

International Financial Reporting Standards



# Fair Value Measurement

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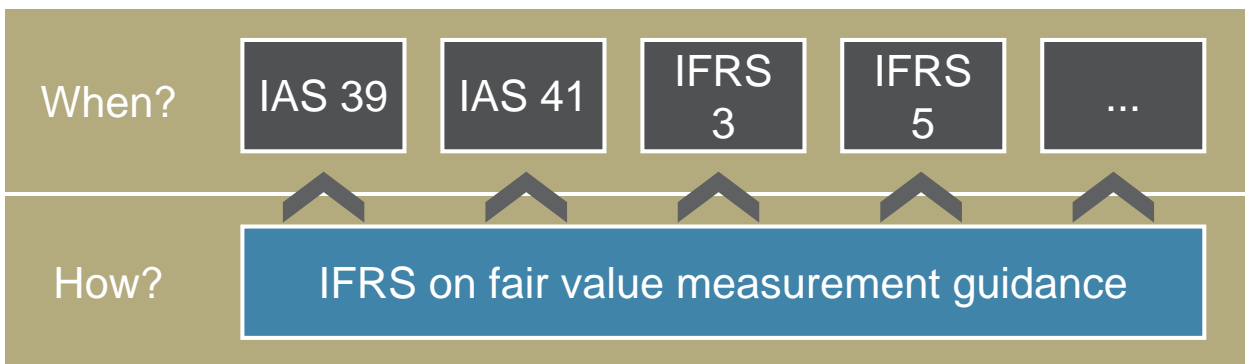
# Introduction

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- Project overview
- Proposals in the exposure draft
- Concluding remarks



## Project overview

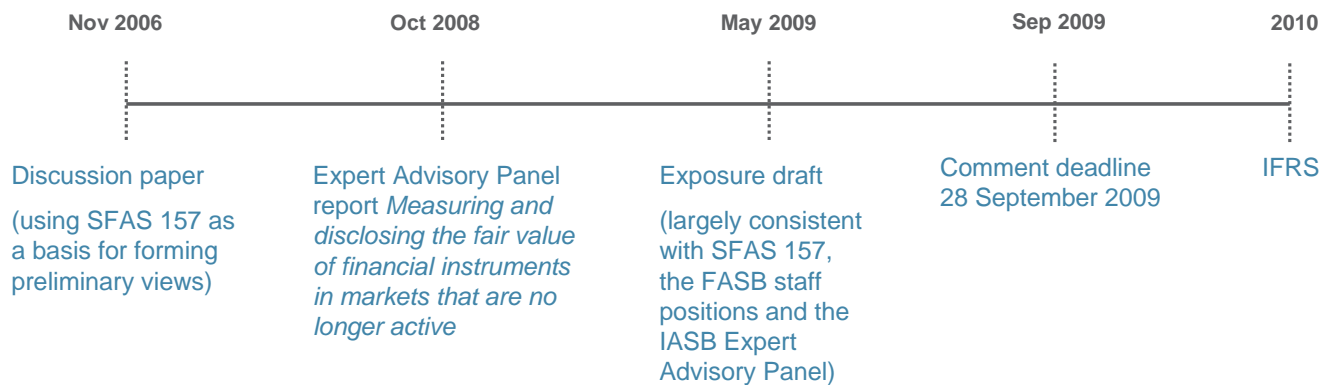


- × does **not** introduce new fair values
- × does **not** change the measurement objective in existing IFRSs



# Project overview continued

## Milestones



## Core principle

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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**



# Overview of the proposals

**Core principle**

- The asset or liability
- The transaction
- Market participants
- The price

**Guidance and other requirements**

- Application to assets, liabilities and equity
- Fair value at initial recognition
- Valuation techniques
- Inputs to valuation techniques
- Fair value hierarchy
- Disclosures



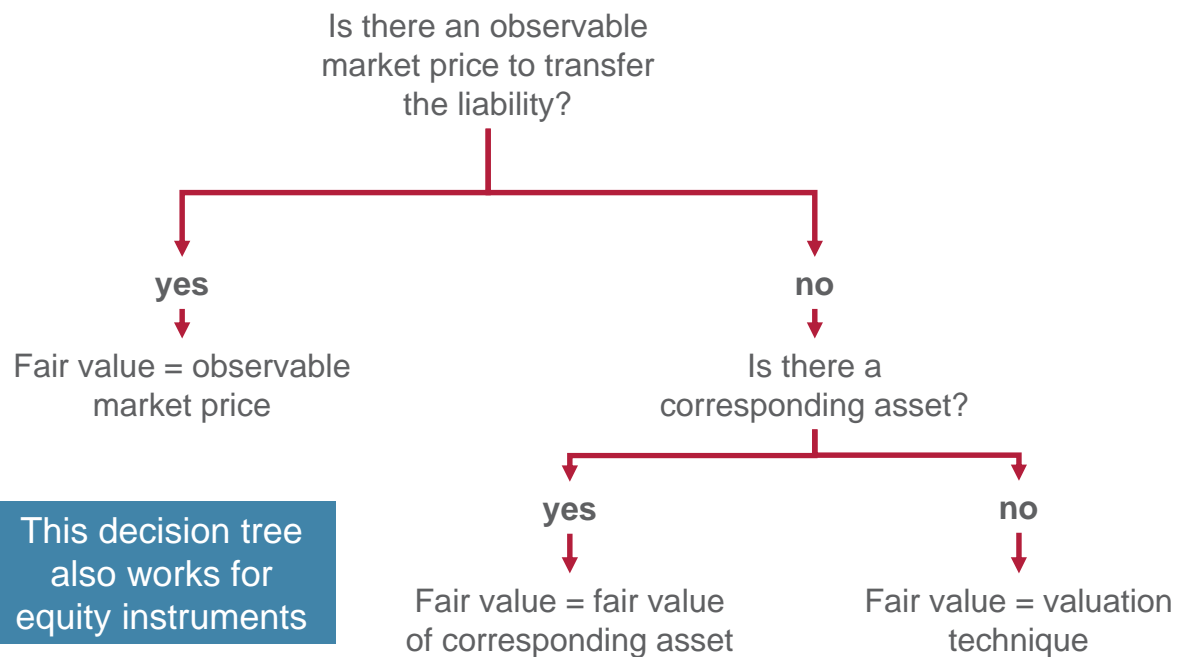
## The fair value of an asset

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- The fair value of an asset reflects its highest and best use
  - physically possible
  - legally permissible
  - financially feasible
- The highest and best use establishes the valuation premise
  - in use
  - in exchange



# The fair value of a liability



# Fair value at initial recognition

If the transaction price does not equal fair value at initial recognition...



Does another IFRS provide guidance for recognising day one gains or losses?

**yes**



Recognise the gain or loss as required by that IFRS

**no**



Recognise the gain or loss in profit or loss



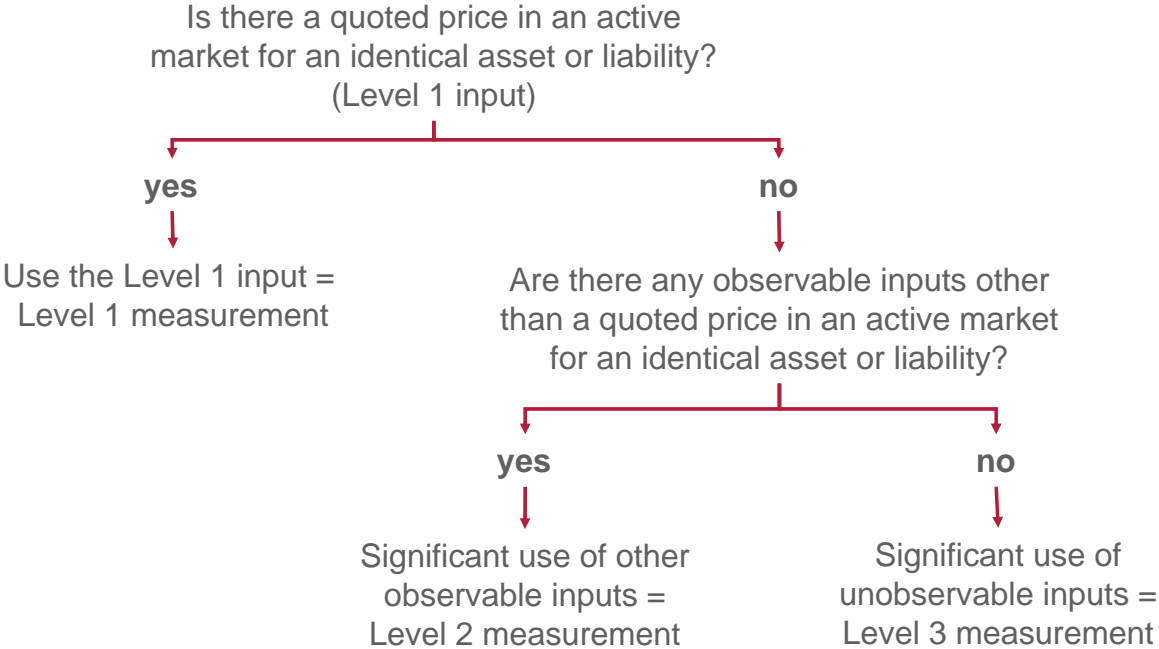
## Valuation techniques

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- Valuation techniques used to measure fair value
  - market approach
  - income approach
  - cost approach



# The fair value hierarchy



# Disclosures

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- Disclosure requirements
  - fair value hierarchy
  - valuation techniques
  - inputs to valuation techniques
  - reconciliation of movements in fair values between levels and periods
  - sensitivity analysis
- Other considerations
  - level of aggregation



## Open issues

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- Open issues to be resolved
  - measurement of liabilities
  - presentation of fair value when the highest and best use differs from the current use
  - measurements in markets that are not active



## Concluding remarks

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- The exposure draft provides “how to” guidance and does not address “when” fair value should be used
- Very little in the exposure draft is different from the guidance currently dispersed throughout IFRSs
- The exit price notion is a clarification of the neutral exchange notion in the current definition of fair value
- The exposure draft reflects the experience gained from the financial crisis



## Questions or comments?

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