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FASB Adds Project To Improve Fair Value Measurement Guidance

Project Objectives

In early June, the Board added a project to its agenda to codify and improve guidance for measuring fair value. In reaching that decision, the Board considered several factors, including respondents' comments on the FASB Proposal, Principles-Based Approach to U.S. Standard Setting, which emphasized the need for the Board to improve the measurement guidance in existing accounting pronouncements and the conceptual framework.

The near-term objective of the project is to develop a Statement that will establish a framework for fair value measurements, thereby providing a single reference source for fair value measurements required under other accounting pronouncements (Fair Value Statement). A longer-term objective is to improve the conceptual guidance for accounting measurements in FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, especially in the area of measurement reliability.

Fair Value Statement

The Board plans to develop the Fair Value Statement in phases. The initial phase will establish the basic framework. The framework will include existing guidance for measuring fair value in FASB Concepts Statement No. 7, Using Cash Flow Information and Present Value in Accounting Measurements, and proposed guidance for measuring fair value developed in other agenda projects. Subsequent phases will expand the framework to incorporate additional guidance for measuring fair value so that it is applicable to more specific items. Once complete, the Fair Value Statement will provide a single reference source for applying the requirement of other existing (and proposed) accounting pronouncements to measure items at fair value.

Improved Conceptual Guidance

FASB Concepts Statement No. 5, Recognition and Measurement in Financial Statements of Business Enterprises, which was developed more than 20 years ago, provides only limited guidance for addressing measurement issues. Among other things, it does not identify fair value as a possible measurement attribute. It also does not provide an adequate basis for determining how the qualitative characteristics of relevance and reliability should be applied in selecting an appropriate measurement attribute.

The conceptual frameworks of other national standard setters have similar limitations. For that reason, the International Accounting Standards Board (IASB) and Canadian Accounting Standards Board (AcSB) are addressing measurement issues in a joint research project. The research project will provide a basis for the IASB and other national standard setters to initiate similar agenda projects to improve the conceptual guidance for

measurement in their conceptual frameworks. Such a project (or projects), if initiated, would provide the Board an opportunity to work with the IASB and other national standard setters on similar conceptual issues consistent with the Board's convergence initiatives.

Valuation Resource Group

To assist in its efforts to improve guidance for measuring fair value, the Board formed a Valuation Resource Group (VRG), comprising preparers, auditors and valuation specialists. The VRG will provide a standing resource to the Board and its staff in identifying and resolving practice issues as they emerge under accounting pronouncements with fair value measurement requirements.