

MINUTES



Financial Accounting
Standards Board

To: FASB Board Members

From: Statement 157 Team
(Clark, x443)

Subject: Minutes of the October 21, 2008 Joint
Board Meeting: Fair Value Measurements

Date: October 23, 2008

cc: FASB: Golden, Bielstein, Proestakes, Stoklosa, Mechanick, Clark, Anderson,
Glotzer, Lott, C. Smith, Vaheb, Mussatt, Gabriele, Sutay, Mills,
FASB Intranet, Chookaszian, Posta, Klimek, Allen, Leisenring

The Board meeting minutes are provided for the information and convenience of constituents who want to follow the Board's deliberations. All of the conclusions reported are tentative and may be changed at future Board meetings. Decisions become final only after a formal written ballot to issue a final Statement, Interpretation, or FASB Staff Position.

Topic: Fair Value Measurements

Basis for Discussion: Agenda Papers 5, 5A, and 5B

Length of Discussion: 4:45 p.m. to 5:15 p.m.

Attendance:

Board members present: FASB: Herz, Linsmeier, Seidman, Siegel,
and Smith

IASB: Tweedie, Barth, Cooper, Danjou,
Engstrom, Garnett, Gelard, Jones,
Leisenring, McGregor, Smith, Yamada, and
Zhang

Board members participating by phone: None

Board members absent: None

Staff in charge of topic: FASB: Anderson and Mills (by phone)
IASB: Eastman

Other staff at Board table: FASB: Golden, Proestakes, Clark, and
Vaheb
IASB: Upton and Richards

Summary of Decisions Reached:

The Boards discussed the progress of the IASB's project on fair value measurement and the work of the IASB's Expert Advisory Panel on the application of fair value when markets become inactive. The session was educational and no decisions were made.

Objective of Meeting:

The objectives of this meeting were to provide the Boards with an update on (1) the IASB's fair value measurement project, noting any differences between the IASB's tentative decisions to-date and FASB Statement No. 157, *Fair Value Measurements*, and any potential opportunities to clarify the guidance in Statement 157 and (2) the activities of the IASB Expert Advisory Panel. The objectives were met.

Matters Discussed and Decisions Reached:

1. Ms. Eastman began by providing the Boards with background information on the IASB Expert Advisory Panel. She stated that the panel was formed in May 2008 in response to two of the recommendations made by the Financial Stability Forum, recommendations that the G7 endorsed. Those recommendations called for enhancements to fair value measurement guidance and disclosures.
2. Ms. Eastman added that the panel met seven times between June and August 2008 to discuss measurement and disclosure issues encountered by practitioners in applying fair value guidance. The result of these discussions is a draft document titled, *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*, which was posted to the IASB website in September 2008 for interested parties to provide comment. This draft document summarizes the panel's discussions regarding fair value measurement and fair value disclosure.

The draft document is for educational purposes only. On October 10, 2008, the panel met to discuss the comments received on the draft document.

Issue 1—IASB Draft Document

3. Ms. Eastman stated that the staff received 39 comments in response to the posting of the draft document. Generally, respondents were supportive of the publication of the draft document because they found it to be helpful and educational. However, respondents did raise concerns relating to both the measurement and disclosure sections of the draft document, as well as the status of that document.

4. With regard to measurement, Ms. Eastman stated that respondents suggested that:

- a. The tone and guidance of the draft document is not consistent with the press release issued jointly by the SEC and the FASB.
- b. The draft document should clarify what is meant by “fundamental value.”
- c. The description of forced transactions is too narrow.
- d. The draft document should clarify when an entity can use a model instead of observed transaction data.

She added that the IASB staff is working on revising the draft document to address those comments. In addition, the final document will include the example in FASB Staff Position (FSP) FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*.

5. With respect to disclosure, Ms. Eastman stated that some constituents expressed concern that regulators and auditors will require the disclosures even though the draft document states that they are not mandatory and in addition, that no guidance is provided as to where in the financial statements the additional disclosures should be presented. She added that the IASB does not intend to amend the paper to address any of these concerns because the document (a) states that the disclosures are not mandatory and (b) is merely a reflection of what is common in practice.

6. With respect to the status of the paper, Ms. Eastman stated that some constituents are concerned that regulators and auditors will interpret the guidance in the paper as being mandatory, requiring additional measurement and disclosure requirements. She added that some

constituents also think that the document should be more explicit about how the guidance will be reflected in forthcoming amendments to IFRS 7, *Financial Instruments: Disclosures*, and the fair value measurement project. The IASB will amend the draft document to clarify which additional disclosures proposed in the IASB Exposure Draft, *Improving Disclosures about Financial Instruments*, will amend IFRS 7. However, the draft document clearly states that its purpose is of an educational nature; therefore, no action will be taken regarding whether it imposes additional measurement and disclosure requirements.

7. In addition to those comments, respondents also provided the staff with comments outside the scope of the paper including suggestions:

- a. That the IASB make changes to the reclassification rules in IAS 39, *Financial Instruments: Recognition and Measurement*
- b. That the IASB make changes to the tainting rules for held-to-maturity financial instruments
- c. That the IASB change the impairment rules for available-for-sale financial instruments
- d. That fair value accounting be suspended in times of market turmoil
- e. That the measurement of liabilities not include a consideration of an entity's own credit risk
- f. That the IASB address how the U.S. government's asset purchase program will affect fair value measurement.

Ms. Eastman added that the staff does not intend to revise the draft document to address such comments because they are outside the scope of the document. However, regarding the comment on reclassification, the IASB amended IAS 39 in October 2008 to address that issue.

Issue 1—Board Comments

8. Mr. Cooper questioned whether providing an explanation of what is meant by fundamental value would lead entities to incorrectly conclude that fundamental value is representative of fair value and that it can be used. Ms. Eastman stated that the final document will define the term *fundamental value* without actually using the term itself. The document also will explicitly state that *fundamental value* as defined is **not** the same as *fair value*.

Issue 2—Fair Value Measurement Project

9. Ms. Eastman highlighted the differences between the tentative decisions of the IASB on its fair value measurement project and the guidance in Statement 157. These differences include the following:

- a. Statement 157 defines the fair value of an asset as an exit price; that is, the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The IASB has tentatively decided that the fair value of an asset will not only be defined as the exit price, but also that the wording of the definition will reflect the fact that an exit price considers a market participant's ability to generate economic benefit by using an asset or by selling it to a third party.
- b. Statement 157 is silent about the presentation of an asset when the highest and best use of an asset is different from the entity's current use of the asset. The IASB has tentatively decided to address this issue.
- c. Statement 157, in the context of blockage factors, defines the unit of account as the individual instrument in Level 1 of the fair value hierarchy. The IASB has tentatively decided to define the unit of account as the individual instrument in all levels of the fair value hierarchy.

Ms. Eastman stated that these differences are not expected to result in differences between U.S. GAAP and IFRSs.

10. Ms. Eastman also discussed potential opportunities to clarify the guidance in Statement 157 for which constituents have requested implementation guidance. For example, many constituents find it difficult to reconcile the in-use valuation premise with an exit price. The IASB staff would like to clarify that the reporting entity should consider how market participants would use the asset and identify any differences between how market participants and the reporting entity would use the asset.

Issue 2—Board Comments

11. Ms. Seidman asked the staff to explain what the *change-of-use option* represented. Mr. Mills explained that the change-of-use option represents the difference in value between an asset

valued in-exchange versus in-use when the asset is being used in a manner other than its highest and best use. For example, if an entity purchases land and a building, the entity could either (a) tear down the building and sell the land or (b) continue to use the building. Moreover, the fair value of the land in-use (option b) is less than that in-exchange (option a). If the entity continues to use the building, then the current use of the land and building does not reflect its highest and best use (sold as raw land). The entity, however, still has the *option* to change the use of the land to reflect its highest and best use (option a). The value of the option would be based on the difference in the fair value of the land in-exchange versus the land and building in-use. However, Ms. Eastman stated that the staff has not yet determined if it can operationalize the notion of the change-of-use option and whether the option will be reflected as a one-time event through the profit and loss statement or capitalized as an asset and amortized, depreciated, or tested for impairment.

12. Mr. Zhang asked the staff if the issue of control premiums and restrictions on transfer will be discussed. Ms. Eastman stated that the IASB had previously decided that a control premium would not be reflected in a fair value measurement, but that the staff is reconsidering the Board's decision. She stated that the staff is working on the issue and will later decide whether or not to bring the issue back to the Board for reconsideration. She added that restrictions on transfers will be discussed when the staff brings its paper on liabilities to the Board. Moreover, restrictions on transfers for both liabilities and assets will be addressed concurrently.

13. Mr. McGregor stated that he would like the Boards to end up reaching the same conclusion with regard to the final Statements and expressed his desire that each standard utilize the same language. Mr. Linsmeier suggested that, ideally, the Boards will end up with identical standards.

Follow-up Items:

None.

General Announcements:

None.