**APPENDIX Ⅲ**

# Summary of Comments on the IASB ED from WG Members and other AOSSG members

| |
|---|
| **Question 1**<br>The exposure draft proposes defining fair value as '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' (an exit price) (see paragraph 1 of the draft IFRS and paragraphs BC15–BC18 of the Basis for Conclusions). This definition is relevant only when fair value is used in IFRSs.<br>Is this definition appropriate? Why or why not? If not, what would be a better definition and why? |

**CASC:**

We agree with the proposal. We also believe it is necessary to clarify limitations of FVM, such as FVM is to simulate the market and may make mistakes that are market's fault.

The definition is appropriate. Meanwhile, we propose the Board to:

1. Clarify in the ED that whether the measurement date of initial measurement is the transaction date on which an asset is initially received or a liability is initially assumed, and whether the measurement date of subsequent measurement is each end of reporting periods or the transaction date of derecognition of the asset/liability;

2. Clarify in the ED that in the case of applying the level 3 inputs of valuation techniques, whether inputs derived from a period is inconsistent with provisions of measurement date in the definition?

**ASBJ:**

The definition of fair value in Japan is "the value which would be expected to be used in a voluntary transaction between independent third parties who have sufficient knowledge of the business". We conclude that this definition of fair value is generally consistent with the proposed definition of that in the ED. Therefore, we generally agree with the proposed definition of fair value.

**KASB:**

With regard to a hypothetical transaction considered from the perspective of a market participant who holds the asset or owes the liability, we think that it would be difficult to prevent reporting entities from reflecting their subjective presumption in determining unobservable inputs. In particular, we do not believe that it is possible to reflect the assumption that market participants would use when pricing the asset or liability at fair value in the situation where market data are not available or the market does not exist any more.

The IASB's proposal is to change settlement notion into transfer notion in the definition of fair value of liabilities and it explains whether there is a difference between settlement notion and transfer notion in the paragraphs BC 69-BC 70. However, the paragraphs note that the fair value of a liability from the perspective of market participants who owe the liability is the same without regard to whether it is settled or transferred. Therefore, we cannot find the clear reason why the IASB changed the conceptual notion in the definition of fair value of liabilities and we would like to suggest that the IASB make clear the difference between settlement notion and transfer notion.

The exposure draft explains that a current entry price and a current exit price are equal when they relate to the same asset or liability on the same date in the same form in the same market. As a result, the IASB does not seem to feel the necessity to make a distinction between a current entry price and a current exit price in IFRSs for measuring a market-based measurement. On the other hand, a transaction price, ie current entry price is presumed as a fair value of financial instrument at initial recognition in accordance with IAS 39, unless all the inputs are observable. That is to say that the fair value of financial instruments at initial recognition is not current exit value but current entry value in accordance with IAS 39.In spite that we think the transaction price of financial instrument will be the same as current exit value in many cases, we do not believe that it is always.

**HKICPA:**

We consider that the definition of fair value as “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” is appropriate

**MASB:**

We agree with the proposed fair value definition subject to our response to Questions 5 and 8.

Nevertheless, in determining the notion of fair value, a strict approach may be necessary especially in markets that are shallow or inactive. In such situation, there may be a tendency to skew towards the use of entity specific value in the absence of available relevant inputs to valuation techniques under Level 3 as mentioned in our response to Question 10. In this regard, sufficient guidance for applying the fair value concept for Level 3 category should be provided.

**AASB:**

Yes. The AASB agrees, for the sake of clarity, with the ED’s proposal that a single measurement attribute be identified (that is, fair value being defined as an exit price). However, the AASB requests clarification of the implications of this definition for the references to fair value in, for example, IAS 16 *Property, Plant and Equipment* and IFRS 3 *Business*

*Combinations.* In particular, the AASB seeks clarification of whether market buying prices can continue to be used to measure particular items of revalued property, plant and equipment under IAS 16 and individual assets that are part of a group of assets under IFRS 3. The AASB notes that the ED accommodates various valuation approaches in determining fair value, including the use of a cost approach (such as depreciated replacement cost). However, it also notes that depreciated replacement cost is described in the accounting literature as an entry price, and this calls into question its appropriateness under an exit price notion of fair value. The AASB considers that, if the IASB regards the cost approach as consistent with an exit price notion of fair value, it would be useful for the Fair Value Measurement Standard (or its Basis for Conclusions) to explain much more fully the IASB's reasons for that conclusion. As a matter of practicality, we cannot see how the IASB can avoid using current input values for many non-financial assets. Certainly purchase price allocations for business combinations and revaluations of fixed assets under IAS 16 normally use such values.

The AASB notes that the IASB staff has prepared and posted on the IASB website a Frequently Asked Questions and Answers in respect of the ED. One of those questions and answers discusses the use of depreciated replacement cost as follows:

> *"How does an entity measure the fair value of a tangible asset (such as property, plant and equipment) that does not have an observable market price or directly attributable cash flows?*
>
> A cost approach will sometimes be an appropriate valuation technique for a fair value measurement, for example when an asset does not have an observable market price and it does not generate directly identifiable cash flows. The replacement cost approach assuming an in-use valuation premise is generally appropriate is such situations because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. (The replacement cost approach also considers the cash flows that market participants would expect to generate from using the asset because the replacement cost approach includes a test for 'economic obsolescence'.)"

The AASB notes that whilst the majority of the IASB staff response provided in the above paragraph is consistent with comments made in the ED, the first sentence is not said explicitly in the ED or its Basis for Conclusions. In view of staff comments not having the authority of a Standard, the AASB considers that such clarification should be incorporated into the Fair Value Measurement Standard.

**NZ FRSB:**

1. The FRSB agrees with the proposed definition of fair value in regards to assets and this is reflected in our responses to questions 3 to 6 below. It is similar to the current definition as it is applied and understood in New Zealand. However:

- We believe that the proposed definition of fair value is not suited to most liabilities. Refer to our comments in the covering letter.
- We recommend that the IASB clarify the implications of this definition in certain instances. Refer to our response to question 10 below.

**Singapore ASC:**

Broadly, we agree that the definition as stated above is appropriate and that the use of the exit price notion is conceptually sound as it provides an appropriate objective for fair value measurement that can be applied consistently, especially for financial instruments. However, we think that situations do exist where the exit price notion of fair value may not be suitable and by proposing exit prices as a single measurement basis across all assets and liabilities, the economic reality of a transaction may not be appropriately reflected for such instances. This is especially so for non-financial items where entity-specific factors needs to be considered to arrive at the most decision-useful information. Instead of relying on a hypothetical assumption that an exit price is equal to entry price when they "…relate to the same asset or liability on the same date in the same form in the same market…" as suggested in the ED, we believe that the fair value concept should also take into account the nature of the assets, the existence of a market or the lack of it (in the case of firm-specific/specialized assets such as intangible assets), and also the various risk factors (eg regulatory clearance, social costs, time value of money) that may exists for the alternative use of the asset or liabilities. By taking into account all these relevant factors that could impact the exit price as proposed in the ED, the resulting fair value would then be able to better reflect the economic realities of transactions for both financial and non-financial items..

Additionally, we would like to suggest an alternative approach that could better achieve the Board‟s intended fair value measurement objective and that provides better and more decision-useful information for the users of the financial statements – by using the *higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise).* We believe that this approach is more reflective of the economic realities of the entity and is a far better measurement basis than the single measurement basis of exit price that is proposed.

Additionally, we would encourage the IASB to reconsider its guidance for initially recognizing transactions at fair value that are not subsequently measured at fair value. For items that are not subsequently measured at fair value, we believe the transaction price generally is more relevant than an exit price for initial recognition (although, usually there should be little or no difference). When an item is not subsequently measured at fair value, we are of the view that the more relevant initial value is the transaction price which represents the amount of resources incurred or received upon entering into the arrangement (presuming the transaction was on an arm‟s length basis).

**Question 2**

In three contexts, IFRSs use the term 'fair value' in a way that does not reflect the Board's intended measurement objective in those contexts:

(a) In two of those contexts, the exposure draft proposes to replace the term 'fair value' (the measurement of share-based payment transactions in IFRS 2 Share-based Payment and reacquired rights in IFRS 3 Business Combinations)(see paragraph BC29 of the Basis for Conclusions).

(b) The third context is the requirement in paragraph 49 of IAS 39 Financial Instruments: Recognition and Measurement that the fair value of a financial liability with a demand feature is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid (see paragraph 2 of the draft IFRS and paragraph BC29 of the Basis for Conclusions). The exposure draft proposes not to replace that use of the term 'fair value', but instead proposes to exclude that requirement from the scope of the IFRS.
Is the proposed approach to these three issues appropriate? Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?

**CASC:**
It is appropriate to replace the term "fair value" in (a) while it is not appropriate to give up replacing the term "fair value" in (b). Intending to unify the requirements for fair value measurement in the existing IFRS, the ED shall not retain a different measurement basis as defined in paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement* under the same name of fair value.
Therefore, we propose that the term "fair value" should not used in any of the three contexts.

**ASBJ:**
In addition to the above mentioned contexts, we are aware that there may be some cases that an entry price (transaction price) is appropriate depending on the measurement objective. Generally, an entry price in acquiring an asset should be used to measure performance of the entity's investment. For example, when an entity acquires assets such as Property, Plant and Equipment in a business combination, we believe that the entry price should be used in measuring the allocation of the cost.

**HKICPA:**
We agree that the existing measurements for share-based payment, reacquired rights in business combination and the fair value of a financial liability with a demand feature are inconsistent with the fair value definition in the Exposure Draft and we consider that the proposed approach to these three issues are appropriate.

**MASB:**
The fundamental purpose of the proposed Standard is to provide "one reference source" for fair value measurement. Any divergence from this objective would defeat the purpose of a Fair Value Measurement Standard that provides the common measurement principles. While there can only be one set of common principles in fair value measurement, there can be different guidance and methodologies on the measurement, depending on the characteristic of the assets and liabilities. For example, determining fair value of biological assets can be very different from financial instruments, but both should be based on the same basic principles encompassing fair value measurement. Practical guidance can be included in the Fair Value Measurement Standard on how to execute the principle in practice based on different circumstances and characteristic of the assets and liabilities.

Thus, any valuation that is not consistent with the definition of the proposed Standard shall not use the term ‘fair value’.

**AASB:**

The AASB supports the proposed approach in Question 2(a) to replace the term ‘fair value’ in certain other IFRSs where its intended meaning does not match the proposed definition of fair value.

However, in respect of Question 2(b), the AASB disagrees with the ED’s proposal to continue permitting the presentation of the measurement basis applied to financial liabilities with a demand feature as ‘fair value’. This treatment would result from excluding the measurement of such financial liabilities from the scope of the Fair Value Measurement Standard and not requiring a different term to be used for the measurement of such liabilities under paragraph 49 of IAS 39 *Financial Instruments: Recognition and Measurement*. The AASB considers that the description of ‘fair value’ in paragraph 49 of IAS 39 is inconsistent with defining fair value as an exit price and, therefore, another measurement term (such as ‘callable amount’) should be used in that context. However, the AASB does not comment on whether the measurement requirements for financial liabilities with a demand feature should remain in IAS 39 or be included in the Fair Value Measurement Standard.

**NZ FRSB:**

The FRSB agrees with the replacement of the term ‘fair value’ in IFRS 2 *Share-based Payment* and IFRS 3 *Business Combinations*.

The FRSB does not agree with the proposal to exclude from the scope of the final standard on fair value measurement the measurement of a financial liability with a demand feature. This approach is inconsistent with the approach taken in the first two instances in which the term ‘fair value’ is used in a way that does not reflect the intended measurement objective. If the measurement of a financial liability with a demand feature is not considered to reflect the IASB’s intended fair value measurement objective, a more appropriate term other than fair value should be used. In addition, the IASB should reconsider the intended approach in light of the forthcoming standard to replace IAS 39 *Financial Instruments: Recognition and Measurement.*

**Singapore ASC:**

Yes, we agree with the proposed approach to the three issues as stated above. However, we think that it would be useful to re-label the term “fair value” where a current value measurement basis within another IFRS is a deviation from the fair value measurement basis as prescribed by this proposed IFRS to avoid confusion. For consistency, we suggest that the Board should also consider whether the term “fair value” in the following IFRSs reflect the Board’s intended measurement approach:

IAS 20, paragraph 23

*“A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair*

*value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount."*

IAS 39, paragraph 43

*"When a financial asset or financial liability is recognised initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability."*

IAS 41, paragraphs 12 and 13

*"A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less cost to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably."*

*"Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying FRS 2 Inventories or another applicable Financial Reporting Standard."*

Other than the 3 specified instances (IFRS 2, IFRS 3 and IAS 39), the ED requires its application in all other instances of fair value. We urge the Board to consider whether the exit price notion is consistent with the application of fair value in the context of finance leases. We refer to IAS 17.10(d) which provides that a lease is classified as a finance lease if *"…at the inception of the lease the present value of minimum lease payments amounts to at least substantially all of the fair value of the leased asset*" and IAS 17.20 which provides that "*At the commencement of the lease term, lessees shall recognise finance leases...at amounts equal to the fair value of the lease property or, if lower, present value of the minimum lease payments…*". It appears to us that an entry price is envisaged in the context of lease classification, rather than an exit price, and is inconsistent with the ED. We are cognizant that this concern may be unnecessary when the final standard on leases following the IASB's leasing project is issued. However, we would nevertheless like to highlight this area to the Board for greater consideration and guidance to ensure the standard is internally consistent for all instruments that fall within its scope, including finance leases, in view that the completion date for the leasing standard may be later than that for this fair value measurement project.

**Question 3**

The exposure draft proposes that a fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access (see paragraphs 8–12 of the draft IFRS and paragraphs BC37–BC41 of the Basis for Conclusions).

Is this approach appropriate? Why or why not?

**CASC:**

It's inappropriate to use the most advantageous market as the reference market of fair value measurement. According to provisions of the ED, market participants would choose the most advantageous market as a reference in fair value measurement while using the most advantageous market from the aspect of reporting entity may overestimate fair values. Therefore, we recommend the use of principal markets as the reference market in fair value measurement.

**KASB:**

The exposure draft presumes that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access. However, we believe that the exposure draft does not propose distinct criteria about how to distinguish the most advantageous market from the perspective of reporting entity among various markets. For instance, in the case where a financial institution transacts with government under different conditions from market conditions, such as a loan borrowing with low interest rate which cannot be transferred to others to realize the change in fair value, we wonder whether the market in which a financial institution can borrow funds from government with lower interest rate than market interest rate can differ from general borrowing market.

In addition, the proposal explains that both of the markets in which the entity could earn the greatest amount of money in a transaction and the principal market in which the entity would normally enter into a transaction are the most advantageous market. However, in many cases the market in which the entity could earn the greatest amount of money in a transaction could be different from the principal market. The examples are as follow.

| **Item** | The principal market in which the entity would normally enter into a transaction | The market in which the entity could earn the greatest amount of money |
|---|---|---|
| Land (for residence) | the market in which individuals would enter into a transaction to buy a house in the residential area. | the market in which a construction company would enter into a transaction to buy all land from residents to build an apartment complex |
| Land (for farmland) | the market in which the farmers would enter into a transaction to buy a land for cultivation | the market in which a non-resident would enter into a transaction to develop land and build a country house |
| Patent | the market in which the companies in the same industry would enter into a transaction to operate normal business | the market in which a company trying to enter the industry would enter into a transaction with another company already operating in that industry |

We presume that the reason why the proposal treats the principal market and the most advantageous market as the same concept is that the exposure draft mainly concentrates on measuring financial instruments at fair value. However, in order for the exposure draft to cover not only how to measure financial instruments at fair value but also how to measure other assets or liabilities at fair value, it is our view that the proposal is required to make a distinction between principal market and most advantageous market as in SFAS 157.

In addition, we believe that not only the distinction between principal market and most advantageous market but also the distinction between the market participants depending on the markets are necessary. Therefore, we would like to point out that the clear criteria is required to identify and determine market participants presumed in the definition of fair value.

This exposure draft requires an entity to presume hypothetical transaction in order to measure fair value, in the case where there is no active market. However, we think that reporting entity would face difficulties in determining which market is the most advantageous market from the perspective of the entity.

**HKICPA:**

We support the proposal that a fair value measurement should be based on the most advantageous market in which the entity would normally enter into a transaction for the asset or liability. We also agree that in the absence of evidence to the contrary, the principal market should be assumed to be the most advantageous market.

**MASB:**

We believe that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of which then the most advantageous market for the asset or liability [similar to the position taken by the IASB in the DP]. Whilst in most cases the principal market would be the most advantageous market, it may not necessarily always be the case as at times, an entity could transact in a less advantageous market perhaps for strategy reason rather than maximisation of profit.

In addition the use of the most advantageous market can be swamped with difficulties and ambiguities such as the need to seek out the most advantageous market (notwithstanding the proposed standard does not require the entity to undertake an exhaustive search of all possible markets) and perceived accessibility to the most advantageous market.

**AASB:**

Yes, because it takes a principle-based approach to identifying the relevant value. The AASB agrees with the IASB's rationale in paragraph BC40 of the Basis for Conclusions.

The AASB also agrees with the clarification in paragraph 10 of the proposed Standard that:

(a) an entity need not undertake an exhaustive search of all possible markets in assessing whether the principal market in which it transacts is the most advantageous market; and

(b) in most instances the entity's principal market, in which the entity would normally enter into a transaction, will be its most advantageous market.

Therefore, the AASB agrees with paragraph 11 of the proposed Standard, which suggests that, unless there is evidence to the contrary, an entity may assume that the principal market to which it has access is the most advantageous market.

We would encourage the IASB to convince the FASB of this approach.

**NZ FRSB:**

The FRSB recommends that the IASB use the term ‘principle market’. Using the same terminology as the FASB in SFAS 157 will avoid the perception of there being differences between US GAAP and International Financial Reporting Standards (IFRSs). In addition, the term ‘principal market’ has connotations that are more consistent with the IASB’s intention stated in paragraphs 10 and 11 of the Exposure Draft being that:

- an entity need not undertake an exhaustive search of all possible markets to identify the most advantageous market; and
- 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.

**Singapore ASC:**

We do not fully support the proposal. Whilst we can understand the Board‟s rationale for its

preliminary view that an entity is most likely to enter into a transaction in the most advantageous market and this market should be assumed in the fair value measurement of the transaction, we believe this assumption may be applicable and practical only to financial items. For many non-financial items where active market do not exist, it could be practically challenging to search for the “most advantageous market” and we are of the view that looking to the principal market as the first consideration is more practical for these non-financial items as opposed to searching for potential markets that are “most advantageous”. Only if there is no principal market would the entity look to an alternative most advantageous market (which is the approach undertaken by the FASB in SFAS 157).

If the Board chooses not to change the approach, we recommend that in addition to the commentary provided at paragraphs BC 39-BC40, the IASB should further address why it is reasonable to assume that the market in which an entity normally transacts should typically be considered the most advantageous and why the most advantageous approach is superior. We also believe that the level of market activity may be a factor that should be considered in determining the “most advantageous market”.

Additionally, we note that BC37-41 of the ED proposes that an entity should assume that the transaction to sell the asset or transfer the liability takes place in the most advantageous market to which the entity has access. This is different from the US SFAS 157 which assumes that the transaction takes place in the principal market, or in the absence of a principal market, the most advantageous market. We suggest that the Board consider if there is scope to converge with FASB in identifying the reference market. If there is no intent for a difference in application, it would be desirable to have a converged basis and terminology in the final standard for consistency.

**Question 4**

The exposure draft proposes that an entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability (see paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basis for Conclusions).

Is the description of market participants adequately described in the context of the definition? Why or why not?

**CASC:**

The description of market participants is inadequate.

We propose that the Board refer to Paragraph 26 of *Statements of Financial Accounting Concepts No.7 (SFAC 7)*, and clarify the principle of identifying market participants in Paragraph 13 of the ED: **The activities of market participants result in the price of measured assets or liabilities, being an integral part of the market pricing mechanism**. Then market participants can be identified in accordance with the four aspects provided in Paragraph 13 of the ED.

At the same time, since the Board is going to release the revised IAS 24 *Related Party Disclosures (IAS 24R)*, in considering the identification of market participants, we propose that the Board clarify in Paragraph 13 of the ED: In the context that government-controlled entities are pervasive, entities applicable to the exemption in IAS 24.25 (government-controlled entities) can be considered as market participants.

**KASB:**

We think that information which interested parties could get is limited, when the interested parties are in a disadvantageous position to get access to information. For instance, the asymmetry of information remains although the market for a used car is well developed. In other words, we think that in spite of the efforts of market participants, the asymmetry of information could not be overcome and it could exist even in an active market.

We thus believe that if the asymmetry of information even in a market for relatively popular product such as used car does not disappear, the presumption that market participants could get information as much as an entity does is not realistic.

Although the asymmetry of information exists in the market of a used car, the market does not disappear. However, there is no evidence that the market participants accurately recognize the risk incurred by the asymmetry of information and consider risk in valuing the price of a used car. We think that the market participants enter into a transaction accepting the asymmetry of information.

Therefore, if the definition of fair value assumes hypothetical transaction for valuation, the presumption that market participants hold information as much as an entity does is not practical and necessary. Thus we would like to suggest that the sentence "and are presumed to be as knowledgeable as the reporting entity" in paragraph 13(b) should be eliminated.

**HKICPA:**

We consider that the description of market participants in the exposure draft is appropriate. However, if the reporting entity itself is one of the market participants, we have seen confusion in understanding what are entity specific and what are market participant assumptions to be considered in pricing. In this case, we suggest clarification be made in the standard that the entity-specific factors should be excluded in the measurement.

**MASB:**

We agree with the Board's description of market participants. Paragraph 13 does adequately describe the traits of market participants. However, paragraph 14 does pose a challenge to apply in practice whereby the entity would need to exercise significant judgment in determining the market participants' perspective in situations where the current use of the asset is not the same as the highest and best use.

For example, if the current use of a bundle of assets coupled with expertise of the entity's management can produce a value that is higher than what market participants would give for the asset individually, it appears the proposed standard condones the use of entity specific value. In this regard, specific guidance on how to determine the perspective of market participants should be developed in the proposed standard.

**AASB:**

The AASB supports the proposal that the entity should determine fair value using the assumptions that market participants would use in pricing the asset or liability. In addition, the AASB welcomes the clarification that market participants are presumed to have the same knowledge as the reporting entity in making decisions about fair value (that is, there is no information asymmetry).

**NZ FRSB:**

The FRSB agrees that the description of market participants is adequately described in the context of the proposed definition. The inclusion of the assumptions of market participants ensures that the hypothetical transaction assumed when determining fair value is based on realistic assumptions.

**Singapore ASC:**

*Knowledgeable market participants*

We also have some concerns about the way in which "knowledgeable" is described in the proposed definition of a market participant.

"Knowledgeable" is specifically defined in paragraph 13(b) of the ED as someone "*sufficiently informed to make an investment decision and […] presumed to be as knowledgeable as the reporting entity about the asset or liabilit*y." Further, paragraph BC45 in the basis for conclusion of the ED indicates, "*The market participant and the reporting entity are presumed* *to be equally knowledgeable about the asset or liability, although neither party is perfectly knowledgeable".* In other words, a fair value measurement does not reflect information asymmetry, although it does reflect information uncertainty (i.e. the uncertainty an entity faces because it does not have perfect knowledge about the timing and amount of future cash flows)."

The above definition of "knowledgeable" assumes that the market participant has access to the same "insider" information even though that information is not available in the market. Using this definition of "knowledgeable" would move the definition of a "market participant" towards an entity-specific concept, which does not seem realistic and is yet another area of internal inconsistency with a market-participant-based concept as proposed in the ED.

We believe that the appropriate reference point for "knowledgeable" in paragraph 13(b) of the ED should be what a market participant might be able to ascertain from due diligence efforts. This would be more reflective of the realities of the marketplace and how deals are transacted.

**Question 5:**

The exposure draft proposes that:

(a) the fair value of an asset should consider 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 (see paragraphs 17–19 of the draft IFRS and paragraph BC60 of the Basis for Conclusions).

(b) the highest and best use of an asset establishes the valuation premise, which may be either 'in use' or 'in exchange' (see paragraphs 22 and 23 of the draft IFRS and paragraphs BC56 and BC57 of the Basis for Conclusions).

(c) the notions of highest and best use and valuation premise are not used for financial assets and are not relevant for liabilities (see paragraph 24 of the draft IFRS and paragraphs BC51 and BC52 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

**CASC:**

Proposal (a) and (b) are appropriate. We are temporarily not able to express our comments on proposal (c) and propose that a further deliberation by the Board to applying of the "in use" premise for fair value management of portfolios. In addition, we recommend the Board add the principles of valuation unit identification when the "in use" premise is applicable to increase the relevance between fair value measurement and specific assets groups.

**HKICPA:**

We generally agreed to the above proposals. However, we understand that the "highest and best use" valuation method is used to measure financial instruments in portfolios of assets and liabilities or both (when subject to netting arrangements) so as to overcome the unit-of-account guidance in US GAAP that would otherwise require each instrument to be measured independently. We believe that the appropriate place to deal with such unit-of-account issue is in the relevant standard. Accordingly, we recommend that the Board should consider the appropriate unit-of-account for financial instruments as part of its IAS 39 replacement project.

**MASB:**

We agree that the notions of highest and best use and valuation premise are not for financial assets and other liabilities as they generally do not have alternative use.

At the same time, we have significant concerns in applying the highest and best use notion in the fair value of certain non-financial assets. Although we agree with the proposed definition of fair value, we do not believe it is appropriate to broadly apply the concept to all types of non-financial assets.

We believe the nature of the non-financial asset should be given due consideration in applying the notion of highest and best use. For example, whilst it may be apt to apply the concept to investment property, we believe it is not appropriate to fair value property, plant and equipment such as plantation / factory land assuming its highest and best use by market participants that is different from its current use. For example land used for agricultural, residential or commercial purposes would have differing best use values. We are doubtful of the wisdom of imputing a value to the plantation / factory land that is different from its current use because, in our view, current use values provide the most useful information to users about the entity's future cash flows. Therefore, to use a value based on other than current use would be confusing to users.

In addition, we are concerned about any potential manipulation in earnings management that may arise from the notion of highest and best use which will most likely require the use of judgement by management.

In this regard, we strongly urge the Board to reconsider the applicability of highest and best use notion to all non-financial assets.

However, should the Board decide to proceed with the proposals despite the concerns raised, more prescriptive guidance may be required in applying the notion of highest and best use to mitigate the potential manipulation that may arise.

**AASB:**

The AASB supports the proposals in parts (a) and (b) above. The AASB supports the guidance for determining the highest and best use included in paragraph 17 of the ED and Example 2 of the Illustrative Examples, which notes that costs that may be incurred in changing use or decommissioning an asset should be considered when assessing the highest and best use value of an asset. The AASB supports this guidance as it is critical in assessing the fair value of the asset at its highest and best use compared with its current use. This approach is also consistent with International Valuation Standards.

However, regarding part (c) above, the AASB considers there to be a tension between the IASB's decision to apply the highest and best use notion to assets, but not to liabilities. This is discussed below.

Paragraph BC52 notes that the IASB concluded that the highest and best use concept does not apply to liabilities and that "…although an entity might have entity-specific advantages or disadvantages that enable it to fulfil a liability more or less efficiently than other market participants, those entity-specific factors do not affect fair value."

However, the ED's proposals would appear to incorporate entity-specific factors into the measurement of the fair value of assets, for example, specialised assets (to which an in-use valuation premise would apply). The ED assumes that market participants are as knowledgeable as the reporting entity. In addition, paragraph BC61 states that "… an exit price reflects the sale of the asset to a market participant that has, or can obtain, the complementary assets and liabilities needed to use the specialised assets in its own operations. In effect, the market participant buyer steps into the shoes of the entity that holds those specialised assets."

The corollary of that statement for a liability would appear to be that the market participant transferee of the liability steps into the shoes of the entity owing that liability. For example, consider an entity with a mine site that it is required to rehabilitate after its use. Assume that, given the reporting entity's size and experience of rehabilitating mine sites, it is more cost-effective for that entity to undertake the rehabilitation than to transfer the obligation to a third party. If a market participant transferee of the rehabilitation obligation stepped into the shoes of the reporting entity, it would have access to the unique skills and synergistic benefits possessed by the reporting entity in rehabilitating mine sites. These unique factors are entity-specific.

Because of these factors, the AASB recommends that the IASB clarifies whether estimated cash flows should reflect entity-specific efficiencies or inefficiencies in estimating the fair value of performance obligations at level three of the fair value hierarchy. The AASB suggests that, in this process, the IASB should explain more fully, either in the Standard or its Basis for Conclusions, why the highest and best use notion is not relevant for liabilities.

*Terminology*

The AASB has received comment from valuation professionals that the phrases 'in use' and 'in exchange' connote a different distinction from that intended by the IASB. For example, 'in use' can be read as 'value in use' (entity-specific value) or existing use only. The AASB suggests replacing those terms with references to measuring an asset either as part of a group of assets or on a standalone basis, respectively. The AASB considers these replacement terms to be plainer English than that proposed, and therefore more easily understood.

**NZ FRSB:**

The FRSB agrees with the proposals in the Exposure Draft in regards to assets (except as discussed below for financial assets). The valuation premise appropriately imitates a market participant's perspective of an asset (except as discussed below for financial assets).

The Exposure Draft does not discuss the treatment of a premium that market participants may be willing to pay for certain portfolios of financial instruments (eg a control premium). In this case, we believe that the fair value of a portfolio of financial instruments should include premiums, if any, that the market is willing to pay because this is consistent with the concept of highest and best use for assets. We also argue that the premium reflects that the entity would go to the most advantageous market for the portfolio to maximise the amount to be received. If a portfolio has somewhat unique characteristics, this may increase the amount the buyer would be willing to pay for the portfolio. For example, consider a portfolio of twenty percent of the ordinary shares of an entity. There could be only five such portfolios of twenty percent each and often there may be only one such portfolio offered for sale. The scarcity of such a portfolio can increase its value.

Using this price provides more relevant information about the entity's assets. It also avoids inappropriate write-downs of assets soon after purchase where a premium is paid to acquire a portfolio of financial instruments.

Regarding liabilities, the FRSB believes that an analogous concept to highest and best use should be applied to the valuation of liabilities. Liabilities should be measured assuming the entity will minimise the outflow of benefits ensuing from the obligation when choosing among the options available in the market in dealing with the liabilities (i.e. fulfillment value). We elaborate on this point in our response to questions 7 and 8 below.

**Singapore ASC:**

(a) We do not fully agree with the proposal that the fair value of an asset should be based on the highest and best use notion. We believe that the business model of an entity is a more crucial factor to consider in determining the fair value of an asset and should take precedence over the hypothetical application of the "highest and best use" concept. If there are critical conditions (for example, commercial consensus and regulatory clearance) to be met before the asset can be converted to its highest and best use, the market participants would not ignore the conditions in valuing the asset. Assuming "highest and best use" could inflate values as there are too many extraneous factors (eg. social costs, strategic issues, etc.) that could make "best use" values in one market different from others and is also very subjective from buyer to buyer. Hence, while the hypothetical value (assuming all conditions are met) may be higher, the actual value (short of all conditions being met) could actually be lower - and this is probably where the "highest and best use" notion falls short in reflecting the economic realities and could even possibly result in misleading or distorted information to the users of the financial statements.

As mentioned above in our responses to Question 1, we suggest that the Board considers the approach of using the higher of (1) value-in-use or (2) exit price (based on in-exchange valuation premise) as we believe that this approach would provide greater decision-useful information that is more reflective of the economic realities of the entity, as opposed to the

"highest and best use" approach.
In addition, the ED highlights three areas for which assumptions are required to determine "highest and best use": (a) physical possibilities (e.g. location of the asset) (b) legal restrictions and (c) financial feasibilities. These are at best, minimum conditions to determine "highest and best use". Within these constraints are a significant number of possibilities that may qualify for "highest and best use". Our concern is that "highest and best use", as is defined in the ED, may fall within the realm of the hypothetical for which no reliable evidence exists. As such, if the Board decides to proceed with the "highest and best use" approach, we suggest that the Board consider the inclusion of more rigorous conditions to guide the application of the "highest and best use" notion, in addition to the minimum three assumptions above. We believe that the risk associated with the transfer of current use of the asset to the next best use should be taken into account in the fair value measurement of the asset (similar to our responses to Question 1 on the application of the exit price notion) in order to arrive at the most relevant and appropriate fair value.

Additionally, the ED requires "highest and best use" to be determined from the perspective of market participants, even if the reporting entity intends a different use (paragraph 18). The underlying notion is that market participants know the "highest and best use" better than the entity. This notion runs counter to the fact that firms exist because they can organize and harness their assets collectively better than markets can. This is particularly so when the assets are highly specialized and unique and have no market equivalent. In these instances, the information asymmetry between market participants and insiders is significant and imputing the market participant's perspective may be inappropriate. The ED can provide greater amplification on how "highest and best use" can be applied to highly specialized and unique assets for which no market equivalent exists.

The ED states than 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" (paragraph 18). It is rare that an entity would concur that the use of its asset is sub-optimal and that there are higher and better uses of the asset. Hence, while the use of the "market participants" perspective may bring about a greater degree of objectivity, in reality, it may be simplistic and economically infeasible to assume that market participants know how to deploy the asset better than entities.

(b) While the concepts of "in-use valuation premise" and "in-exchange valuation premise" may be well understood within asset valuation literature, the write-up in paragraphs 22 to 24 could be revised to reduce repetition and improve clarity. In particular, the language in BC 57 is clearer than that in paragraph 24.

(c) Generally, we agree that the "in-use" valuation premise does not apply to financial assets or liabilities as proposed in the ED. However, existing requirements in IAS 39 states under AG 72 that "When an entity has assets and liabilities with offsetting market risks, it may use mid-market prices as a basis for establishing fair values for the offsetting risk positions ...".

This appears to us an example of the application of the "in-use" premise rather than "in exchange" as proposed in the ED and we would like to seek the Board's clarification in this area.

**Question 6**
When an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset, the exposure draft proposes that the entity should separate the fair value of the asset group into two components: (a) the value of the assets assuming their current use and (b) the amount by which that value differs from the fair value of the assets (ie their incremental value). The entity should recognise the incremental value together with the asset to which it relates (see paragraphs 20 and 21 of the draft IFRS and paragraphs BC54 and BC55 of the Basis for Conclusions).
Is the proposed guidance sufficient and appropriate? If not, why?

**CASC:**

We are temporarily not able to express our comments on the proposal. We acknowledge that the proposal is in line with the principles and framework of fair value measurement. However we noted that it may be hard for the reporting entity to change the current way in which measured asset is used to the highest and best use for some reason such as lacking adequate experienced management team, without proper business model. We recommend further deliberation before the Board decide to include the incremental value in fair value.

**KASB:**
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. In such cases, the exposure draft requires the reporting entities to measure and disclose the value of the assets assuming their current use and the value measured from the perspective of market participants.

However, in the example noted in the exposure draft, if the highest and best use of the land is assumed, the building for the factory is demolished, the value of which being still CU 60,000. This results from measuring the values of the asset and allocating the incremental value to land and factory based on two mutually incompatible concepts, current use and highest and best use.

We do not think that the measurements valued in that way are meaningful, since we do not believe that obtaining such results at the measurement date is neither physically possible nor financially feasible.

Nevertheless, if the IASB believes that the values and disclosures provide useful information to users of financial statements, we would like to suggest that the IASB explain the reason in the

Basis of Conclusion why those information are useful, and then require an entity to disclose the value of the asset assuming the highest and best use

**HKICPA:**

We generally agree that the disclosures of two bases, i.e. the existing use and the alternative highest and best use, would provide useful information for users of financial statements. We also consider the proposed guidance is sufficient and appropriate.

**MASB:**

As mentioned in our response to Question 5, we believe it is not appropriate to broadly apply the notion of highest and best use to all non-financial assets. The guidance in paragraphs 20 and 21 would have to be changed accordingly should the Board agree with our proposal.

**AASB:**

The AASB agrees that the 'incremental value' referred to in Question 6 should be included in the measurement of the fair value of assets that are not used for their highest and best use. However, the AASB disagrees with requiring separate disclosure of the 'incremental value' and existing-use value in those circumstances, because it considers that such disclosure requirements would:

(a) be piecemeal in only applying to assets measured at fair value. If disclosures about assets deployed for uses other than their highest and best use provide useful information for resource allocation decisions and assessing the accountability of the entity's management, and if the benefits of that information exceed the related costs, those disclosures should not be limited to assets measured at fair value;

(b) require the underlying assets of investments in subsidiaries to be bifurcated into existing use market value and incremental value; and

(c) involve significant costs to obtain dual valuations of an entity's assets as well as the assets of investments in subsidiaries (as mentioned in (b) above). Valuers do not generally provide separate valuations for assets at their current use and highest and best use (where that use differs from current use).

In relation to the example in paragraph BC54, the AASB disagrees with the IASB's conclusion that measuring the factory at nil when it continues to be used as a factory would not provide decision-useful information. The opportunity cost notion inherent in fair value contradicts that conclusion, and from a fair value perspective the asset held by the entity is its land (at market value). It may be considered that measuring the factory at an existing use value would provide more useful information. If that conclusion were reached, reporting the factory's existing use value would constitute using a measurement basis other than fair value because the measurement objective would be different, and the existing use value should not be presented as a component of fair value. Similarly, reporting the factory's existing use value would understate the fair value of the land.

The AASB considers that the IASB's conclusion on this issue in paragraph BC54 contradicts its comments in paragraph BC68 in relation to the fair value of liabilities, particularly that "A fair value measurement provides a market benchmark … for assessing an entity's advantages or disadvantages in performance or settlement relative to the market."

**NZ-FRSB:**

The FRSB does not agree with the proposal to separate the fair value of an asset group into two components for the following reasons:

- The IASB is proposing that constituents potentially need to consider more than one measurement approach. In many instances this is not practical because it assumes that complete information required for each approach is available.
- Preparers may need to obtain two valuations in order to obtain the information required which may result in preparers incurring significant additional cost.

The IASB should determine the single most appropriate measurement approach and require the use of that single approach.

**Singapore ASC:**

In a group of assets, the ED requires the "highest and best" use to be determined for each individual member in that asset group. For example, the land on which a factory stands must be determined for its highest and best use, separately from the factory. The fair value of the factory would assume its current use, while the fair value of the land would include an incremental value that relates to the entity's ability to convert the industrial property to a residential property.

The concept of showing the fair value of an asset group into two components (value for current use plus incremental value for highest and best use) has its merit but difficult to implement in practice. Generally reporting entities may not explore the alternative use of an asset, such as land, formally on a periodic basis especially when the asset is used in its core business and it is not contemplating a change of its core business. Paragraphs 20 and 21 are written in the context of a group of asset. However, this need not be the case as a single asset also can have higher or better use (for example, due to plot ratio increase for land).

This "asset-stripping" methodology is not appealing as it runs counter to the notion of the primary purpose for which the group of assets exists, i.e. there are inherent synergies that arise from the co-existence of related assets. The ED emphasizes short-term gains from selling the land but without any recognition of the long-term benefits that arise from the long-term production of goods and services. The dismembering of assets into individual stand-alone units is not in line with the notion of the entity as a going-concern, which is able to organize these assets in a synergistic manner over the long-term, and is yet another hypothetical assumption which may not be reflective of the practical scenario

In many cases assets will only achieve the "best use" value if used in conjunction with other assets and deriving two separate values, of which one may be theoretically higher, can be meaningless in reality. An additional example would be in the case of power plants – arguably, one could redevelop the land that a power plant sits on but it may cost more to move the plant given the various infrastructure connections so in actuality, the value of the individual land is not likely to be realized on a stand-alone basis. There may also be concerns over how the fair value of the alternative asset use is determined as it assumes that demand, price, etc. factors can be reliably ascertained.

**Question 7**

The exposure draft proposes that:

(a) a fair value measurement assumes that the liability is transferred to a market participant at the measurement date (see paragraph 25 of the draft IFRS and paragraphs BC67 and BC68 of the Basis for Conclusions).

(b) if there is an active market for transactions between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. An entity adjusts the observed price for the asset for features that are present in the asset but not present in the liability or vice versa (see paragraph 27 of the draft IFRS and paragraph BC72 of the Basis for Conclusions).

(c) if there is no corresponding asset for a liability (eg for a decommissioning liability assumed in a business combination), an entity estimates the price that market participants would demand to assume the liability using present value techniques or other valuation techniques. One of the main inputs to those techniques is an estimate of the cash flows that the entity would incur in fulfilling the obligation, adjusted for any differences between those cash flows and the cash flows that other market participants would incur (see paragraph 28 of the draft IFRS).

Are these proposals appropriate? Why or why not? Are you aware of any circumstances in which the fair value of a liability held by one party is not represented by the fair value of the financial instrument held as an asset by another party?

**CASC:**

The proposal is appropriate in theory. For the time being, we are not sure whether the proposal is practical in China.

**HKICPA:**

We support the proposals that the fair value of a financial liability should be based on its transfer value; the fair value of a liability will be equal to the fair value of that corresponding asset when the liability has a corresponding asset; and the present value techniques and similar techniques should be used to estimate the fair value for which there is no corresponding asset.

**MASB:**

(a) Conceptually if a liability has no restriction by covenant or law to restrict its transfer to a market participant (transferee) who will assume the obligation for the remaining term to the liability to maturity, the observed price for such transfer in the market would be the best estimate of fair value. However, we note that it is not appropriate for the proposed standard to assume this will always be the case. We believe consideration should be given to situations when transfer of liability is restricted by law. To this, it may not be appropriate to require entities to use a hypothetical value that will not crystallise in place of the contractual value.

(b) In our view it is not appropriate to presume the fair value of a liability will always equal to the fair value of the corresponding asset. We believe different market participants may hold different views because of the effect of non-performance risk as mentioned in our response to Question 8.

For example, in a situation where the collateral is higher than the amount of the liability, the holder is not exposed to issuer's non-performance risk and may thus price the corresponding asset using a lower discount rate (ie risk-free rate). In this situation, the fair value of the liability from the perspective of the issuer will not be the same as the holder.

(c) We agree with the proposal.

In addition we disagree with the proposals in paragraph 26. In our view, there may be situations the corresponding asset may not be measured at fair value hence it would not be the appropriate to use that basis to measure the fair value of the liabilities in the book of the issuer.

**AASB:**

Other than the issue identified in the response to Question 5 above regarding the application of the highest and best use notion to liabilities, the AASB generally supports the proposals in respect of determining the fair value of financial and non-financial liabilities.

As indicated in the comments above on Question 5, the AASB recommends that the IASB clarifies whether estimated cash flows should reflect entity-specific efficiencies or inefficiencies in estimating the fair value of performance obligations at level three of the fair value hierarchy.

**NZ FRSB:**

The FRSB does not agree with the proposals in the Exposure Draft regarding liabilities. The FRSB believes that fair value is not the appropriate measure for liabilities in many circumstances, as discussed in paragraphs 11-13 below. If the IASB proceeds with the proposals in the Exposure Draft, the FRSB has some recommendations in paragraphs 14-15 below to clarify the proposed approach to fair value measurement of a liability.

*Alternative approach to measuring liabilities*

The FRSB acknowledges that the proposals in the Exposure Draft focus on *how* to measure assets and liabilities at fair value, rather than *when* fair value measurement should be applied. However, considering issues about how to measure the fair value of liabilities has highlighted to the FRSB the potential inappropriateness of doing so in many circumstances.

We believe that the proposed definition of fair value is not suited to many liabilities that exist in practice.

The FRSB believes that a liability should be measured assuming that the reporting entity will minimise the outflow of benefits required to settle the obligation when choosing among the options available to it i.e. the liability equivalent of the concept of highest and best use for assets. As a result, in many cases we believe that the measurement of a liability should be considered as a fulfilment value. For example, for many nonfinancial liabilities, the cost to fulfil the liability by performing the performance obligations itself will be less than the cost to transfer the performance obligations to another party (because a risk premium may be incurred if transferred). We acknowledge the tentative decisions made by the IASB in relation to the measurement requirements in IAS 37 but believe that these do not appropriately reflect the minimization of the outflow of benefits that the FRSB considers paramount.

The FRSB is concerned that there is an important conceptual issue that has yet to be addressed, that is whether the entity's obligation is being measured or whether the obligation itself is being measured independent of the entity and entity-specific factors. If the fair value of the entity's liability is determined, then the entity's credit risk may be a relevant consideration in theory. However, if the fair value of the liability is measured independently from the entity then only market-based factors are relevant. We encourage the IASB to address and document very explicitly this issue before progressing further with its consideration of the measurement of liabilities.

**Singapore-ASC:**

(a) We agree with the proposal.

(b) We agree with the proposal.

(c) There are many liabilities held by one party which are not represented by corresponding assets held by another party. Examples include a provision for product warranty and a provision for pension liabilities. These liabilities cannot be attributed to specific creditors; they are collectively attributed to a group of creditors on an actuarial basis. As explained in paragraph 28 of ED, the fair valuation of such liabilities is based on the notion of settlement. This means that for any estimated future cash outflow which an entity will incur in fulfilling the obligation, there is a present value at the measurement date at which the entity may cash settle for a third party to assume that future liability.

Under the settlement notion, we feel the appropriate discount rate is the risk-free interest rate rather the reporting entity's risk-adjusted interest rate. We understand that in the US, a high quality corporate bond rate is used as the risk-free proxy. In the purest form, once the liability is provided at the present value (derived by discounting at the risk-free rate) and matched by a cash deposit yielding a risk-free return, there is no further profit or loss impact in future reporting periods. If the entity earns a credit spread on the cash deposit over the risk-free risk, the additional profit or loss comes from separate credit risk taking by the entity.

There are merits in using the risk-free interest rate to value this type of operational obligations. As the risk-free rate reflects only the time value and does not include the entity's own credit risk premium, the build-up of the liability from its present value to its future value is not affected by the volatility of the price of the entity's own credit risk. This avoids the "noise" in the income statement due to changes in the entity's own credit risk over time. Also a lower risk-free rate means a higher liability value at inception and this minimises the risk of under-provisioning at the beginning, with a high interest rate being used to build up the obligation to its future value. While paragraph 28 mentions "using a present value technique" and refers to Appendix C which provides a fuller write-up on present value techniques, it does not discuss the concept of using a risk-free or near risk-free interest rate to measure an operational liability (as opposed to a borrowing liability). We are of the view that some clarification in this respect is useful.

The ED suggests that if there is an active market between parties who hold a financial instrument as an asset, the observed price in that market represents the fair value of the issuer's liability. However, one could foresee the situation that the market for transferring an asset may not, in all instances, be the same as the market for transferring a liability. In any event, even in an active market, one would argue that a bid-ask spread should result in a difference between the price to be received to sell a financial asset and the price be paid to transfer a financial liability. Accordingly, an appropriate adjustment may be necessary and guidance would be useful in that regard.

**Question 8**

The exposure draft proposes that:

(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfill the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).

(b) the fair value of a liability is not affected by a restriction on an entity’s ability to transfer the liability (see paragraph 31 of the draft IFRS and paragraph BC75 of the Basis for Conclusions).

Are these proposals appropriate? Why or why not?

**CASC:**

Proposal (a) is appropriate while (b) is inappropriate. Given the unified principle of fair value measurement for liabilities, non-performance risk should not be reflected in fair value measurement if restrictions on the entity’s ability to transfer the liability are not reflected. In addition, we propose the Board further explain the reason why it considers the transfer restrictions in fair value measurement for assets but not for liabilities in BC75 of the ED.

**ASBJ:**

We need to distinguish between (a) the issue of whether non-performance risk should be included in fair value measurement of liabilities and (b) the issue of to what extent measures including credit risk should be used for liabilities. Although we acknowledge that non-performance risk would be included in fair value measurement if a liability should be measured at fair value, in our view, it is in very limited situations such as measurement of derivatives that use of fair value for remeasurement of liabilities would be appropriate.

**KASB:**

With regard to question 8, some of constituents mentioned as follows. They noted that the IASB tries to draw a line between the question of how to measure items and the question of how to recognize them on financial statements, mentioning 'the purpose of this project is to define fair value, not to determine when to use fair value' in paragraph BC74. However, they believe that the question of how to measure items is closely connected to the question of how to recognize on financial statements and it is necessary for the IASB to review whether making a distinction of the two questions is appropriate.

**HKICPA:**

In our view, non-performance risk, including credit risk, should be considered in measuring the fair value of any liability. However, as explained in our comment letter to IASB's recent discussion paper on Credit Risk in Liability Measurement, we do not believe that fair value is the appropriate measurement basis for many liabilities.

Accordingly, we believe that an entity's own credit risk should sometimes be incorporated in the measurement of liabilities. In respect of initial measurement, we would only support including own credit risk when there is an actual transaction occurring and there is an associated transaction price.

In respect of subsequent measurement, we would only support including credit risk for those liabilities which are held for trading (including derivatives) and for liabilities that are quoted in an active market such that the entity has the practical ability to realize recognized gains.

Moreover, we consider that a restriction on an entity's ability to transfer a liability does not affect the fair value of the liability. The fair value of a liability, unlike an asset, is not a function of marketability, but of performance. A market participant transferee will 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. In other words, the market participant transferee, like the reporting entity, must perform to be relieved of the obligation.

**MASB:**

(a) We disagree with the proposals to include the entity's own credit risk in the fair value of liability as it would be counter-intuitive, confusing to users and would not provide meaningful information (for example reporting gain when there is a decline in credit quality). To this, reporting a gain from a decline in credit quality can mask a deteriorating situation, especially in current market conditions.
    Whilst we note that the IASB is addressing the issue in another project and has requested for comments with regards to the usefulness of including credit risk in liability measurement via Discussion Paper: *Credit Risk in Liability Measurement* (DP), we are concerned that including it in fair value measurement for liabilities will inevitably require application upon adoption regardless of the outcome of the DP.

(b) Please see our response to Question 7(a).

**AASB:**

Yes. The AASB supports the proposals that fair value measurement of liabilities should include non-performance risk of the entity and should not take into consideration any restrictions on an entity's ability to transfer the liability. The proposals in the ED are premised on the basis of a 'hypothetical' transaction – therefore, the AASB considers that it is reasonable to make the assumption that such a transfer can occur regardless of whether the entity intends, or has the ability, to settle the obligation in that way.

Whilst the AASB supports the proposal that the fair value of a liability is not affected by a restriction on an entity's ability to transfer the liability, it considers that the characteristics of the participants in the relevant market for the liability would reflect any restrictions on who may participate in that market. For example, a regulator (such as a financial services regulator) may require that transactions to transfer a particular liability can only take place with entities of equivalent or higher credit standing, which in turn would affect the particular liability's exit price. Accordingly, the AASB considers that any restrictions on who may participate in the relevant market for a liability should be taken into account in determining the relevant market for estimating the 'price that would be paid to transfer the liability in an orderly transaction between market participants at the measurement date'.

**NZ FRSB:**

*Recommendations to clarify the proposed approach to measuring the fair value of a liability*

If the IASB proceeds with the proposals in the Exposure Draft, consistent with our comments above, we believe it is imperative that the IASB explain why the notion of highest and best use is not relevant to liabilities and resolve the potential tension between the decision to apply the notion of highest and best use to assets and the decision not to apply the analogous notion to liabilities. Paragraph BC52 notes that the IASB concluded that the highest and best use concept does not apply to liabilities and that, although an entity might have entity-specific advantages or disadvantages that enable it to fulfil a liability more or less efficiently than other market participants, those entity-specific factors do not affect fair value. However, entity-specific factors do appear to be incorporated into the fair value measurement of assets such as specialised assets to which an in-use valuation premise would apply because it is assumed that market participants are as knowledgeable as the reporting entity. In addition, in paragraph BC61 it is stated that an exit price reflects the sale of the asset to a market participant that has, or can obtain, the complementary assets and liabilities needed to use the specialised assets in its own operations and in effect the market participant steps into the shoes of the entity that holds those specialised assets.

If the approach to fair value measurement of liabilities was consistent with the approach to fair value measurement of assets, entity-specific factors would need to be considered as though the transferee werestepping into the shoes of the transferor.

**Singapore ASC:**

(a) We refer to our comment letter on the DP on Credit Risk in Liability Measurement that is dated and submitted on the 1 September 2009. In that letter, we agreed that credit risk should be incorporated credit risk into the fair value of financial liabilities, both at initial and subsequent measurement, unless it relates to non-derivative liabilities (1) whose contractual cash flows are fixed or fluctuate solely based on a market interest rate (including non-leveraged inflation) and are not managed on a fair value basis (2) where the entity does not have the practical ability to realize gains or losses associated with changes in own credit in the ordinary course of business. For other liabilities that are outside the scope of IAS 39 (such as defined benefit pension schemes decommission obligations, warranties, or insurance claim liabilities), our view is that the measurement should not incorporate the price of own credit risk both at initial and subsequent measurement. Instead, these liabilities should be measured using a risk-free rate to reflect the time value of money.

(b) We agree with the proposal.

**Question 9**

The exposure draft lists four cases in which the fair value of an asset or liability at initial recognition might differ from the transaction price. An entity would recognise any resulting gain or loss unless the relevant IFRS for the asset or liability requires otherwise. For example, as already required by IAS 39, on initial recognition of a financial instrument, an entity would recognise the difference between the transaction price and the fair value as a gain or loss only if that fair value is evidenced by observable market prices or, when using a valuation technique, solely by observable market data (see paragraphs 36 and 37 of the draft IFRS, paragraphs D27 and D32 of Appendix D and paragraphs BC76–BC79 of the Basis for Conclusions).

Is this proposal appropriate? In which situation(s) would it not be appropriate and why?

**CASC:**

The proposal is appropriate.

**ASBJ:**

The treatment of day one gains or losses on fair value at initial recognition is an issue of a specific accounting treatment, therefore, that is beyond the scope of this project which considers a definition of fair value, a framework for measuring fair value and disclosures about fair value measurements. As it is mentioned in the Basis for Conclusions on the ED, the treatment is different from the one in US GAAP. Therefore, we expect convergence to be achieved on this issue through full deliberation in future.

**KASB:**

For the purpose of applying the concept of current exit value consistently, we think that IAS 39 should allow the price measured using valuation technique with unobservable inputs at initial recognition as a fair value in accordance with the exposure draft. We believe that the definition of fair value should be applied consistently both at initial recognition and at subsequent measurement.

Basically, we do not believe the transaction price at initial recognition always reflects fair value. In particular, there might be the cases in which an entity purchases items in inactive market or in arbitrage transaction.

In addition, we believe that there should be improvement in the accounting treatment for the recognition of a day 1 gain or loss for a financial instrument set out in IAS 39. The existing IAS 39 requires an entity to defer the difference between the transaction price and fair value to the extent that the fair value is based on unobservable inputs at initial recognition and to recognize a gain or loss after initial recognition only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. However, it is our view that there are no clear reasons why a reporting entity should recognize the deferred day 1 gain or loss until the maturity in accordance with the requirements set out in IAS 39. Moreover, we believe that such an accounting requirement results in the complexities of the accounting treatment for financial instruments.

As a result, we would like to point out that the IASB should consider the related requirements set out in IAS 39. In accordance with the requirements set out in IFRS 1, the entities adopting IFRSs in 2011 should apply the derecognition criteria set out in IAS 39 to the transfer transaction which have been entered into since 1 January 2004. And if the transfer transactions of financial instruments could not meet the derecognition criteria required by IAS 39, the reporting entity adopting the IFRS for the first time would still recognize the financial instruments transferred on its financial statements. In this case, the reporting entity would face the difficulties in estimating difference between the fair value at initial recognition and the transaction price. If there is the difference between them, it would be burdensome in practice for the reporting entity to manage the difference value and recognize some of it until the maturity of financial instrument.

**HKICPA:**

This proposal is not appropriate. We believe an entity should recognize the difference between the transaction price and the fair value as a gain or loss (Day 1 gain or loss) when fair value is the appropriate measurement basis for the asset or liability, irrespective of whether that fair value is evidenced by observable market prices or when using a valuation technique.

We are of the view that if the fair value measurement principles in the Exposure Draft are appropriately applied, the Day 1 gain or loss is genuine and meaningful. This would provide useful and relevant information to the users of the financial statements to assess the performance of the entity and for their better understanding of the economics of the transactions as compared to the transaction price. In this connection, we consider that the recognition and disclosure of Day 1 gain or loss should not be restricted. In addition, the estimation uncertainties in arriving at the fair values are disclosed in the financial statements.

**MASB:**

We disagree with paragraph D32. In our view, the fair value of an asset at initial recognition should equal to the transaction value whilst the fair value of a liability should equal to the settlement value.

For example, if an entity holds a large number of similar assets (for example equity securities), the fair value measurement should include the blockage factor as the entity need to pay a premium to obtain control and hence, block holding should have a higher value than that of quoted market price.

In addition, since financial liability with demand feature is excluded from the requirement of fair value, we see no reason why block holding is not prescribed similar treatment.

**AASB:**

The AASB supports the four listed cases in which fair value of an asset or liability on initial recognition might differ from the transaction price. In addition, the AASB supports the proposed consequential amendments to IAS 39 that will allow a level three fair value measurement that may differ from the transaction price on initial recognition, to be treated as fair value.

However, with respect to the consequential amendments to paragraph AG76 of IAS 39, the AASB disagrees with the proposal to defer the recognition of any gain or loss that results from initially measuring the fair value of a financial asset or financial liability at an amount different from the transaction price, if that initial fair value is determined other than by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets (that is, it is based on a level three measurement). The AASB considers that, if the evidence supporting an estimate of the fair value of a financial asset or financial liability is sufficient to enable reliable measurement of the fair value of that asset or liability, it is sufficient to enable reliable measurement of any resulting gain or loss at the same time. Therefore, the recognition of such gains and losses in profit or loss should not be deferred.

In addition, the AASB recommends that the IASB clarifies whether the proposed consequential amendments will also apply to unquoted equity instruments, given the proposed removal of the cost exemption in the IASB's Exposure Draft ED/2009/7 *Financial Instruments: Classification and Measurement*.

The AASB considers that the Fair Value Measurement Standard should acknowledge that differences between the transaction price and the fair value of assets or liabilities could result from equity transactions, in which cases they should be accounted for as transactions with owners acting in their capacity as owners, rather than as gains or losses included in profit or loss.

**NZ FRSB:**

The FRSB does not entirely agree with the proposals. There are many instances in which fair value of an asset or liability at initial recognition might differ from the transaction price listed in the Exposure Draft, for example, in the case of related party transactions. In many instances a difference between fair value and transaction price may be, in substance, an equity distribution or contribution rather than a gain or loss. The proposed standard should allow for this situation (or even presume that this is the most likely outcome).

**Singapore ASC:**

We support the proposed accounting treatment of recognizing the day one gain or loss which arises from the difference between fair value and transaction price for those financial assets and financial liabilities which are subject to fair value measurement on subsequent dates.

However, we are not convinced of the appropriateness and usefulness of recognizing upfront the day one gain/loss for financial and non financial assets or liabilities which are not traded in an active market and which are not subsequently measured at fair value. As the market is not active, it is reasonable to expect that there will be difference between the transaction price and the exit price. Requiring entities to realize the day one difference upfront does not appear to make economic sense. This is more so that such day one difference will reverse out in the subsequent periods by a higher or lower amortization in the case of financial instruments held at amortised cost, or through a higher or lower depreciation for non-financial instruments, or a higher or lower gain/loss on disposal or impairment for those items subsequently measured at cost. We do not see the usefulness of this accounting exercise to users of the financial statements. For items that are not subsequently measured at fair value, we believe the transaction price would be more relevant than the exit price for initial recognition as transaction price for an asset and liability between unrelated parties on an arm‟s length basis represents the amount of resources incurred or received upon entering into the arrangement.

In addition, we do not support the proposed amendment to IAS 39 paragraph AG 76(b) that the day one gain/loss should be deferred if the criteria in IAS 39 AG 76(a) are not met. Apart from not being consistent with SFAS 157 footnote 18, which suggested that under this situation the valuation model be calibrated such that the valuation model resulted in a value that is equal to the transaction price at initial recognition, the deferral as proposed by the Board as a separate debit or credit does not meet the conceptual definition of an asset or liability. The proposed deferral in the IAS 39 paragraph AG 76(b) is also not consistent with the concept of fair valuation and could be the result of fundamental issue or issues that the Board has not addressed in the standard. This concern could be mitigated in part if the Board reconsiders its guidance for items which are not subsequently measured at fair value, to use the transaction price at initial recognition. After all, transaction price in a non related party transaction represents the fair value of the consideration given or received in an arm‟s length transaction which can be reliably estimated at initial recognition. The recognition of a deferred gain/loss as proposed by the ED, on the other hand, does not provide decision-useful information and could instead, add confusion and complexity. As an alternative suggestion, the Board could consider scoping out unrelated party transactions from the requirement to recognize any gains/losses at initial recognition (in other words, to presume nil day 1 gains/losses), unless there is evidence to the contrary.

In respect of paragraph 36(d), it would be useful if guidance could be provided for situations where the „market in which the transaction takes place is different from the market in which the entity would sell the asset or transfer the liability" other than the securities dealers. Take for example, the case of trading companies operating in wholesale framework and trading companies dealing with retail customers. Such trading companies could be dealing in the same commodity, electronic products etc but with a different set of customers in different markets. Further guidance in such situations where the entity operates in different markets would be useful in ensuring consistent application.

We would like to comment on BC 77- “Determining whether to recognize day one gain or loss is beyond the scope of this project”. Currently, most of the accounting standards for non financial assets do not have guidance on the accounting treatment of the day one difference. By not providing guidance on the accounting treatment on day one gain/loss is likely to lead to inconsistent accounting practices which would not facilitate comparability across entities. To ensure consistent application, we would encourage the Board to issue relevant guidance on the accounting treatment of day one difference for those accounting standards which currently do not have such guidance. To facilitate convergence with FASB, we urge the Board to develop the guidance which is in alignment with the US GAAP.

Also, we note that although the ED allows the recognition of the resulting gain or loss from initial recognition of an asset or liability at fair value that differs from the transaction price (ie. day 1 profit or loss) on condition that the fair value is evidenced by observable market price or when a valuation technique is used, solely by observable market data, it is not clear how these conditions will be applied on subsequent measurement on Day 2. Further guidance in this area would be helpful.

Another issue is the treatment of price differential in different markets. If an entity's business is to borrow funds from the wholesale market for lending to the retail market at a margin, the concept of allowing the use of prices from the most advantageous market to measure the asset or liability will allow a profit to be recognised when the entity merely performs one part of a transaction without completing its value-adding activity.

**Question 10**

The exposure draft proposes guidance on valuation techniques, including specific guidance on markets that are no longer active (see paragraphs 38–55 of the draft IFRS, paragraphs B5–B18 of Appendix B, paragraphs BC80–BC97 of the Basis for Conclusions and paragraphs IE10–IE21 and IE28–IE38 of the draft illustrative examples).

Is this proposed guidance appropriate and sufficient? Why or why not?

**CASC:**

The guidance appropriate and sufficient. However we propose the Board identify in the part of valuation techniques in the ED: The provisions for valuation techniques in the standards aim to address fair value measurement for financial reporting and shall not apply to the valuation performed by valuators in accordance with the professional valuation standards. We also recommend the Board enhance coordination with the IVSB in this field.

**HKICPA:**

We believe that the proposed guidance is appropriate and sufficient.

**MASB:**

We agree with the proposed guidance as it provides further authoritative guidance on the application of fair value measurement.

However we would like to express our reservations with regards to Level 3 measurement based on unobservable data. This method generally work well where the cash flows are deterministic and the discount rate can be extrapolated directly from the market for example unquoted bonds. But to apply unobservable data to unquoted equity instruments would be problematic in practice as the cash flows are based on expectation of management and the discount rate could not be easily obtained from the market without undue mathematical adjustment via Capital Asset Pricing Model (CAPM) with gearing and ungearing of beta to find the cost of equity and cost of debt to derive at the weighted average cost of capital. This would make the result of Level 3 valuation highly judgemental.

**AASB:**

Yes. The AASB generally supports the proposed guidance on valuation techniques, including the guidance on markets that are no longer active. In discussions with representatives of the Australian valuation profession, we understand concerns exist with ambiguity of the terminology and valuation methodology. Because Australian valuation standards are based on International Valuation Standards, we encourage the IASB to liaise with the International Valuation Standards Board to identify whether any clarifications or amendments to terminology are warranted.

**NZ FRSB:**

The FRSB has some concerns with the inclusion of the cost approach. Fair value is defined as an exit price. The cost approach however, estimates a replacement cost which is not an exit price because a reasonable vendor is unlikely to sell an asset for that amount. A reasonable vendor would want to add a margin (and a market participant would expect that the amount paid would include a margin). The FRSB also recommends that the IASB clarify whether or not depreciated replacement cost would be considered a surrogate for fair value in certain circumstances and what these circumstances would be.

The IASB staff posted on the IASB website responses to frequently asked questions in respect of the Exposure Draft. One of the frequently asked questions and the IASB staff response is as follows:

Question: “How does an entity measure the fair value of a tangible asset (such as property, plant and equipment) that does not have an observable market price or directly attributable cash flows?”

Response: A cost approach will sometimes be an appropriate valuation technique for a fair value measurement, for example when an asset does not have an observable market price and it does not generate directly identifiable cash flows. The replacement cost approach assuming an in-use valuation premise is generally appropriate in such situations because a market participant buyer would not pay more for an asset than the amount for which it could replace the service capacity of that asset. (The replacement cost approach also considers the cash flows that market participants would expect to generate from using the asset because the replacement cost approach includes a test for ‘economic obsolescence.’)

The first sentence of the response to the frequently asked question seems to suggest that depreciated replacement cost is a surrogate for fair value despite fair value being defined as an exit price. However, the first sentence of the response is not stated directly in the Exposure Draft or in the Basis for Conclusions of the Exposure Draft. The IASB should include that point in the final standard if it holds that view.

By the inclusion of Appendix C there is currently more guidance provided on the income approach than is provided for the other two valuation approaches. The FRSB recommends that an equivalent amount of guidance be provided on the other two valuation approaches in order to maintain a balance between the guidance provided in respect of each valuation approach and to assist entities in applying the other two approaches.

**Singapore ASC:**
The guidance starting in paragraph B5 relates to determining fair value in markets that are not active. However, the guidance in SFAS 157-4 relates to determining fair value when there has been a significant decline in market activity (which may or may not be indicative of an inactive market). Although the factors listed in SFAS 157 may relate to determining when a market is not active, we believe that as currently incorporated in the ED, not all the factors listed are in themselves indicative of an inactive market (see next bullet). We recommend the Board considers the wording in SFAS 157 in the ED, except as noted below or specifically list factors characteristic of a market that is inactive to avoid any confusion and misapplication.

The characteristic listed in paragraph B5 (a) (i.e., a significant decrease in market activity) is not indicative of an inactive market but of a market that is less active, but which may still be active.

The Board should clarify in paragraph B5(c) what is meant by “current information.” Is it based on actual trades or just the availability of quotes, which may not be based on any actual transactions?

The characteristic in paragraph B5 (d) implies that the market for a security may be deemed inactive just because price quotations vary substantially over time; however, the security may be traded in significant volume on a daily basis. That is, significant price volatility is not necessarily an indicator that a market is inactive. Although many equity securities issued by large financial institutions experienced significant declines in price in 2008, they continued to be traded in significant volumes on a daily basis.

The characteristic in paragraph B5 (e) suggests that the market for a security is inactive if indices that were previously highly correlated are demonstrably uncorrelated with recent fair values. However, this is not necessarily indicative of an inactive market. For example, a publicly traded stock that was previously correlated to an index (e.g., Nikkei 225) may no longer be correlated but may still be traded in significant volume.

The characteristic listed in paragraph B5 (h) (i.e., a significant decline or absence of a market for new issues) is not indicative of an inactive market if there is an active secondary market or the market is less active, but still active.

We recommend the Board considers adding “immediately” prior to “to meet regulatory or legal requirements” criteria in paragraph B11(c) to avoid any misapplication. Even though an entity is required to sell, it may still have adequate time to allow for customary and usual marketing activities

We recommend the Board further clarifies the criteria in paragraph B11(d). What if significant events occurred related to the specific asset which caused the transaction price to be an outlier? Would the Board still consider the last transaction not to be representative of fair value?

**Question 11:**
The exposure draft proposes disclosure requirements to enable users of financial statements to assess the methods and inputs used to develop fair value measurements and, for fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period (see paragraphs 56–61 of the draft IFRS and paragraphs BC98–BC106 of the Basis for Conclusions).
Are these proposals appropriate? Why or why not?

**CASC:**

**A:** The proposals are appropriate but not adequate. We propose to add the following requirements for disclosure:

1. The description of the market environment. Fair value measurement intends to reflect /simulate the results of market pricing. We therefore propose to add the description of the market environments in disclosure to facilitate users’ better understanding of the information provided through fair value measurement. Particularly, in a volatile market, such disclosure can avoid misleading fair value information for investors’ decision-making.

2. The disclosure and note of limitations on fair value measurement. For example, fair value as a reflection/simulation to market pricing has its limitations; fair value information may fail to reflect the true value, which is more useful to investors, of report items due to some organic failures of the market.

**ASBJ:**
In considering disclosure issues, because it may give rise to substantial cost to preparers, we

believe that it is important to consider costs and benefits of providing useful information to users of financial statements. We recommend that it is necessary to reconsider the following issues especially.

(a) Regarding the scope of disclosure, while SFAS 157 requires to disclose the fair value hierarchy for assets and liabilities that are measured at fair value only on a balance sheet, the ED, however, proposes to disclose the hierarchy for assets and liabilities, including those for which the fair value is disclosed. Although this difference hasn't been mentioned as an issue which needs to be converged with FASB (see paragraph BC110 of Basis for Conclusion), it may give rise to additional cost to preparers. Therefore, it would be necessary to reconsider the scope of disclosure or the way of disclosure.

(b) While it might be difficult for preparers to classify assets and liabilities into level 2 or level 3 and disclose a reconciliation for the level 3 assets and liabilities, those disclosures would not provide useful information to users when entities classify the same instrument differently. Therefore it would be necessary to consider more sufficient guidance and the way of disclosure.

(c) It might give rise to overdue cost to preparers to disclose not net amount but each amount of purchases, sales, issues and settlement within level 3 assets and liabilities. Therefore it would be necessary to reconsider its costs and benefits.

(d) The ED proposes the guidance on allocating fair value of asset group into each individual asset to use "the value of the assets assuming their current use" and requires to disclose the value. However, if "the value of the assets assuming their current use", which is neither highest and best use nor value in use in impairment, has only a function as a basis of calculation in allocating the fair value, it would be less useful to disclose that value.

**KASB:**

As far as we know, the IASB has changed the income statement into the comprehensive income statement as part of the financial statements for the purpose of presenting financial performance of reporting entity. The comprehensive income statement includes both net income and other comprehensive income. Even so, we think that the IASB tries to draw a line between presenting the changes in fair value through profit or loss and presenting through OCI. Therefore, we would like to recommend the IASB to explain the difference of presenting the change in fair value between through profit or loss and through other comprehensive income.

In addition, IFRS 7 'Financial Instruments: Disclosures' issued by the IASB on March 2009 requires an entity to disclose the level of the fair value of the financial instrument recognized at fair value in the statement of financial position. On the other hand, this exposure draft proposes that a reporting entity disclose the level of a fair value of all financial instruments including those that are not recognized at fair value in the statement of financial position.

However, we do not think that the information about the level of fair values of financial instruments not recognized at fair value in the statement of financial position would be very useful to users of financial statements in making economic decision.

We recommend that the IASB limits the requirements for the disclosure related to the level of a fair value of financial instrument to the financial instruments recognized at fair value in the statement of financial position and ease or reduce the additional requirement for the level of a fair value of financial instrument.

Otherwise, the IASB could apply the expanded disclosure requirements set out in the ED only to financial institutions. This would be reasonable because enterprises other than financial institutions relatively tend not to have well-developed systems for the measurement and thus the expanded disclosure requirements could be onerous to them.

**HKICPA:**

We generally support the proposed disclosure requirements.

**MASB:**

We agree with the proposed disclosures. However, as mentioned in our response to Question 10, the result of Level 3 valuation could be highly judgemental. Therefore, extensive disclosures would be required to mitigate the shortcomings of Level 3 valuation. In this regard, we propose to require disclosure of gross unrealised gains and gross unrealised losses for the period recognised in profit or loss and the basis of determination of these unrealised gains and losses related to assets and liabilities measured using Level 3 inputs held at the end of the reporting period.

**AASB:**

The AASB agrees with the disclosures in the ED, with the following exceptions.

As mentioned in its comments on Question 6, the AASB has concerns with the proposal in paragraph 60 of the ED to disclose separately the existing-use market value and the excess of fair value over that existing use value (‘incremental value’) when an asset’s existing use differs from its highest and best use.

In addition, the AASB disagrees with the proposed amendment to IAS 34 *Interim Financial Reporting* to require all the disclosures in paragraphs 56-59 and paragraph 61 of the proposed Standard for an interim reporting period, because it considers the proposed disclosures referred to in that amendment would be excessive and inconsistent with the underlying disclosure principle of IAS 34 (that is, that significant changes be shown). For example, the AASB considers that, unless there is a significant change in the valuation technique applied since the prior annual reporting period, the disclosure of the methods and inputs used in the fair value measurement of assets and liabilities under paragraph 57(d) would be unduly onerous.

**NZ FRSB:**

The FRSB believes that the disclosures proposed to be required in interim financial reports are excessive and are inconsistent with the approach to disclosure taken in IAS 34 *Interim Financial Reporting*. A user of an entity's interim financial report will also have access to the most recent annual financial report of that entity. It is unnecessary, therefore, for the notes to an interim financial report to provide relatively insignificant updates to the information that was already reported in the notes in the most recent annual report. At an interim date, an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period is more useful. Rather than prescribing disclosures of fair value in interim financial reports regardless of circumstances, the FRSB recommends that the IASB require disclosure of fair value information only if changes in fair values are significant to the understanding of the entity's financial position and performance.

In addition, the disclosures proposed for annual financial statements are excessive. In general, we are concerned that the IASB has a tendency to require ever-increasing amounts of disclosure without any regard to the costs involved for preparers or the overall impact on the financial statements. Also, the 'information overload' experienced by users of financial statements means that providing additional disclosures detracts from, rather than enhances, the usefulness of financial statements.

We therefore recommend that the IASB carefully consider the usefulness of each disclosure requirement at an individual and overall level. In particular, we consider the disclosures proposed in paragraphs 57(e), 57(f), 58, 60(a) and 60(b) are excessive. We also believe that the reference to 'significance' in paragraphs 57(c) and (g) should be included in other disclosure requirements. For example, paragraph 57(d) should require disclosure only of significant inputs and information about significant changes in valuation techniques.

Describing the three levels in the fair value hierarchy as simply level 1, 2 or 3 hinders a user's understanding of the information presented. Unless a user is particularly familiar with the requirements of the proposed standard, the user will have to investigate what is meant by 'level 1', 'level 2' or 'level 3' before the user can gain an appropriate understanding of the information presented. The FRSB recommends that the levels in the hierarchy be labeled more appropriately with a description that captures the nature of the valuations falling within each level. This will make the information more readily accessible to users and enable more immediate understanding of the information presented.

**Singapore ASC:**

We agree that the following proposals relating to disclosure as proposed by the Board result in improvements over SFAS 157 as they provide relevant and useful information to users of the financial statements:

i) Paragraph 57 (c) on the disclosure of any significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for those transfers;

ii) Paragraph 57 (g) on the disclosure of any changes in one or more of the inputs that would change significantly the fair value of the assets in Level 3; the effect of the change and how the change is calculated;

iii) Paragraph 58 on disclosure of fair value, by level within the fair value hierarchy, 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;

iv) Paragraph 59 on certain disclosure of each class of liability measured at fair value after initial recognition;

We believe the ED needs to be re-looked at in the following areas to be consistent with SFAS 157:

i) The ED does not propose interim disclosures for non financial assets and liabilities, unlike SFAS 157. The proposed changes to IAS 34 “Interim Financial Reporting” paragraph 16 (k) only requires disclosure for financial instruments;

ii) Under SFAS 157, an entity is required to provide different disclosures for recurring fair value measurements than it does for nonrecurring fair value measurements. The ED does not distinguish between recurring and nonrecurring fair value measurement disclosures. The Board should consider the disclosure requirements in the ED that explicitly require separate disclosure of assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition.

**Question 12:**
The exposure draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in some respects (see paragraph BC110 of the Basis for Conclusions). The Board believes that these differences result in improvements over SFAS 157.
Do you agree that the approach that the exposure draft proposes for those issues is more appropriate than the approach in SFAS 157? Why or why not? Are there other differences that have not been identified and could result in significant differences in practice?
(a) Scope;
(b) Reference market;
(c) Highest and best use;
(d) Blockage factors;
(e) Day 1 gains or losses;
(f) Valuation premise and financial instruments;
(g) Measurement of liabilities;
(h) Measurement of equity instruments;
(i) Wording changes.

**CASC:**

**A:** All these proposals are appropriate except (b) (Please refer to Q3 for the reason).

**HKICPA:**

As mentioned in our cover letter, we support the IASB's efforts to achieve convergence with the FASB. Consequently, we believe that differences should only exist if they result in significant improvements. Accordingly, as noted in our response to Question 9, we do not agree with the creation of a GAAP difference regarding the IASB's proposal not to allow recognition of day 1 gains or losses.

**AASB:**

The AASB considers that certain aspects of SFAS 157 are lacking – for example, the guidance on determining the fair value of liabilities and equity instruments. The AASB supports the changes from SFAS 157 proposed by the IASB, other than the additional disclosures required where the existing use of an asset differs from its highest and best use (as discussed in the comments on Questions 6 and 11), on the proviso that convergence between the IASB and FASB on this topic is achieved. This is especially so given the FASB's lead on incorporating the guidance on determining fair value in illiquid markets, which was subsequently adopted by the IASB prior to issuing this ED. The AASB strongly encourages the IASB and the FASB to work together to develop a consistent Standard, ideally based on the IASB ED.

**NZ FRSB:**

The IASB has based the Exposure Draft on SFAS 157 with the aim of converging with US GAAP. The FRSB recognises the benefits intrinsic in this approach. However, a balance needs to be achieved between the benefits of a conceptual principle-based standard and the benefits of convergence.

The FRSB agrees with the approach taken to those issues on which the Exposure Draft differs from SFAS 157 (except for the requirement to disclose separately the existing-use market value and the difference between that fair value and fair value assuming highest and best use). The differences are appropriate as they ensure that consistency with current IFRSs is maintained.

The FRSB encourages the IASB and the FASB to work together to achieve fully converged standards, ideally by amending SFAS 157.

**Singapore ASC:**

We agree that in certain aspects as outlined in BC 110, the differences result in improvements over SFAS 157. However, from the implementation and economic relevance point of views, we believe the following areas are less superior that SFAS 157. They should be re-considered to make the fair value measurement standard more realistic, more reflective of the economic dynamics in the business world and hence more useful to the users of the financial statements.

i) Reference market: From a conceptual viewpoint, the ED takes the stand that an entity should be presumed to normally transact in the most advantageous market rather than the principal market. As result of this approach, if an entity were to conclude there was a market that was more advantageous than the market it principally transacts in, it would measure items at a higher fair value, only to recognize losses when it transacts in its principal market. We believe the Board should revise its approach to look to the principal market first and only if there is no principal market, look to the most advantageous market. Implementing the ED to look for the most advantageous market will result in undue research cost and the application may not be meaningful when the entity does not sell in the identified most advantageous market

ii) Highest and best use: While we appreciate the basis for using the highest and best use concept which is consistent with SFAS 157, we foresee challenges in implementing this concept for non financial items in gathering the relevant information to apply the concept. We understand the implementation of SFAS 157 for non financial items was delayed until 2008 due in part to concerns over implementation. We encourage the Board to seek feedback from preparers of financial statements using SFAS 157 on the practical issues and include relevant implementation guidance in the accounting standard. For example trading companies operating in different client segments e.g. retail and wholesale and commodities companies with different upstream and downstream activities would need to take into accounts different factors in determining the highest and best use for their assets. The current examples in the ED are too limited and overly simplistic to ensure proper and consistent application

iii) Day 1 gains or losses: while SFAS 157 implicitly requires recognition of day 1 gains or losses even if the fair value measurement uses unobservable inputs, the ED proposes the deferral of the gain or loss which is conceptually inconsistent with fair value measurement principle. In addition, the deferred gain or loss which is presented as a separate credit or debit does not meet the conceptual definition of an asset or liability. On the other hand, SFAS 157 footnote 18 suggested that in such situation, the valuation model be calibrated such that the valuation model resulted in a value equals to the transaction price at initial recognition. This in our view makes better economic sense and is more coherent with sound accounting treatment than recording the day one difference and deferring it as a separate credit or debit which has no accounting conceptual merit.

**Question 13:**
Do you have any other comments?

**CASC**

We believe that the Board should take full account of the practical circumstances of emerging markets, in which fair value is applied. The application of fair value measurement depends on the support of the market, where the support provided by emerging markets may differ from that provided by developed markets. Emerging markets sometimes fail to provide support for fair value measurement like developed markets do. For example, one may fail to find the data covering a full economic cycle required by some valuation techniques in an emerging market. Therefore, we believe that the Board should take full account of the practical circumstances of emerging markets to achieve the objective of establishing a single set of high-quality global accounting standards.

**KASB:**

we believe that more comprehensive discussions about the objective of fair value measurement should precede, since the only discussion about how to measure fair value might continue to generate the concerns about whether fair value is the appropriate measurement attribute and the controversy about whether entities' own credit risk should be reflected in measuring instruments at fair value. Therefore, we believe that the project of conceptual framework establishing justifiability of the fair value measurement should be completed as soon as possible.

In addition, we would like to note that the IASB should deeply consider the best use of the educational guidance issued by Expert Advisory Panel in October 2008, although this exposure draft is based on the SFAS 157. This is because the educational guidance made by the technical experts specialized in valuing financial instruments can be more useful and helpful in practice rather than the principle-based standard. Therefore we think that it is necessary to review the consistency between the educational guidance and the exposure draft and it can be also a good opportunity to set a precedent of using materials issued by practical experts as application guidance for the standard.

What we would like to mention further is that separate guidance on how to measure fair value in emerging economy is necessary. Relatively emerging economy does not have well-developed financial market and reporting entities in emerging economy would face difficulties in assuming hypothetical transaction considered from the perspective of market participants. Moreover, the values measured by reporting entities in emerging economy are more likely to be categorized in Level 3 than in other Levels, which would damage reliability of the measurements on the financial statements.

**MASB:**

Having considered the proposals set out in the ED, we have concerns on the following:

1) we do not believe a general guidance on the application of fair value measurement is appropriate for all types of assets. What is needed is specific guidance on the different types of assets due to their different nature. For example, the valuation of financial asset and non-financial asset will require different guidance given the fact that their attributes are different. In this regard, we have significant concerns applying the highest and best use notion in the fair value of certain non-financial assets such as fair valuation of land recognised as property, plant and equipment of the reporting entity. Current use values provide the most useful information to users about the entity's future cash flows. Therefore, to use a value based on other than current use would be confusing to users. In addition, we are concerned about any potential manipulation, for example earnings management, that may arise from the

notion of highest and best use which will most likely require the use of judgement by management.

2) inclusion of credit risk in the measurement of liabilities can mask a deteriorating situation, especially in current market conditions.

3) Level 3 measurement based on unobservable data for unquoted equity instruments would be problematic in practice as the cash flows are based on expectation of management and the discount rate cannot be easily obtained from the market that would make the result of Level 3 valuation highly questionable.

**AASB:**

The AASB makes the following observations in respect of the ED.

*Core principle*

The AASB disagrees with making the definition of fair value the core principle of the proposed Fair Value Measurement Standard. In view of the overriding nature of each core principle, the exit price notion inherent in the proposed core principle could be read as overriding the guidance that the cost approach would be the appropriate valuation technique in some circumstances. In addition, the proposed core principle makes the IFRS repetitive and appears to have been included simply to 'fill the space'.

The AASB considers that if a core principle is thought necessary, it should be expressed in more general terms, along the lines that:

(a) the objective of the IFRS is to define, and provide guidance on the meaning of, fair value and to specify disclosures about fair value measurements, without indicating when fair value measurements should be used;

(b) fair value is an exit price that reflects the assumptions that market participants would make in assessing the current value of an asset or a liability; and

(c) fair value is not necessarily the amount the entity could, or expects to, realise from selling the asset or transferring the liability being measured.

*Deprival value*

The AASB disagrees with the discussion of deprival value in paragraphs BC65-BC66 because:

(a) the context in which deprival value is introduced (in the first sentence of paragraph BC65) is as an alternative to fair value: this seems inappropriate for an IFRS on *how* to measure fair value;

(b) its comparison with fair value is superficial and therefore not very informative; and

(c) it mis-describes deprival value as being based on entity-specific information. Deprival value takes into account *market* buying prices, *market* selling prices and value in use. Only when the deprival value formula yields a value in use measure (which should occur only in relatively few cases) would an entity-specific measure be used.

Therefore, the AASB considers that a comparison of fair value with deprival value should occur in the conceptual framework instead.

**NZ FRSB:**

The IASB's staff published on the IASB website answers to frequently asked questions in respect of the Exposure Draft. Some of the answers to the frequently asked questions could be considered to be interpretations of the Exposure Draft and some answers provide additional commentary over and above that included in the Exposure Draft's basis for conclusions. This raises the following questions:

-  Is the material indeed valid guidance that can be relied upon to assist in the application of the proposals in the Exposure Draft? If the material is available, it is inevitable that some constituents will use it as though it has been approved by the IASB.

-  Should respondents provide comment on the responses to frequently asked questions that seem to be interpretations of the Exposure Draft?

**Singapore ASC:**

*Further guidance on fair value measurement*

The recent crisis has revealed there is significant valuation uncertainty for financial instruments that are either not actively traded, have sufficient market depth or rely principally on valuation model using inputs that are not observable from the market. While the ED contains some guidance to address valuation uncertainty associated with fair value measurement, we believe IASB could draw more extensively from the existing guidance on fair value measurement of financial instruments in markets that are no longer active that are included in the report of the IASB Expert Advisory Panel (EAP). We believe that the guidance in the EAP report is more principles-based than that contained in the ED and codifying some of the guidance contained in the EAP will help promote greater consistency in valuation of financial instruments. For example, it would be useful to have more guidance on the how fair values are derived when broker quotes or pricing services are used, more specific examples on how valuation adjustments should be applied to determine fair value as well as more guidance on what constitutes an appropriate measure of fair value in illiquid market situations.

A unified fair value approach for both financial and non-financial assets and liabilities may pose practical issues in its application. This is especially so in a liability situation where a market does not exist and the intention of the entity is to settle the liability. This brings into the picture the management's intention as opposed to the market's perspective in the determination of fair value. Such issues should be addressed in greater clarity in the final standard.

*Field testing*

We believe that in order to fully identify and address the various issues that may arise from the ED, it would be useful that the Board consider conducting field tests or other consultation exercise with the preparers of financial statements so as to reduce interpretation challenges when the ED is finally published as an accounting standard. It would be especially useful to gather feedback from preparers of financial statements using SFAS 157 (which has been implemented in the US since 2007), especially in the application of the “highest and best use” notion and the “exit price” notion (we note that these two concepts already exist in SFAS 157). It would also be useful to observe whether the use of “principal market” as prescribed in SFAS 157 would be a more appropriate and practical approach as opposed to the “most advantageous market” notion in the ED.

*Convergence in accounting standards*

Last but not the least, we would like to reiterate our strong support for the Board to work closely with FASB to conform the measurement principles of their respective standards on fair value measurement. We noted similarities and differences (such as those stated in BC110) between the proposed guidance on valuation techniques in the ED and SFAS 157. While we appreciate why some of the guidance in the ED is different from SFAS 157 due to some conceptual framework differences, we would urge the Board to consider using similar languages in the ED if it agrees with the relevant framework of SFAS 157 so as not to create wording differences that cause confusion among constituents, thereby further reduce complexity and application issues that often result from inconsistent principles in similar U.S. and international standards. Convergence in the measurement principles between the IASB standard on fair value measurement and SFAS 157 will reduce (or eliminate) complexity and application issues, increase comparability of financial statements across jurisdictions and is definitely a beneficial and crucial step forward in the Board‟s convergence roadmap.

Additionally, we note that the FASB recently issued a proposed Accounting Standards Update, *Improving Disclosures About Fair Value Measurements,* intended to improve disclosures related to fair value measurements and increase transparency in financial reporting. The FASB also issued Accounting Standards Update 2009-05 (ASU 2009-5), *Measuring Liabilities at Fair Value,* in late August 2009*.* This guidance on how to estimate the fair value of a liability in a hypothetical transfer transaction was in response to requests from constituents for additional guidance on how to measure fair value of liabilities. We encourage the Board to work with the FASB on the *disclosure and measuring liabilities at fair value* projects with the common goal of convergence in mind.