APPENDIX

WG Members' responses to CASC's Discussion Points on FVM

		Proposals in the ED	CASC	ASBJ	KASB
General Comments	1.Disclosure of market environments and additional guidance	The ED clearifies the principle of FVM involved in many other IFRSs. For example, the complexity of financial instruments is resulted from financial intruments themselvies. In the project of reducing complexity of financial instruments accounting, the Board actually proposed to transfer the complexity from FI accounting to FI FVM by new calssification. To what extent the complexity can be transfered is relevant to the capability of market environments supporting the FVM practice. That's to say, the market environments is relevant to high-quality financial reporting. Particularly in emerging markets, it may be hard to find some essential data, such as data in a complete business cycle.	1. We cann't consent to the Board's decision in BC109. 2. We propose to add a description of market environments. For example, when the market fluctuate violently, the reporting entity should disclose the fact to avoid misleading to investors' decision making. (See answer to Q11.) 3. We propose the Board providing additional guidance of application FVM in emerging markets, including, (1) how to disclose market environments; (2) principles and underlying ideas, which may be not familiar to reporting entities in emerging markets; (3) how to apply the ED/IFRS in FVM in emerging markets, just as that the expert panel report in October 2008 provided to markets no longer active.	Our comments below are based on just your proposal written to the left column. Please be reminded that there is a possibility that we are not aware sufficiently of the context and background in your proposal. We are aware that the guidance of measuring FV in markets that are no longer active would be enough to apply FVM in emerging markets	We know that guidance on how to measure fair value are spread across various standards and a number of users of the IFRS have pointed out the incompleteness of the guidance on how to measure fair value and the inconsistency among the IFRSs. 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.

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	2. Application of FVM to other IFRSs	The Board performed a standard by standard review on entry/exit price.	We propose the Board providing educational guidance based on results of the standard by standard review to clearify how to use FVM under the IFRSs in which FV is required or permitted. We believe the educational guidance will be very useful.	We are aware that the objective of FVM project is to establish a single source of guidance for all fair value measurements required or permitted by IFRSs.	
	3. Coordination with valuation practice	Some terms use in FVM are not exactly the same with what being used in valuation practice, such as *in use*.	We propose the Board working together closely with the IVSB to eliminate potential differences。	We do not recognize any problem in deliberating our comment to the IASB ED.	
	4. Credit risk in liability measurement and day 1 profit	According to treatment to day 1 profit in the ED, when fair vale differs from the transaction price, the entity should recognize the fair value and the difference in P/L. According to the ED, the change of own credit risk should be revealed together with results of FVM.	1. We propose the Board coordinating requirements for these similar scenarios in accordance with the concept framewaork to deliver consistent useful information to investors. 2. We propose the Board issue a separarte ED following the due process.	1. We think that the treatment of day 1 profit is an issue of a specific accounting treatment, therefore that would be beyond the scope of this project. 2. We are of the view that own credit risk should be included in fair value measurement when a liability requires to be measured at fair value, however the issue of which liabilities should be measured at fair value would also be beyond the scope of this project.	our view is that reflecting own credit risk in measuring liabilities at fair value from the theoretical perspective is appropriate where the fair value measurement of liabilities is required. On the other hands, if the IASB decides not to reflect own credit risk in measuring liabilities at fair value in accordance with the constituents' arguments against including own credit risk, we suggest that the IASB indicates the consequential measurement as a different name from the fair value measurement.

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Definition and Scope	**Q1:** 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. Is this definition appropriate? Why or why not? If not,		We agree with the proposal. We also believe it is necessary to clearify limitations of FVM, such as FVM is to simulate the market and may make mistakes that are market's fault.	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.	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. We cannot find 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. 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.

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	what would be a better definition and why?				
	Q2: 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: …. Is the proposed approach to these three issues appropriate?	(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).	We agree with the proposal.	In addition to those 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.	
	Why or why not? Should the Board consider similar approaches in any other contexts? If so, in which context and why?	(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	We agree with the proposal.	We agree with the proposal.	

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		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.			
Transaction	**Q3:** 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		1.We agree with the proposal except principal/most advantageous market. Most advantageous market is market participants' choice, if they have access to both principal market and most advantageous market. We noted that par. 9 of the ED defined the most advantageous market as from the perspective of the reporting entity. We concerned that it may result a difference with the FVM definition and failed to mirror the result of market pricing. We think that if the Board finds that the reporting entity as a benchmark is better, principal market, as in FAS	1. We are aware that because different entities with different activities enter into transactions in different markets, the reference market for the same asset might be different for different entities (ED Par.9). AS for principal / most advantageous market, we are of the view that there would be no big difference between them, considering that the market in which the entity would normally enter into a transaction for the asset is presumed to be the most advantageous market (ED Par.10). 2. We are aware that transaction costs include	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.

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	the Basis for Conclusions). Is this approach appropriate? Why or why not?		157.8, should be applied rather than most advantageous market. 2. We propose to add a principle in par. 16 as to terms of transaction costs and transport costs to clarify the price used to measure the fair value of an asset should be adjusted for characteristics rather than incremental direct costs. We concerned that a pecific cost, such as tax which may be significant differenet depending on jurisdictions, may be regarded as transaction costs according to current wording in the ED.	transfer taxes and duties (IAS39 AG13), therefore, taxes are not included to measure the fair value of an asset and are included to determine the reference market.	
	Q4: 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		1. We agree to introduce the concept of market participants. 2. We recommend the Board to clarify the pinciple to indentify market participants in par.13 of the ED based on existing descriptive requirements. The principle shall clarify, based on SFAC7.26, the activities of market participants would result the market price of the assets to be measure the	3.(1) We are aware that although an entity must have access to the market at the measurement date, it does not need to be able to sell the particular asset on that date, eg if there is a restriction on the sale of the asset (ED Footnote on Par.11).3.(2) We are aware that an entity should measure fair value using level 3 inputs in that situation.4. We do not think	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.

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	paragraphs 13 and 14 of the draft IFRS and paragraphs BC42–BC45 of the Basisfor Conclusions).Is the description of market participants adequately described in the context ofthe definition? Why or why not?		fair value. i.e. their activities form the market pricing to the asset. 3. We concern that, (1)in which scenario reporting entity should not be regarded as one of market participants;(2)if the reporting entity is the only market participant, how inputs from the market paricipant should be used in FVM?4. We recommend the Board to provide an exemption for government controlled entities considering the amendment in IAS 24.	that your proposal would be relevant to this issue (the definition of market participants).	
Assets	**Q5:** The exposure draft proposes that: …… Are these proposals appropriate? Why or why not?	(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).	We agree with the proposal.		
		(b) the highest and best use of an asset stablishes the	1. We agree with the proposal.	We are aware that assets group for FVM would be	

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		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).	2. We recommend the Board to clarfy how to determine assets groups for FVM and the difference between the groups used in FVM and imparement tests.	determined from the perspective of market participants. Paragragh 22 of the ED define that the highest and best use of the asset is 'in use' if the asset would provide maximum value to market participants principally through its use in combination with other assets as a group.	
		(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).	We agree with the proposal.		
	Q6: 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		We agree with the proposal.		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.

		Proposals in the ED	CASC	ASBJ	KASB
	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				

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	guidance sufficient and appropriate? If not, why?				
Liabilities	**Q7:** The exposure draft proposes that: …… 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?	(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).	We agree with the proposal.		
		(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).	We agree with the proposal.		
		(c) if there is no correspond -ing asset for a liability (eg for a decommissioning liability assumed in a	We agree with the proposal.		

		Proposals in the ED	CASC	ASBJ	KASB
		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).			
	Q8: The exposure draft proposes that: …… Are these proposals appropriate? Why or why not?	(a) the fair value of a liability reflects non-performance risk, ie the risk that an entity will not fulfil the obligation (see paragraphs 29 and 30 of the draft IFRS and paragraphs BC73 and BC74 of the Basis for Conclusions).	— We have not got a formal view yet. Our preliminary view is that in accordance with the principle of FVM, own credit risk should not be considered in FVM. Own credit risk will lead (1)decreasing current amount of expected obligation of a payment; and (2) increasing future credit costs. When AOSSG submit comments on the ED, a separate comment on Credit	We need to distinguish between the issue of whether non-performance risk should be included in fair value measurement of liabilities and 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	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

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			Risk in Liability Measurement should be attached.	in very limited situations such as measurement of derivatives that use of fair value for remeasurement of liabilities would be appropriate.	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.
		(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).	— We have not got a formal view yet. Our preliminary view is that in accordance with the principle of FVM, restrictions on entities' ability to transfer the liability should not be considered in FVM.		
Initial Recognition	**Q9:** 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		We agree with the proposal. And we recommend the Board to consider issues of own credit risk and day 1 profit in a single basis of FVM principle.	We are of the view that the treatment of day 1 profit and own credit risk would be beyond the scope of this project.	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. It is our view that there are no clear reasons why a reporting entity should

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	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				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.

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	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?				
Valuation Technique	Q10: 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,		We are collecting comments, together with China Appraisal Society from valuators. We would like to get comments from the WG member jurisdictions.		

		Proposals in the ED	CASC	ASBJ	KASB
	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?				
Discloure	**Q11:** 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		1. We agree with the proposal. 2. We recommend a description of market environments. (As described in general comments.) 3. We recommend disclosure of limitations of FVM. For example, FVM is to simulate the market and may make mistakes that are market's fault.	We are aware that disclosure items proposed in the IASB ED are sufficient to provide users of financial statements with decision usuful information.	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

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	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?				the additional requirement for the level of a fair value of financial instrument.
Convergence	**Q12:** The exposure draft differs from Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) in	(a) Scope. Unlike SFAS 157, the proposed IFRS would apply to leasing arrangements. However, it would not apply to the measurement of reacquired rights in a business combination or financial liabilities with a demand feature.	We agree with the proposal.		

		Proposals in the ED	CASC	ASBJ	KASB
	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?	(Paragraph BC29)			
		(b) Reference market. Unlike SFAS 157, which assumes the transaction to sell the asset or transfer the liability takes place in the principal market (or, in the absence of a principal market, the most advantageous market), the exposure draft proposes that an entity should assume that the transaction takes place in the most advantageous market to which the entity has access. (Paragraphs BC37–BC41)	We agree with the proposal.	See our comment on Q3.	
		(c) Highest and best use. Unlike SFAS 157, the exposure draft proposes presentation requirements for circumstances when an entity uses an asset together with other assets in a way that differs from the highest and best use of the asset. (Paragraphs BC54 and BC55)	We agree with the proposal.		
		(d) Blockage factors. Unlike SFAS 157, which specifies the unit of account for financial instruments	We agree with the proposal.		

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		measured within Level 1 of the fair value hierarchy, the draft IFRS is silent on the unit of account for financial instruments. IAS 39 specifies the unit of account for financial instruments as the individual instrument. This applies to all three levels of the fair value hierarchy. (Paragraphs BC34 and BC35)			
		(e) Day 1 gains or losses. Unlike SFAS 157, which implicitly requires the recognition of day 1 gains or losses even if the fair value measurement uses unobservable inputs, the exposure draft defers to the relevant standards for the asset or liability (eg IAS 39 for financial assets and financial liabilities) to determine whether to recognise the gain or loss. (Paragraphs BC76–BC79)	We agree with the proposal.		
		(f) Valuation premise and financial instruments. Unlike SFAS 157, the exposure draft states explicitly that the in-use valuation promise is not relevant to financial	We agree with the proposal.		

		Proposals in the ED	CASC	ASBJ	KASB
		assets. (Paragraph BC57)			
		(g) Measurement of liabilities. Unlike SFAS 157, which includes limited guidance on the measurement of liabilities, the exposure draft proposes a framework for measuring a iability using the same methodology that the counterparty would use to measure the fair value of a corresponding asset. The FASB is developing a staff position to clarify the measurement of liabilities at fair value in accordance with SFAS 157. If finalised, the proposal is expected to be largely consistent with the proposals in the draft IFRS. (Paragraphs BC67–BC72)	We agree with the proposal.		
		(h) Measurement of equity instruments. Unlike SFAS 157, the exposure draft discusses how to apply the exit price notion to equity instruments measured at fair value.	We agree with the proposal.		