transaction it is presumed to have sufficient information to conclude whether a the transaction is orderly when it is party to the transaction.

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29G. Regardless of the valuation technique(s) used, the reporting entity shall include appropriate risk adjustments. Paragraph B5 of this Statement indicates that "risk-averse market participants generally seek compensation for bearing the uncertainty inherent in the cash flows of an asset or liability (risk premium). A fair value measurement should include a risk premium reflecting the amount market participants would demand because of the risk (uncertainty) in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient basis on which to exclude a risk adjustment." Risk premiums should be reflective of an orderly transaction (that is, not a forced or distressed sale) between market participants at the measurement date under current market conditions.

Quoted prices provided by third parties

B16 When estimating an entity is measuring fair value, this Statement[draft] IFRS does not preclude the use of quoted prices provided by third parties, such as pricing services or brokers, when the reporting entity has

determined that the quoted prices provided by those parties are determined in accordance with this ~~Statement. However, when there has been~~[draft] IFRS.

B17 If a ~~significant decrease in~~ market is not active, an entity must evaluate whether the ~~volume or level of activity for the asset or liability, the reporting entity should evaluate whether those~~ quoted prices are based on current information that reflects orderly transactions or a valuation technique that reflects market participant assumptions (including assumptions about risks). In weighting a quoted price as an input to a fair value measurement, ~~the reporting~~an entity ~~should~~ places less weight (when compared with other indications of fair value that are based on transactions) on quotes that do not reflect the result of transactions.

B18 Furthermore, the nature of ~~the~~ a quote (~~for example,~~eg whether the quote is an indicative price or a binding offer) should be considered when weighting the available evidence, with more weight given to quotes based on binding offers.

Appendix C
Present value techniques

This appendix is an integral part of the [draft] IFRS.

Introduction

C1 ~~FASB Concepts Statement No. 7, *Using Cash Flow Information and Present Value in Accounting Measurements,*~~ This appendix provides ~~guidance for~~ information about using present value techniques to measure fair value. ~~That~~This guidance focuses on a traditional or discount rate adjustment technique and an expected cash flow (expected present value) technique. This ~~appendix clarifies that~~ guidance.[17] ~~This appendix~~ neither prescribes the use of one specific present value technique nor limits the use of present value techniques to measure fair value to the techniques discussed ~~herein~~. The present value technique used to measure fair value will depend on facts and circumstances specific to the asset or liability being measured (~~for example,~~eg whether prices for comparable assets or liabilities can be observed in the market) and the availability of sufficient data.

The components of a present value measurement

C2 Present value (an application of the income approach) is a tool used to link uncertain future amounts (cash flows or values) to a present amount using a discount rate ~~(an application of the income approach)~~ that is consistent with value ~~maximizing behavior and capital market equilibrium~~ ,maximising behaviour. A fair value measurement of an asset or liability, using present value, ~~should~~ shall capture the following elements from the perspective of market participants ~~as of~~ at the measurement date:

(a) an estimate of future cash flows for the asset or liability being measured~~.~~

(b) expectations about possible variations in the amount and/or timing of the cash flows representing the uncertainty inherent in the cash flows~~.~~

(c) the time value of money, represented by the rate on risk-free monetary assets that have maturity dates or durations that coincide with the period covered by the cash flows and pose neither uncertainty in timing nor risk of default to the holder (risk-free interest rate)~~. For present value computations denominated in nominal U.S. dollars, the yield curve for U.S. Treasury securities determines the appropriate risk-free interest rate. U.S. Treasury securities are deemed (default) risk free because they pose neither uncertainty in timing nor risk of default to the holder.~~

(d) the price for bearing the uncertainty inherent in the cash flows (risk premium)~~.~~

(e) other ~~case-specific~~ factors that would be considered by market participants in the circumstances~~.~~

(~~f~~)~~. In the case of a liability, the nonperformance risk relating to that liability, including the reporting entity's (obligor's) own credit risk.~~

General principles

C3 Present value techniques differ in how they capture those elements.~~–~~ However, ~~certain~~ the following general principles govern the application of any present value technique~~:~~ used to estimate fair value:

(a) Cash flows and discount rates ~~should~~ shall reflect assumptions that market participants would use ~~in~~ when pricing the asset or liability.

(b) Cash flows and discount rates ~~should~~ shall consider only ~~factors attributed to~~ the features of the asset ~~(~~or liability~~)~~ being measured.

~~[17] That guidance is included or otherwise referred to principally in paragraphs 39–46, 51, 62–71, 114, and 115 of Concepts Statement 7.~~

(c) To avoid double~~-~~ counting or omitting the effects of risk factors, discount rates ~~should~~ shall reflect assumptions that are consistent with those inherent in the cash flows.[18] [19]

(d) Assumptions about cash flows and discount rates ~~should~~ shall be internally consistent. For example, nominal cash flows (that include the effect of inflation) ~~should~~ shall be discounted at a rate that includes the effect of inflation. The nominal risk-free interest rate includes the effect of inflation. Real cash flows (that exclude the effect of inflation) ~~should~~ shall be discounted at a rate that excludes the effect of inflation. Similarly, after-tax cash flows ~~should~~ shall be discounted using an after-tax discount rate. Pre-tax cash flows ~~should~~ shall be discounted at a rate consistent with those cash flows ~~(for example, a U.S. Treasury rate is quoted on a pretax basis, as is a LIBOR rate or a prevailing term loan rate).~~ .

(e) Discount rates ~~should~~ shall be consistent with the underlying economic factors of the currency in which the cash flows are denominated.

Risk and uncertainty

C4 A fair value measurement, using present value, is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases, both the amount and timing of the cash flows will be uncertain. Even contractually fixed amounts, ~~like~~ such as the payments on a loan, will be uncertain if there is risk of default.

C5 Risk-averse market participants generally seek compensation for bearing the uncertainty inherent in the cash flows of an asset or liability (risk premium). A fair value measurement ~~should~~ shall include a risk premium reflecting the amount market participants would demand because of the risk (uncertainty) in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases, determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not ~~a~~ sufficient ~~basis on which~~ reason to exclude a risk adjustment.

C6 Present value techniques differ in how they adjust for risk and in the type of cash flows they use. For example~~,~~:

(a) the discount rate adjustment technique (see paragraphs C7–C11) uses ~~a risk-adjusted discount rate and~~ contractual, promised~~,~~ or most likely cash flows~~; Method 1 of the expected present value technique uses a risk-free rate~~ and a discount rate that includes an adjustment for both (i) the effect of the difference between those cash flows and ~~risk-adjusted~~ the expected cash flows~~;~~ and (ii) the risk premium that market participants require for bearing the risk that the actual cash flows may ultimately differ from the expected cash flows.

(b) Method 1 of the expected present value technique (see paragraph C14) uses risk-adjusted expected cash flows and a risk-free rate.

(c) Method 2 of the expected present value technique (see paragraph C15) uses ~~a risk-adjusted~~ expected cash flows and a discount rate ~~(which~~ adjusted to include the risk premium that market participants require (this rate is different from the rate used in the discount rate adjustment technique~~) and expected cash flows. Those present value techniques are discussed below.~~).

Discount rate adjustment technique

C7 The discount rate adjustment technique uses a single set of cash flows from the range of possible estimated amounts, whether contractual or promised (as is the case for a bond) or most likely cash flows. In all cases, those cash flows are conditional upon the occurrence of specified events (~~for example,~~eg contractual or promised cash flows for a bond are conditional on the event of no default by the debtor). The discount rate used in the discount rate adjustment technique is derived from observed rates of return for comparable assets or liabilities that are traded in the market. Accordingly, the contractual, promised~~,~~ or most likely cash flows are discounted at ~~a rate that corresponds to~~ an observed or estimated market rate ~~associated with~~ for such conditional cash flows (market rate of return).

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[18] ~~For example, a discount rate that reflects expectations about future defaults is appropriate if using contractual cash flows of a loan (discount rate adjustment technique). That same rate would not be used if using expected (probability-weighted) cash flows (expected present value technique) because the expected cash flows already reflect assumptions about future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows should be used.~~

[19] For example, a discount rate that reflects expectations about future defaults is appropriate if using contractual cash flows of a loan (discount rate adjustment technique). That same rate would not be used if using expected (probability-weighted) cash flows (expected present value technique) because the expected cash flows already reflect assumptions about future defaults; instead, a discount rate that is commensurate with the risk inherent in the expected cash flows shall be used.

C8 The ~~application of the~~ discount rate adjustment technique requires an analysis of market data for comparable assets or liabilities. Comparability is established by considering the nature of the cash flows (~~for example,~~eg whether the cash flows are contractual or non-contractual and are likely to respond similarly to changes in economic conditions), as well as other factors (~~for example,~~eg credit standing, collateral, duration, restrictive covenants~~,~~ and liquidity). Alternatively, if a single comparable asset or liability does not fairly reflect the risk inherent in the cash flows of the asset or liability being measured, it may be possible to derive a discount rate using data for several comparable assets or liabilities in conjunction with the risk-free yield curve (a "'build-up"' approach).

C9 To illustrate a build-up approach, assume that Asset A is a contractual right to receive ~~$800~~CU800[20] in ~~1~~one year (no timing uncertainty). There is an established market for comparable assets, and information about those assets, including price information, is available. Of those comparable assets:

(a) Asset B is a contractual right to receive ~~$~~CU1,200 in ~~1~~one year and has a market price of ~~$~~CU1,083. Thus, the implied annual rate of return (~~1~~one-year market rate of return) is 10.8 ~~percent [(~~per cent [(~~$~~CU1,200/~~$~~CU1,083) – 1].

(b) Asset C is a contractual right to receive ~~$~~CU700 in ~~2~~two years and has a market price of ~~$~~CU566. Thus, the implied annual rate of return (~~2~~two-year market rate of return) is 11.2 ~~percent /~~per cent [(~~$~~CU700/~~$~~CU566)^0.5 – 1].

(c) All three assets are comparable ~~with respect to~~as regards risk (dispersion of possible pay-offs and credit).

C10 ~~Based on~~ On the basis of the timing of the contractual payments to be received ~~relative to~~ for Asset A (one year for Asset B versus two years for Asset C), Asset B is deemed more comparable to Asset A. Using the contractual payment to be received for Asset A (~~$~~CU800) and the ~~1~~one-year market rate derived from Asset B (10.8 ~~per~~per cent), the fair value of Asset A is (~~$~~CU722 (~~$~~CU800/1.108). Alternatively, in the absence of available market information for Asset B, the one-year market rate could be derived from Asset C using the build-up approach. In that case, the ~~2~~two-year market rate indicated by Asset C (11.2 ~~per~~per cent) would be adjusted to a ~~1~~one-year market rate ~~based on~~ using the term structure of the risk-free yield curve. Additional information and analysis ~~also~~ might also be required to determine ~~if~~ whether the risk premium for one-year and two-year assets is the same. If it is determined that the risk premium for one-year and two-year assets is not the same, the two-year market rate of return would be further adjusted for that effect.

C11 In applying the discount rate adjustment technique to fixed claims, the adjustment for risk inherent in the cash flows of the asset or liability being measured is included in the discount rate. In some applications of the discount rate adjustment technique to cash flows that are ~~other than~~ not fixed claims, an adjustment to the cash flows also may be necessary to achieve comparability with the observed asset or liability from which the discount rate is derived.

Expected present value technique

C12 The expected present value technique uses as a starting point a set of cash flows that, in theory, represents the probability-weighted average of all possible cash flows (expected cash flows). The resulting estimate is identical to expected value, which, in statistical terms, is the weighted average of a ~~discrete~~ random variable's possible values where the respective probabilities are used as weights. Because all possible cash flows are probability-weighted, the resulting expected cash flow is not conditional upon the occurrence of any specified event (~~as are~~ unlike the cash flows used in the discount rate adjustment technique).

C13 In making an investment decision, risk-averse market participants would consider the risk ~~inherent in~~ that the actual cash flows may ultimately differ from the expected cash flows. Portfolio theory distinguishes between two types of risk. The first is risk specific to a particular asset or liability, also referred to as unsystematic (diversifiable) risk. The second is general market risk, also referred to as systematic (non-diversifiable) risk. The systematic or non-diversifiable risk of an asset (or liability) refers to the amount by which the asset (or liability) increases the variance of a diversified portfolio when it is added to that portfolio. Portfolio theory holds that in a market in equilibrium, market participants will be compensated only for bearing the systematic or non-diversifiable risk inherent in the cash flows. (In markets that are inefficient or out of equilibrium, other forms of return or compensation might be available.)

C14 Method 1 of the expected present value technique adjusts the expected cash flows for the systematic (market) risk by subtracting a cash risk premium (risk-adjusted expected cash flows). These risk-adjusted expected cash flows represent a certainty-equivalent cash flow, which is discounted at a risk-free interest rate. A certainty-equivalent cash flow refers to an expected cash flow (as defined), adjusted for risk ~~such~~ so that ~~one~~ a market

[20] In this [draft] IFRS monetary amounts are denominated in 'currency units (CU)'

participant is indifferent to trading a certain cash flow for an expected cash flow. For example, if ~~one~~ a market participant were willing to trade an expected cash flow of ~~$~~CU1,200 for a certain cash flow of ~~$~~CU1,000, the ~~$~~CU1,000 is the certainty equivalent of the ~~$~~CU1,200 (the ~~$~~CU200 would represent the cash risk premium). In that case, ~~one~~ the market participant would be indifferent as to the asset held.

C15 In contrast, Method 2 of the expected present value technique adjusts for systematic (market) risk by adding a risk premium to the risk-free interest rate. Accordingly, the expected cash flows are discounted at a rate that corresponds to an expected rate associated with probability-weighted cash flows (expected rate of return). Models used for pricing risky assets, such as the Capital Asset Pricing Model, can be used to estimate the expected rate of return. Because the discount rate used in the discount rate adjustment technique is a rate of return relating to conditional cash flows, it is likely ~~will~~ to be higher than the discount rate used in Method 2 of the expected present value technique, which is an expected rate of return relating to expected or probability-weighted cash flows.

C16 To illustrate Methods 1 and 2, assume that an asset has expected cash flows of ~~$~~CU780 in ~~1~~ one year based on the possible cash flows and probabilities shown below. The applicable risk-free interest rate for cash flows with a ~~1~~ one-year horizon is 5 ~~per~~ per cent, and the systematic risk premium for an asset with the same risk profile is 3 ~~percent.~~ per cent.

Possible cash flows	Probability	Probability-weighted cash flows
~~$~~CU500	15%	~~$~~CU75
~~$~~CU800	60%	~~$~~CU480
~~$~~CU900	25%	~~$~~CU225
Expected cash flows		~~$~~CU780

C17 In this simple illustration, the expected cash flows (~~$~~CU780) represent the probability-weighted average of the ~~3~~ three possible outcomes. In more realistic situations, there could be many possible outcomes. However, it is not always necessary to consider distributions of literally all possible cash flows using complex models and techniques to apply the expected present value technique. Rather, it should be possible to develop a limited number of discrete scenarios and probabilities that capture the array of possible cash flows. For example, ~~a reporting~~ an entity might use ~~realized~~ realised cash flows for some relevant past period, adjusted for changes in circumstances occurring subsequently (~~for example,~~eg changes in external factors, including economic or market conditions, industry trends~~,~~ and competition as well as changes in internal factors ~~impacting~~ affecting the entity more specifically), considering the assumptions of market participants.

C18 In theory, the present value (fair value) of the asset's cash flows is the same (~~$~~CU722) whether determined under Method 1 or Method 2, as indicated below. Specifically:

(a) under ~~Method~~ Method 1, the expected cash flows are adjusted for systematic (market) risk. In the absence of market data directly indicating the amount of the risk adjustment, such adjustment could be derived from an asset pricing model using the concept of certainty equivalents. For example, the risk adjustment (cash risk premium of ~~$~~CU22) could be determined ~~based on~~ using the systematic risk premium of 3 ~~percent~~ per cent (~~$~~CU780 – [~~$~~CU780 × (1.05/1.08)]), which results in risk-adjusted expected cash flows of ~~$~~CU758 (~~$~~CU780 – ~~$~~CU22). The ~~$~~CU758 is the certainty equivalent of ~~$~~CU780 and is discounted at the risk-free interest rate (5 per cent). The present value (fair value) of the asset is (~~$~~CU722 (~~$~~CU758/1.05).

(b) under Method 2, the expected cash flows are not adjusted for systematic (market) risk. Rather, the adjustment for that risk is included in the discount rate. Thus, the expected cash flows are discounted at an expected ~~-~~rate of return of 8 per cent (the 5 per cent risk-free interest rate plus the 3 per cent systematic risk premium). The present value (fair value) of the asset is (~~$~~CU722 (~~$~~CU780/1.08).

C19 When using an expected present value technique to measure fair value, either Method 1 or Method 2 could be used. The selection of Method 1 or Method 2 will depend on facts and circumstances specific to the asset or liability being measured, the extent to which sufficient data are available~~,~~ and the judgements applied.

Appendix D
Amendments to other IFRSs

[This section is not reproduced for the purpose of this mark up.]

IFRS X *Fair Value Measurement*
Draft Illustrative examples

[a marked up version prepared by the staff of the IASB, showing differences between the text of the examples accompanying the exposure draft and the equivalent text of Statement of Financial Accounting Standards No. 157 (SFAS 157). See separate document for more information about the scope and nature of this text]

CONTENTS

IFRS X *Fair Value Measurement*
[Draft] Illustrative examples

These [draft] examples accompany, but are not part of, [draft] IFRS X

Highest and Best Use and valuation premise

IE1 ~~Highest and best use is a valuation concept that refers broadly to the use of an asset that would maximize the value of the asset or the group of assets in which the asset would be used by market participants. For some assets, in particular, nonfinancial assets, application of the highest and best use concept could have a significant effect on the fair value measurement.~~ Examples 1–3 illustrate the application of the ~~highest and best use concept in situations in which nonfinancial assets are newly acquired~~ 'highest and best use' and valuation premise concepts when non-financial assets are newly acquired.

Example 1—Asset group

IE2 ~~The reporting~~ An entity, a strategic buyer, acquires a group of assets (Assets A, B~~,~~ and C) in a business combination.~~ -~~ Asset C is billing software developed by the acquired entity for its own use in conjunction with Assets A and B (related assets). ~~-~~The ~~reporting~~ entity measures the fair value of each of the assets individually, consistently with the specified unit of account for the assets.~~ -~~ The ~~reporting~~ entity determines that there is no alternative use for the assets (the highest and best use of the assets is their current use) and that each asset would provide maximum value to market participants principally through its use in combination with other assets as a group (~~highest and best use is in use~~ ie the valuation premise is 'in use').

IE3 In this instance, the ~~market in which the~~ reporting entity would sell the assets ~~is~~ in the market in which it initially acquired the assets (~~that is,~~ ie the 'entry' and 'exit' markets from the perspective of the reporting entity are the same).~~ -~~ Market participant buyers with whom the reporting entity would ~~transact~~ trade in that market have characteristics that are generally representative of both financial buyers and strategic buyers and include those buyers that initially bid for the assets~~.~~ [*] ~~-~~.[†] As discussed below, differences between the indicated fair values of the individual assets relate principally to the use of the assets by those market participants within different asset groups:

(~~a.~~) Strategic buyer asset group.~~ -~~ The ~~reporting~~ entity~~, a strategic buyer,~~ determines that strategic buyers have related assets that would enhance the value of the group within which the assets would be used (market participant synergies).~~ -~~ Those assets include a substitute asset for Asset C (the billing software), which would be used for only a limited transition period and could not be sold ~~standalone~~ on its own at the end of that period. Because strategic buyers have substitute assets, Asset C would not be used for its full remaining economic life.~~ -~~ The indicated fair values of Assets A, B~~,~~ and C within the strategic buyer asset group (reflecting the synergies resulting from the use of the assets within that group) are ~~$~~CU360,[‡] ~~$~~CU260 and ~~$~~CU30, respectively.~~ -~~ The indicated fair value of the assets as a group within the strategic buyer asset group is ~~$~~CU650.

(~~b.~~) Financial buyer asset group.~~ -~~ The ~~reporting~~ entity determines that financial buyers do not have related or substitute assets that would enhance the value of the group within which the assets would be used. Because financial buyers do not have substitute assets, Asset C (the billing software) would be used for its full remaining economic life. ~~-~~The indicated fair values of Assets A, B~~,~~ and C within the financial buyer asset group are ~~$~~CU300, ~~$~~CU200 and ~~$~~CU100, respectively.~~ -~~ The indicated fair value of the assets as a group within the financial buyer asset group is ~~$~~CU600.

IE4 The fair values of Assets A, B~~,~~ and C would be determined ~~based~~ on the basis of the use of the assets as a group within the strategic buyer group (~~$~~CU360, ~~$~~CU260 and ~~$~~CU30). Although the use of the assets within the

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~~[*] While market participant buyers might be broadly classified as strategic and/or financial buyers, there often will be differences among the market participant buyers within each of those groups, reflecting, for example, different uses for an asset and different operating strategies.~~

[†] Although market participant buyers might be broadly classified as strategic or financial buyers, there will often be differences among the market participant buyers within each of those groups, reflecting, for example, different uses for an asset and different operating strategies.

[‡] In these [draft] examples, monetary amounts are denominated in 'currency units (CU)'.

strategic buyer group does not maximise the fair value of each of the assets individually, it maximises the fair value of the assets as a group (~~$~~CU650).

Example 2—Land

IE5 ~~The reporting~~ An entity acquires land in a business combination.~~-~~ The land is currently developed for industrial use as a site for a ~~manufacturing facility. The current use of land often is presumed to be its highest and best use. However, nearby~~ factory. As an industrial property (the current use), the indicated value of the land and factory is CU100,000 and CU60,000, respectively. Nearby sites have recently been developed for residential use as sites for high-rise ~~condominiums. Based on~~ apartment buildings. On the basis of that development and recent zoning and other changes to facilitate that development, the ~~reporting~~ entity determines that the land currently used as a site for a ~~manufacturing facility~~ factory could be developed as a site for residential use (for high-rise ~~condominiums).~~ apartment buildings).

IE6 ~~In this instance, the~~ The highest and best use of the land would be determined by comparing (a) the ~~fair~~ value of the ~~manufacturing operation, which presumes that the~~ land ~~would continue to be used~~ as currently developed for industrial use ('in use') and (b) the value of the land as a vacant site for residential use, considering the ~~demolition~~ costs of demolishing the factory and other costs necessary to convert the land to a vacant site ('in exchange'). In this situation, the highest and best use of the land would be ~~determined based on the higher of those values.~~[*] to develop high-rise apartment buildings ('in exchange'). As a residential property, the indicated fair value of the vacant site is CU300,000 after considering the costs to demolish the factory and other costs of conversion to a vacant site.

IE7 Because the current use of the land differs from its highest and best use, the fair value of the asset group (land and factory) has two components: (a) the value of the assets assuming their current use as industrial property and (b) the amount by which the fair value of the assets differs from their value in their current use. The amount in (b) is determined by subtracting the current-use value of the land and factory (CU160,000) from the fair value of the vacant site (CU300,000).

IE8 The entity measures the land at CU240,000. This is the current-use value of the land (CU100,000) plus the incremental value of the land (CU140,000) that relates to the ability to convert the land from its current use to its highest and best use. The entity measures the factory at CU60,000. The entity accounts for the assets in accordance with the IFRSs applicable to those assets.

Example 3—~~IPR&D Project~~ Research and development project

IE9 ~~The reporting~~ An entity acquires ~~an in-process~~ a research and development (~~IP~~R&D) project in a business combination.~~-~~ The ~~reporting~~ entity does not intend to complete the ~~IPR&D~~ project.~~-~~ If completed, the ~~IPR&D~~ project would compete with one of its own ~~IP~~R&D projects (to provide the next generation of the ~~reporting~~ entity's commercialised technology).~~-~~ Instead, the ~~reporting~~ entity intends to hold (lock up) the ~~IP~~R&D project to prevent its competitors from obtaining access to the technology.~~-~~ The ~~IPR&D~~ project is expected to provide defensive value, principally by improving the prospects for the ~~reporting~~ entity's own competing technology. ~~For purposes of measuring~~ To measure the fair value of the ~~IP~~R&D project at initial recognition, the highest and best use of the ~~IPR&D~~ project would be determined ~~based~~ on the basis of its use by market participants.~~-~~ For example:

(a) the highest and best use of the ~~IP~~R&D project would be to continue development (thus the in-~~use~~ use valuation premise would be appropriate) if market participants would continue to develop ~~the IPR&D project~~ it and that use would maximise the value of the group of assets in which the ~~IPR&D~~ project would be used.~~-~~ That might be the case if market participants do not have similar technology (in development or commercialised). The fair value of the ~~IP~~R&D project, measured using an in-use valuation premise, would be determined ~~based~~ on the basis of the price that would be received in a current transaction to sell the ~~IPR&D~~ project, assuming that the ~~IP~~R&D would be used with its complementary assets as a group and that those ~~complementary~~ assets would be available to market participants.

(b) the highest and best use of the ~~IP~~R&D project ~~also~~ would be to cease development (thus the in-use valuation premise would be appropriate) if, for competitive reasons, market participants would lock up the ~~IPR&D~~ project and that use would maximise the value of the group of assets in which the ~~IPR&D~~ project would be used (as a locked-up project).~~-~~ That might be the case if market participants have technology in a more advanced stage of development that would compete with the ~~IP~~R&D

[*] ~~In situations involving real estate appraisal, the determination of highest and best use in the manner described above also might consider other factors relating to the manufacturing operation, including its assets and liabilities.~~

project (if completed) and the ~~IPR&D~~ project would be expected to provide defensive value (if locked up). ~~–~~ The fair value of the ~~IP~~R&D project, measured using an in-use valuation premise, would be determined ~~based~~ on the basis of the price that would be received in a current transaction to sell the ~~IPR&D~~ project, assuming that the ~~IP~~R&D would be used (locked up) with its complementary assets as a group and that those ~~complementary~~ assets would be available to market participants.

(c) the highest and best use of the ~~IP~~R&D project would be to cease development (thus the in-exchange valuation premise would be appropriate) if market participants would discontinue ~~the~~ its development ~~of the IPR&D project.~~ . That might be the case if the ~~IPR&D~~ project is not expected to provide a market rate of return (if completed) and would not otherwise provide defensive value (if locked up). The fair value of the ~~IP~~R&D project, measured using an in-exchange valuation premise, would be determined ~~based~~ on the basis of the price that would be received ~~in a current transaction~~ to sell the ~~IP~~R&D project ~~standalone~~ by itself (which might be ~~zero).~~ nil).

Valuation techniques

IE10 ~~This Statement emphasizes that valuation Techniques consistent with the market approach, income approach, and/or cost approach should be used to measure fair value. In some cases,~~ The draft IFRS notes that a single valuation technique will be appropriate~~.~~ in some cases. In other cases, multiple valuation techniques will be appropriate. ~~If multiple valuation techniques are used, the reporting entity should evaluate the results (respective indications of fair value), considering the reasonableness of the range indicated by those results. The fair value measurement is the point within that range that is most representative of fair value in the circumstances.~~ Examples 4 and 5 illustrate the use of multiple valuation techniques.

Example 4—Machine held and used

IE11 ~~The reporting~~ An entity ~~tests for impairment an asset group~~ acquired a machine in a business combination that is held and used in its operations. ~~The asset group is impaired. The reporting entity measures the fair value of a machine that is used in the asset group as a basis for allocating the impairment loss to the assets of the group in accordance with FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.~~ The machine, initially purchased from an outside vendor, was subsequently customised by the ~~reporting~~ entity for use in its operations. ~~–~~ However, the customisation of the machine was not extensive. ~~–~~ The ~~reporting~~ entity determines that the asset would provide maximum value to market participants through its use in combination with other assets as a group (as installed or otherwise configured for use). ~~–~~ Therefore, the highest and best use of the machine is in its current use~~.~~ and the valuation premise is 'in use'.

IE12 The ~~reporting~~ entity determines that sufficient data are available to apply the cost approach and, because the customisation of the machine was not extensive, the market approach. ~~–~~ The income approach is not used because the machine does not have a separately identifiable income stream from which to develop reliable estimates of future cash flows. ~~Further~~ Furthermore, information about short-term and intermediate-term lease rates for similar used machinery that otherwise could be used to project an income stream (lease payments over remaining service lives) is not available. ~~–~~ The market and cost approaches are applied as follows:

(a) The market approach is applied using quoted prices for similar machines adjusted for differences between the machine (as customised) and the similar machines. ~~–~~ The measurement reflects the price that would be received for the machine in its current condition (used) and location (installed and configured for use~~), thereby including installation and transportation costs.~~). The fair value indicated by that approach ranges from ~~$~~CU40,000 to ~~$~~CU48,000.

(b) The cost approach is applied by estimating the amount that would currently ~~would~~ be required to construct a substitute (customised) machine of comparable utility. ~~–~~ The estimate considers the condition of the machine ~~(for example,~~ and the environment in which it operates, including physical wear and tear (physical deterioration~~,~~), improvements in technology (functional obsolescence~~, and~~), conditions external to the condition of the machine such as a decline in the market demand for similar machines (economic obsolescence) and ~~includes~~ installation costs. ~~–~~ The fair value indicated by that approach ranges from ~~$~~CU40,000 to ~~$~~CU52,000.

IE13 The ~~reporting~~ entity determines that the fair value indicated by the market approach is more representative of fair value than the fair value indicated by the cost approach and, therefore, ascribes more weight to the results of the market approach. ~~–~~ That determination is ~~based~~ made on the basis of the relative ~~reliability~~ subjectivity of the inputs, considering the degree of comparability between the machine and the similar machines. ~~–~~ In particular:

(a) the inputs used in the market approach (quoted prices for similar machines) require ~~relatively~~ fewer and less subjective adjustments than the inputs used in the cost approach.

(b) the range indicated by the market approach overlaps with, but is narrower than, the range indicated by the cost approach.

(c) there are no known unexplained differences (between the machine and the similar machines) within that range.

The ~~reporting~~ entity further determines that the higher end of the range indicated by the market approach is most representative of fair value, largely because the majority of relevant data points in the market approach ~~fall~~ lie at or near the higher end of the range.~~–~~ Accordingly, the ~~reporting~~ entity determines that the fair value of the machine is ~~$~~CU48,000.

IE14 If customisation of the machine was extensive or if there were not sufficient data available to apply the market approach (eg because market data reflect an in-exchange valuation premise [scrap value for specialised assets] rather than an in-use valuation premise), the entity would apply the cost approach. When using an in-use valuation premise, the cost approach assumes the sale of the machine to a market participant buyer with complementary assets. The price received for the sale of the machine (exit price) would not be more than the cost that a market participant buyer would incur to acquire or construct a substitute machine of comparable utility. Nor would that price be more than the economic benefit that a market participant buyer would derive from the use of the machine.

Example 5—Software asset

IE15 ~~The reporting~~ An entity acquires a group of assets.~~–~~ The asset group includes an income-producing software asset internally developed for ~~license~~ licence to customers and its complementary assets (including a related database with which the software asset is used). ~~For purposes of allocating~~ To allocate the cost of the group to the individual assets acquired, the ~~reporting~~ entity measures the fair value of the software asset.~~-~~ The ~~reporting~~ entity determines that the software asset would provide maximum value to market participants through its use in combination with other assets (its complementary assets) as a group.~~-~~ Therefore, the highest and best use of the software asset is ~~in~~ its current use.~~–~~ and the valuation premise is 'in use'. (In this ~~instance~~ case, the licensing of the software asset, in and of itself, does not ~~render the highest and best use~~ make the valuation premise of the software asset 'in exchange'.)

IE16 The ~~reporting~~ entity determines that, in addition to the income approach, sufficient data might be available to apply the cost approach but not the market approach.~~–~~ Information about market transactions for comparable software assets is not available. ~~-~~The income and cost approaches are applied as follows:

(a) The income approach is applied using a present value technique.~~–~~ The cash flows used in that technique reflect the income stream expected to result from the software asset (licence fees from customers) over its economic life.~~-~~ The fair value indicated by that approach is ~~$~~CU15 million.

(b) The cost approach is applied by estimating the amount that ~~currently~~ would be required currently to construct a substitute software asset of comparable utility (considering functional~~, technological,~~ and economic obsolescence).~~-~~ The fair value indicated by that approach is ~~$~~CU10 million.

IE17 Through its application of the cost approach, the ~~reporting~~ entity determines that market participants would not be able to ~~replicate~~ construct a substitute software asset of comparable utility. ~~Certain attributes~~ Some characteristics of the software asset are unique, having been developed using proprietary information, and cannot be readily replicated.~~-~~ The ~~reporting~~ entity determines that the fair value of the software asset is ~~$~~CU15 million, as indicated by the income approach.

Fair value hierarchy

~~A21. To increase consistency and comparability in fair value measurements and related disclosures, this Statement establishes a fair Value Hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the measurement in its entirety.~~

~~***Level 1 Inputs***~~

~~A22. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. A Level 1 input will be available for many financial assets and liabilities, some of which might be exchanged in multiple active markets (for example, on different exchanges). Therefore, the emphasis within Level 1 is on determining both of the following:~~

~~a. 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, considered from the perspective of the reporting entity; and~~

b. Whether the reporting entity has the ability to access the price in that market for the asset or liability at the measurement date.

IE18 Example 6 illustrates the use of Level 1 inputs to measure the fair value of a financial an asset that trades in multiple different active markets with different prices.

Example 6—Level 1 principle (or most advantageous market)

A23. A financial asset is traded on two different exchanges with different prices. The reporting entity transacts in both markets and has the ability to access the price in those markets for the asset at the measurement date. In Market A, the price that would be received is $26, and transaction costs in that market are $3 (the net amount that would be received is $23). In Market B, the price that would be received is $25, and transaction costs in that market are $1 (the net amount that would be received in Market B is $24).

a. If Market A is the principal market for the asset (the market in which the reporting entity would sell the asset with the greatest volume and level of activity for the asset), the fair value of the asset would be measured using the price that would be received in that market ($26).

b. If neither market is the principal market for the asset, the fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market in which the reporting entity would sell the asset with the price that maximizes the amount that would be received for the asset, considering transaction costs in the respective markets (that is, the net amount that would be received in the respective markets). Because the price in Market B adjusted for transaction costs would maximize the net amount that would be received for the asset ($24), the fair value of the asset would be measured using the price in that market ($25). Although transaction costs are considered in determining the most advantageous market, the price in that market used to measure the fair value of the asset is not adjusted for those costs.

IE19 An asset is sold in two different active markets with different prices. An entity enters into transactions in both markets. In Market A, the price that would be received is CU27, transaction costs in that market are CU2 and the costs to transport the asset to that market are CU3 (the net amount that would be received is CU22). In Market B, the price that would be received is CU26, transaction costs in that market are CU2 and the costs to transport the asset to that market are CU1 (the net amount that would be received in Market B is CU23).

IE20 The fair value of the asset would be measured using the price in the most advantageous market. The most advantageous market is the market that maximises the amount that would be received to sell the asset, after considering transaction costs and transport costs.

IE21 Because the entity would maximise the net amount that would be received for the asset in Market B (CU23), the fair value of the asset would be measured using the price in that market (CU26), less transport costs (CU1), resulting in a measurement of CU25. Although transaction costs are considered when determining which market is the most advantageous market, the price used to measure the fair value of the asset is not adjusted for those costs (although it is adjusted for transport costs).

Transaction prices and fair value at initial recognition

IE22 Example 7 illustrates situations in which when the price in a transaction involving a derivative instrument might (and might not) represent equal the fair value of the instrument. at initial recognition. This Statement clarifies that in many cases the transaction price, that is, the price paid (received) for a particular asset (liability), will represent the fair value of that asset (liability) at initial recognition, but not presumptively.* Example 7 illustrates situations in which the price in a transaction involving a derivative instrument might (and might not) represent the fair value of the instrument.

Example 7—Interest rate swap at initial recognition

IE23 Entity A (a retail counterparty) enters into an interest rate swap in a retail market with Entity B (a securities dealer) for no initial consideration (transaction price is zero). Entity A transacts can access only in the retail

*The guidance in this Statement applies for derivatives and other financial instruments that are measured at fair value under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, including hybrid financial instruments. Therefore, this Statement nullifies the guidance in footnote 3 of EITF Issue No. 02-3, *"Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities."*

market.- Entity B ~~transacts in~~ can access both the retail market (with retail counterparties) and ~~in~~ the inter-dealer market (with securities dealer counterparties).

(a) From the perspective of Entity A, the retail market in which it initially ~~transacted is the principal~~ entered into the swap is the most advantageous market for the swap; if Entity A were to transfer its rights and obligations under the swap, it would do so with a securities dealer counterparty in that market.- In that case, the transaction price (zero) would represent the fair value of the swap to Entity A at initial recognition, ~~that is,~~ ie the price that Entity A would receive (or pay) to sell (or transfer) the swap in a transaction with a securities dealer counterparty in the retail market (an exit price).[*] - That price would not be adjusted for any incremental (transaction) costs that would be charged by that securities dealer counterparty.

(b) From the perspective of Entity B, the inter-dealer market (not the retail market ~~in which it initially transacted) is the principal~~) is the most advantageous market for the swap; if Entity B were to transfer its rights and obligations under the swap, it would do so with a securities dealer in that market. Because the market in which Entity B initially ~~transacted~~ entered into the swap is different from the ~~principal~~ most advantageous market for the swap, the transaction price (zero) would not necessarily represent the fair value of the swap to Entity B at initial recognition. If the fair value differs from the transaction price (zero), Entity B applies IAS 39 *Financial Instruments: Recognition and Measurement* to determine whether it recognises that difference as a gain or loss.

Restricted assets

IE24 Examples 8 and 9 illustrate the effect of restrictions when measuring the fair value of an asset. ~~The effect on a fair value measurement of a restriction on the sale or use of an asset by a reporting entity will differ depending on whether the restriction would be considered by market participants in pricing the asset. Examples 8 and 9 illustrate the effect of restrictions in determining the fair value of an asset.~~

Example 8—Restriction on the sale ~~of Security~~ of an equity instrument

IE25 ~~The reporting~~ An entity holds ~~a security of~~ an ~~issuer~~ equity instrument (a financial asset) for which sale is legally restricted for a specified period.- (For example, such a restriction could limit sale to qualifying investors~~, as may be the case under Rule 144 or similar rules of the Securities and Exchange Commission.) The restriction is specific to (an attribute of) the security and, therefore, would transfer to market participants.~~ .) The restriction is a characteristic of the instrument and, therefore, would be transferred to market participants. In that case, the fair value of the ~~security~~ instrument would be ~~based~~ measured on the basis of the quoted price for an otherwise identical unrestricted ~~security~~ equity instrument of the same issuer that trades in a public market, adjusted to reflect the effect of the restriction.- The adjustment would reflect the amount market participants would demand because of the risk relating to the inability to access a public market for the ~~security~~ instrument for the specified period.[‡] - The adjustment will vary depending on the nature and duration of the restriction, the extent to which buyers are limited by the restriction (~~for example,~~eg there might be a large number of qualifying investors)~~,~~ and factors specific to both the ~~security~~ instrument and the issuer (qualitative and quantitative).[‡]

Example 9—Restrictions on the use of an asset

IE26 A donor contributes land in an otherwise developed residential area to a not-for-profit neighbourhood association. The land is currently used as a playground. -The donor specifies that the land must continue to be used by the association as a playground in perpetuity.- Upon review of relevant documentation (legal and other), the association determines that the fiduciary responsibility to meet the donor's restriction would not ~~otherwise transfer~~ be transferred to market participants if the ~~asset was to be~~ association sold ~~by the Association, that is,~~ the asset, ie the donor restriction on the use of the land is specific to the association. ~~. Absent~~ Furthermore, the association is not restricted from selling the land. Without the restriction on the use of the land by the

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~~[*]If the transaction price represents fair value at initial recognition and a pricing model will be used to measure fair value in subsequent periods, the model should be calibrated so that the model value at initial recognition equals the transaction price.~~

~~[†]The guidance in this Statement applies for equity securities with restrictions that terminate within one year that are measured at fair value under FASB Statements No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*.~~

~~[‡]ASR No. 113, *Statement Regarding "Restricted Securities,"* provides related guidance.~~

association, the land could be used as a site for residential development. In addition, the land has is subject to an easement for utility lines on (a portion of the property. legal right that enables a utility to run power lines across the land).

(a) *Donor restriction on use of land*. Because in this instance the donor restriction on the use of the land is specific to the association, the restriction would not transfer be transferred to market participants. Therefore, the fair value of the land would be based on the higher of its fair value 'in use' as a playground or fair value 'in exchange' as a site for residential development, regardless of the restriction on the use of the land by the association.

(b) *Easement for utility lines*. Because the easement for utility lines is specific to (an attribute a characteristic of) the land, it would transfer be transferred to market participants. with the land. Therefore, the fair value measurement of the land would consider the effect of the easement, regardless of whether highest and best use is the valuation premise is 'in use' as a playground or 'in exchange' as a site for residential development.

Liabilities and credit risk

IE27 Non-performance risk relating to a liability includes the reporting an entity's credit risk. The reporting An entity should consider the effect of its credit risk (credit standing) on the fair value of the liability in all periods in which the liability is measured at fair value because those who might hold the entity's obligations as assets would consider the effect of the entity's credit standing in determining the prices they would be willing to pay. For example, assume that Entity X and Entity Y each enter into a contractual obligation to pay cash ($CU500) to Entity Z in 5five years. Entity X has a an AA credit rating and can borrow at 6 per cent, while Entity Y has a BBB credit rating and can borrow at 12 per cent. Entity X will receive about $CU374 in exchange for its promise (the present value of $CU500 in 5five years at 6 per cent). Entity Y will receive about $CU284 in exchange for its promise (the present value of $CU500 in 5five years at 12 per cent). At initial recognition, the fair value of the liability to each entity (the proceeds) incorporates that entity's credit standing. Example 10 illustrates the effect of credit standing on the fair value of a financial liability at initial recognition and in subsequent periods.

Example 10—Structured note

IE28 On 1 January 20X7 Entity A, an investment bank with a an AA credit rating, issues a five-year fixed rate note to Entity B. The contractual principal amount to be paid by Entity A at maturity is linked to the S&P 500 index. No credit enhancements are issued in conjunction with or otherwise related to the contract (that is, ie no collateral is posted and there is no third-party guarantee). Entity A elects to account for the entire note at fair value in accordance with FASB Statement No. 155, *Accounting for Certain Hybrid Financial Instruments*. IAS 39. The fair value of the note (the obligation of Entity A) during 2007 20X7 is measured using an expected present value technique. Changes in fair value are discussed below.

(a) *Fair value at 1 January 20X7*. The expected cash flows used in the expected present value technique are discounted at the risk-free rate (using the treasury yield government bond curve at 1 January 20X7), plus the current market observable AA corporate bond spread to treasuries government bonds adjusted (up or down) for Entity A's specific credit risk (credit-adjusted risk-free rate). Therefore, the fair value of the Entity A's obligation of Entity A at initial recognition considers non-performance risk, including that entity's credit risk (presumably, reflected in the proceeds).

(b) *Fair value at 31 March 20X7* During March 20X7, the credit spread for AA corporate bonds widens, with no changes to the specific credit risk of Entity A. The expected cash flows used in the expected present value technique are discounted at the risk-free rate (using the treasury yield government bond curve at 31 March 20X7), plus the current market observable AA corporate bond spread to treasuries government bonds, adjusted for Entity A's specific credit risk (credit-adjusted risk-free rate). Entity A's specific credit risk is unchanged from initial recognition. Therefore, the fair value of the Entity A's obligation of Entity A changes due to as a result of changes in credit spreads generally. Changes in credit spreads reflect current market participant assumptions about changes in non-performance risk generally.

(c) *Fair value at 30 June 20X7*. As of 30 June 20X7, there have been no changes to the AA corporate bond spreads. However, based on the basis of structured note issuances issues corroborated with other qualitative information, Entity A determines that its own specific credit-worthiness has strengthened within the AA credit spread. The expected cash flows used in the expected present value technique are discounted at the risk-free rate (using the treasury government bond yield curve at 30 June 20X7), plus the current market observable AA corporate bond spread to treasuries government

bonds (unchanged from 31 March 20X7), adjusted for Entity A's specific credit risk (credit-adjusted risk-free rate). Therefore, the fair value of the obligation of Entity A changes due to as a result of the change in its own specific credit risk within the AA corporate bond spread.

Fair value measurements in markets that are not active

IE29 Example 11 illustrates the use of judgement when measuring the fair value of a financial asset when the market for that financial asset is not active. Note: The conclusions reached in this example are based on the assumed, hypothetical facts and circumstances presented. Other approaches to determining fair value may be appropriate.

Example 11—Inactive market Determining Fair Value When the Volume and Level of Activity for the Asset Have Significantly Decreased

IE30 On January 1, 20X8 (the issuance date of the security), Entity A invested in a junior AAA-rated tranche of a residential mortgage-backed security. (RMBS) on 1 January 20X8 (the issue date of the security). The junior tranche is the third most senior of a total of seven tranches. The underlying collateral for the residential mortgage-backed securityRMBS is unguaranteed Alt-A nonconforming residential mortgage loans that were issued in the second half of 2006. 20X6.

IE31 At 31 March 20X9 (the measurement date), the junior tranche of the residential mortgage-backed security is now A-rated. This tranche of the residential mortgage-backed security RMBS was previously traded through a brokered market; however, . However, trading volume in that market was infrequent, with only a few transactions taking place per month from 1 January 1, 20X8 through to 30 June 30, 20X8 and little, if any, trading activity during the nine months before 31 March 31, 20X9.

IE32 Entity A considers the guidance factors in paragraph 29A B5 of the [draft] IFRS to determine whether there has been a significant decrease in the volume and level of activity market for the junior tranche of the residential mortgage-backed security in which it has invested. RMBS is not active. After evaluating the significance and relevance of the factors, Entity A concludes that the volume and level of activity for the junior tranche of the residential mortgage-backed security have significantly decreased. market is not active. Entity A supported its judgement primarily on the basis of its observation that there was little, if any, trading activity for an extended period of time before the measurement date.

IE33 Because there is little, if any, trading activity to support a market approach valuation technique using a market approach, Entity A decides to use the discount rate adjustment technique described in Appendix B of this Statement an income approach to estimate the fair value for of its security at the measurement date.21a Entity A uses the contractual cash flows from the residential mortgage-backed security.21b Entity A then estimates a discount rate (that is, theie market rate of return) that will be used to discount the contractual cash flows. from the RMBS. The available information that Entity A uses to estimate an appropriate market rate of return included: The is estimated using the risk-free rate based on the rate of return on government debt securities Estimated adjustments for differences between the available market data and the junior tranche of the residential mortgage-backed security in which Entity A has invested. Entity A evaluates available market data about expected nonperformance and uncertainty of interest and a margin that reflects the risks (for example,eg default risk, collateral value risk, and liquidity risk) that market participants would consider in when pricing the asset in an orderly transaction at the measurement date under current market conditions. In determining those adjustments, Entity A considered:.

IE34 Entity A considered the following information when estimating the margin:

(a) the credit spread for the junior tranche of the residential mortgage-backed securityRMBS at the issuance issue date as implied by the original transaction price

(b) the change in the credit spread implied by any observed transactions from the issuance issue date to the measurement date for comparable residential mortgage-backed securities, RMBSs or based on the basis of relevant indexes indices

(c) the The specific characteristics of the junior tranche of the residential mortgage-backed security RMBS compared with comparable residential mortgage-backed securities RMBSs or indexes indices, including the quality of the underlying assets (that is, ie information about the performance of the underlying mortgage loans, such as delinquency and foreclosure rates, loss experience, and prepayment rates), seniority and or subordination of the residential mortgage-backed security RMBS tranche held, and other relevant factors

(d) relevant reports issued by analysts and rating agencies

(e) quoted prices from third parties such as brokers or pricing services.

IE35 Entity A estimates that one indication of ~~an appropriate~~ the market rate of return that market participants would use ~~in~~ when pricing the junior tranche ~~of the residential mortgage-backed security~~ is 12 per cent (1,200 basis points). This market rate of return was estimated as follows:

(a) 300 basis points for the ~~appropriate~~ relevant risk-free rate of interest at 31 March ~~31,~~ 20X9.

(b) Add: ~~-~~250 basis points for the credit spread over the risk-free rate ~~at issuance of Entity A's~~ when the junior tranche ~~of the residential mortgage backed security~~ was issued in January 20X8.

(c) Add: ~~-~~700 basis points for the estimated change in the credit spread over the risk-free rate ~~for Entity A's~~ of the junior tranche ~~of the residential mortgage backed security between~~ between 1 January ~~1,~~ 20X8 and 31 March ~~31,~~ 20X9.~~-~~ This estimate was based on the change in the most comparable index available for ~~the~~ that time period ~~between January 1, 20X8 and March 31, 20X9.~~ .

(d) Subtract: ~~-~~50 basis points (net) to adjust for differences between the index used to estimate the change in credit spreads and ~~Entity A's~~ the junior tranche ~~of the residential mortgage backed security~~. The reference~~d~~ index consists of subprime mortgage loans, while Entity A's ~~residential mortgage backed security~~ RMBS consists of ~~Alt-A~~ mortgage loans~~,~~ with a more favourable credit profile (making it more attractive to market participants). However, the index does not reflect an appropriate liquidity risk premium for ~~Entity A's~~ the junior tranche ~~of the residential mortgage backed security~~ under current market conditions.~~-~~ Thus, the 50 basis point adjustment is the net of ~~2~~ two adjustments~~.~~:

(i) the first adjustment is a 350 basis point subtraction, which was estimated by comparing the implied yield from the most recent transactions for the ~~residential mortgage backed security~~ RMBS in June 20X8 with the implied yield in the index price on those same dates.~~-~~ There was no information available that indicated that the relationship between Entity A's security and the index has changed.

(ii) the second adjustment is a 300 basis point addition, which is Entity A's best estimate of the additional liquidity risk inherent in its security (~~the~~ a cash position) when compared with the index (~~the~~ a synthetic position). This estimate was derived after considering liquidity risk premiums implied in recent cash transactions for a range of similar securities.

IE36 As an additional indication of ~~an appropriate~~ the market rate of return, Entity A ~~also~~ considers ~~2~~ two recent indicative quotes (~~that is,~~ie non~~-~~binding quotes) provided by reputable brokers for the junior tranche ~~of the residential mortgage backed security~~ that imply yields of 15~~ to ~~17 ~~percent.~~ per cent. Entity A ~~confirms that the quotes are not based on transactions, but it~~ is unable to evaluate the valuation technique~~(~~s~~)~~ or ~~any other market data~~ inputs used to develop the quotes. However, Entity A is able to confirm that the quotes are not based on transactions.

IE37 Because Entity A has multiple indications of the ~~appropriate~~ market rate of return that market participants would consider ~~relevant in estimating~~ when measuring fair value, it evaluates and weights~~, as appropriate,~~ the respective indications of the ~~appropriate~~ rate of return, considering the reasonableness of the range indicated by the results.

IE38 Entity A concludes that 13 per cent is the point within the range of ~~relevant inputs~~ indications that is most representative of fair value under current market conditions. Entity A placed more weight on the 12 ~~percent estimated market rate of return (that is,~~per cent indication (ie its own estimate~~) because~~ of the market rate of return) for the following reasons:

(a) Entity A concluded that its own estimate appropriately incorporated ~~nonperformance risk (for example,~~the risks (eg default risk ~~and,~~ collateral value risk~~)~~ and liquidity risk) that market participants would use ~~to estimate the selling price of~~when pricing the asset in an orderly transaction ~~in the~~ under current market~~, and~~ conditions

(b) ~~the indications of an appropriate rate of return provided by~~ the broker quotes were non~~-~~binding ~~quotes that~~ and were not based on transactions~~. Additionally,~~ and Entity A was ~~not~~ unable to evaluate the valuation technique~~(s)~~ or ~~significant~~ inputs used to develop the quotes.

~~A32G. Because changing the selected market rate of return would change the fair value of Entity A's junior tranche of the residential mortgage backed security significantly, Entity A voluntarily discloses that input and quantifies the effect of using other reasonably possible discount rate estimates.~~

Fair value disclosures

~~**Assets Measured at Fair Value on a Recurring Basis**~~

IE39 The disclosures required by paragraph 57(a) and (b) and paragraph 57(e) and (f) of the [draft] IFRS are illustrated below. ~~This Statement requires disclosures about the fair Value of assets and liabilities recognized in the statement of financial position in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, trading securities) or on a nonrecurring basis (for example, impaired assets). Quantitative disclosures using a tabular format are required in all periods (interim and annual). Qualitative (narrative) disclosures about the valuation techniques used to measure fair value are required in all annual periods. The disclosures required by paragraph 32(a)–(d) and paragraph 33(a) and (b) are illustrated below.~~

Example 12—Assets measured at fair value

IE40 For assets and liabilities measured at fair value ~~on a recurring basis~~ during the period, ~~this Statement~~ the draft IFRS requires quantitative disclosures about the fair value measurements ~~separately~~ for each ~~major category~~ class of assets and liabilities ~~(paragraph 32(a) and (b)). For assets, that information might be presented as follows~~. An entity might disclose the following for assets to comply with paragraph 57(a) and (b) of the [draft] IFRS:

~~**($ in 000s)**~~

~~**Description**~~	~~**12/31/XX**~~	~~**Fair Value Measurements at Reporting Date Using**~~ ~~**Quoted Prices in Active Markets for Identical Assets (Level 1)**~~	~~**Significant Other Observable Inputs (Level 2)**~~	~~**Significant Unobservable Inputs (Level 3)**~~
~~Trading securities: Equity securities—real estate~~	~~$115~~	~~$105~~	~~$10~~	
~~Available-for-sale securities:~~				
~~Residential mortgage-backed securities~~	~~75~~	~~75~~		~~75~~
~~Derivatives~~	~~60~~	~~25~~	~~15~~	~~$20~~
~~Venture capital investments~~	~~10~~			~~10~~
~~Total~~	~~$260~~	~~$130205~~	~~$25~~	~~$30~~

~~(Note: For liabilities, a similar table should be presented.)~~

Assets measured at fair value

	Fair value measurement at the end of the reporting period using:		
	Quoted prices in active markets for identical assets	Significant other observable inputs	Significant unobservable inputs

Description	31 Dec 20X2	(Level 1) CU million	(Level 2) CU million	(Level 3) CU million
Financial assets at fair value through profit or loss				
Trading securities	100	40	55	5
Trading derivatives	39	17	20	2
Available-for-sale financial assets				
Equity investments	75	30	40	5
Investment properties				
Land	40	-	25	15
Buildings	15	-	-	15
Total	269	87	140	42

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

~~**Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)**~~

Example 13—Fair value measurements in Level 3 of the fair value hierarchy

IE41 For assets and liabilities measured at fair value ~~on a recurring basis using significant unobservable inputs (~~in Level 3~~) during the period, this Statement requires a reconciliation~~ of the ~~beginning and ending~~fair value hierarchy, the draft IFRS requires a reconciliation from the opening balances~~, separately~~ to the closing balances for each ~~major category~~class of assets and liabilities~~, except for derivative assets and liabilities, which may be presented net (paragraph 32(c) and (d)). For assets, the reconciliation might be presented as follows:~~. An entity might disclose the following for assets to comply with paragraph 57(e) and (f) of the draft IFRS:

($ in 000s)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Residential Mortgage-Backed Securities	Derivatives	Venture Capital Investments	Total
Beginning balance	$80	$14	$11	$25
Total gains or losses (realized/unrealized)				
Included in earnings (or changes in net assets)		11	(3)	8
Included in other comprehensive income	(5)	4		(1)4
Purchases, issuances, and settlements		(7)	2	(5)
Transfers in and/or out of Level 3	0	(2)	0	(2)
Ending balance	$75	$20	$10	$10530
The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date	$ 0	$ 7	$ 2	$ 9

(Note: For liabilities, a similar table should be presented.)

(Note: For liabilities, a similar table should be presented.)

Assets measured at fair value in Level 3 of the fair value hierarchy

	Fair value measurement at the end of the reporting period					
	Financial assets at fair value through profit or loss		Available-for- sale financial assets	Investment properties		Total
	Trading securities	Trading derivatives	Equity investments	Land	Buildings	
	CU million	CU million	CU million	CU million	CU million	CU million
Opening balance	6	5	4	10	12	37
Total gains or losses						
in profit or loss	(2)	(2)[a]	-	5	3	4
in other comprehensive income	-	-	(1)	-	-	(1)

Purchases	1	2	2	-	-	5
Issues	-	-	-	-	-	-
Settlements	-	(1)	-	-	-	(1)
Transfers into or out of Level 3	-	(2)	-	-	-	(2)
Closing balance	5	2	5	15	15	42
Gains or losses in profit or loss for assets held at the end of the reporting period	(1)	(1)	-	5	3	6

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

a Losses of CU0.05 that have been reported in Level 3 are offset by gains or losses on instruments categorised within Level 1 or Level 2 of the fair value hierarchy.

Gains and losses ~~(realized and unrealized) included~~ in ~~earnings (~~profit or ~~changes in net assets)~~loss for the period (above) are reported in trading ~~revenues~~income and in other ~~revenues~~income as follows:

	~~Trading Revenues~~	~~Other Revenues~~
~~Total gains or losses included in earnings (or changes in net assets) for the period (above)~~	~~$11~~	~~$(3)~~
~~Change in unrealized gains or losses relating to assets still held at reporting date~~	~~$ 7~~	~~$ 2~~

	Trading income	Other income
	CU million	CU million
Total gains or losses included in profit or loss for the period	(4)	8
Gains or losses in profit or loss for assets held at the end of the reporting period	(2)	8

(Note: A similar table would be presented for liabilities unless another format is deemed more appropriate by the entity.)

Appendix
[Draft] Amendments to guidance on other IFRSs

[This section is not reproduced for the purpose of this mark up.]