

Via email: [www.iasb.org](http://www.iasb.org)

September 9, 2009

International Accounting Standards Board

Re: Exposure Draft ED/2009/5 *Fair Value Measurement*

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the International Accounting Standards Board (the “Board”) on the proposed standard.

The AP&AS Committee is the senior technical committee of the CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

Following are the committees responses to the specific questions posed in the ED and additional comments for your consideration.

### **Definition of fair value and related guidance**

#### **Question 1**

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, what would be a better definition and why?

**The Committee believes the definition is appropriate. We note that it is the same as that in SFAS 157.**

### **Scope**

#### **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?

**Yes.**

Should the Board consider similar approaches in any other contexts? If so, in which context and why?

**The Committee did not identify any.**

**The transaction**

### **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?

**The Committee notes that this issue was considered by the FASB which concluded that the principal market should be used, with the most advantageous market used only in the absence of a principal market. The Committee does not find the arguments supporting either alternative convincing to the exclusion of the other, so the Committee recommends, in the interest of convergence, that the IASB adopt the position in SFAS 157, unless the FASB agrees to change its position to that of the IASB.**

### **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?

**The Committee believes the description of market participants in the context of the definition is adequate.**

**Application to assets: highest and best use and valuation premise**

### **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?

**The Committee believes that these proposals are appropriate.**

### **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 recognize 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?

**The Committee does not take exception to the proposed guidance. However, it differs from the requirements of SFAS 157, and the Committee therefore recommends that the Boards resolve this difference before finalization of the proposed IFRS.**

**Application to liabilities: general principles**

## 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?

**The Committee agrees with the Board's proposal. It notes that it is more explicit than that in SFAS 157, but that the FASB is developing a staff position to clarify the measurement of liabilities at fair value. The Committee recommends that the Board encourage the FASB to complete its guidance in a manner consistent with the Board's conclusion in the interest of achieving convergence.**

**Application to liabilities: non-performance risk and restrictions**

## 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?

**The Committee agrees with the Board's proposals for the reasons cited in the referenced Basis for Conclusions.**

### **Fair value at initial recognition**

#### **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 recognize 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 recognize 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?

**The Committee agrees with the basic approach in proposed paragraphs 36 and 37. It fails to see why IAS 39 should not be amended to be consistent with those proposed paragraphs, and recommends that, if procedurally necessary, an amendment to IAS 39 be proposed. The Committee also notes that convergence would be better served by amending IAS 39 to be consistent with paragraphs 36 and 37 of the proposed IFRS.**

### **Valuation techniques**

#### **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?

**The Committee finds the proposed guidance useful and appropriate. It may be sufficient, but that will be a function of practice issues.**

### **Disclosures**

#### **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?

**The Committee finds the disclosures proposed in the draft IFRS as well as those in SFAS 157 interesting, but excessive. It sees little merit in disclosures going beyond those required by SFAS 157, and would favor a re-examination by both Boards of the merits of each required disclosure.**

## **Convergence with US GAAP**

### **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?

### **In General:**

**The Committee believes there are arguments to be made to support the positions in both the Board’s ED and SFAS 157, and it is difficult to frame an argument that one position on each issue where there is a difference is superior to the other. We therefore recommend that the Boards work together to reconcile and remove all differences. The elimination of differences will better serve the respective constituents of both of the Boards, and we see little merit to having continuing differences in the two accounting standards.**

### **Specifically:**

**We have commented with recommendations on the differences cited in paragraph BC110 as follows:**

- (b) Question 3
- (c) Question 6
- (e) Question 9
- (g) Question 7

**We find the scope difference related to leasing arrangements noted in BC110 (a) significant. Although we do not take exception to the Board’s position in the ED, we recommend elimination of this difference before issuance of the standard.**

**We find the guidance referred to in paragraphs BC110 (f) and (h) useful, and not inconsistent with SFAS 157, so recommend that the provisions of the proposed IFRS be retained.**

**We suggest the Boards work to converge on the provisions about blockage factors (BC110(d)). We do not take exception to the Board's position in the proposed IFRS. We would prefer convergence happen sooner than the FASB's conceptual framework project.**

**Other comments**

**Question 13**

Do you have any other comments on the proposals in the exposure draft?

**No**

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in cursive script that reads "JoAnn Guattery". The signature is written in black ink and is positioned above the typed name.

JoAnn Guattery, Chair  
Accounting Principles and Auditing Standards Committee  
California Society of Public Accountants