Notice for Recipients
of This Proposed FASB Staff Position

This proposed FASB Staff Position (FSP) would clarify the principles in FASB Statement No. 157, *Fair Value Measurements*, on the measurement of liabilities.

The Board invites individuals and organizations to send written comments on all matters in this proposed FSP. Comments are requested from those who agree with the provisions of this proposed FSP as well as from those who do not. Comments are most helpful if they identify the issues to which they relate and clearly explain the issue or question. Those who disagree with provisions of this proposed FSP are asked to describe their suggested alternatives, supported by specific reasoning.

Responses must be received in writing by February 18, 2008. Interested parties should submit their comments by email to director@fasb.org, File Reference: Proposed FSP FAS 157-c. Those without email may send their comments to "Russell G. Golden, Director of Technical Application and Implementation Activities, FASB, 401 Merritt 7, PO Box 5116, Norwalk, CT 06856-5116, File Reference: Proposed FSP FAS 157-c." Responses should not be sent by fax.

All comments received by the FASB are considered public information. Those comments will be posted to the FASB website and included as part of the project record with other project materials.

PROPOSED FASB STAFF POSITION

No. FAS 157-c

Title: Measuring Liabilities under FASB Statement No. 157

Comment Deadline: February 18, 2008

Objective

1. This FASB Staff Position (FSP) clarifies the principles in FASB Statement No. 157, *Fair Value Measurements*, on the fair value measurement of liabilities.

Background

2. Statement 157 defines the fair value of a liability as the price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date. Under that definition, the liability to the counterparty is presumed to continue and is not settled. Statement 157 also clarifies that the fair value of a liability shall reflect the nonperformance risk (including, but not limited to, the reporting entity's own credit risk) relating to that liability and that such nonperformance risk is the same before and after its transfer. A reporting entity is required to consider the effect of its own credit risk on the fair value of a liability in all periods in which the liability is measured at fair value.

3. Some entities are concerned that there may be a lack of observable markets or observable inputs for the transfer of a liability. This is especially true where that liability would continue to exist and where the original obligor is completely relieved of any obligations to the counterparty. In many cases, an entity would extinguish a liability by settling the obligation directly with the counterparty rather than by paying another entity to assume the existing obligation. In the limited circumstances where an existing liability may be transferred to a new obligor, the transferee may not have the same nonperformance risk as the transferor. Because of these factors, a number of entities have suggested that a fair value measurement of a liability embodies a hypothetical

measurement attribute because it is based on a transfer notion that would not occur in the marketplace.

4. Those entities believe that the consistency of the fair value measurement of a liability could be improved if the Board were to clarify the principles in Statement 157. In November 2007, the Board added this project to its agenda to address that issue.

All paragraphs in this FSP have equal authority. Paragraphs in bold set out the main principles.

FASB Staff Position

Scope

5. **The guidance in this FSP applies to the fair value measurement of liabilities under Statement 157.**

Initial and Subsequent Measurement

6. **A quoted price for the identical liability[1] (unadjusted) in an active market (Level 1 input) is the best evidence of fair value for that liability.** Entities that purchase the reporting entity's obligations as assets incorporate the nonperformance risk of the liabilities, as well as other factors, in determining the prices they are willing to pay for the assets. The quoted price for the identical liability in an active market shall be used as the fair value measurement for both (a) the obligor of the liability and (b) the asset holder.

7. **In the absence of a quoted price for the identical liability in an active market, the reporting entity may measure the fair value of its liability at the amount that it would receive as proceeds if it were to issue that liability at the measurement date.** A reporting entity shall evaluate fair value inputs and prioritize observable inputs over

[1]A reporting entity's debt instrument or other form of obligation might be exchanged in the market as an asset; that is, the instrument represents the right to receive cash flows (or other resources) from the reporting entity. For simplicity, the remainder of this FSP refers to such instruments as liabilities because this issue relates to the reporting by the obligor.

unobservable inputs in determining whether it should use the amount that it would receive as proceeds if it were to issue that liability at the measurement date. Consistent with the transfer notion of Statement 157, the amount that would be paid to transfer a liability at the measurement date is the amount that market participants with the same level of nonperformance risk (including credit risk) would require to assume that liability or to issue an identical liability. Consequently, because the reporting entity and market participants have the same level of nonperformance risk, the amount that the reporting entity would receive as proceeds if it were to issue that liability at the measurement date provides an equivalent of the amount market participants would demand to assume the reporting entity's liability (that is, fair value).

Effective Date and Transition

8. This FSP shall be applied on a prospective basis effective on the later of (a) the beginning of the period that includes the issuance date of the FSP or (b) the beginning of the period in which an entity initially applies Statement 157. Earlier application is not permitted.

The provisions of this FSP need not be applied to immaterial items.

Appendix

Amendment to Statement 157

A1. Statement 157 is amended as follows: [Added text is underlined.]

a. Paragraphs 15A and 15B are added as follows:

<u>15A. A quoted price for the identical liability[8a] (unadjusted) in an active market (Level 1 input) shall be used to measure the fair value of the reporting entity's liability when available.</u>

<u>15B. In the absence of a quoted price for the identical liability in an active market, the reporting entity may measure the fair value of its liability at the amount that it would receive as proceeds if it were to issue that liability at the measurement date. A reporting entity shall evaluate fair value inputs and prioritize observable inputs over unobservable inputs in determining whether it should use the amount that it would receive as proceeds if it were to issue that liability at the measurement date.</u>

[8a]A reporting entity's debt instrument or other form of obligation might be exchanged in the market as an asset; that is, the instrument represents the right to receive cash flows (or other resources) from the reporting entity. The reference to liabilities represents the right to receive cash flows (or other resources) from the reporting entity.