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RECOMMENDED CHANGES TO THE IAS EXPOSURE DRAFTS

(Marked for IASB changes and ISDA recommendations)

Fair Value Measurement Considerations

95. The fair value of a financial asset or financial liability may be determined by one of several generally accepted methods. In determining the fair value of a financial asset or a financial liability for the purposes of applying this Standard or IAS 32, an entity shall apply paragraphs 98–100D. (old text – see paragraph 101)

~~96. Situations in which fair value is reliably measurable include (a) a financial instrument for which there is a published price quotation in an active public securities market for that instrument, (b) a debt instrument that has been rated by an independent rating agency and whose cash flows can be reasonably estimated, and (c) a financial instrument for which there is an appropriate valuation model and for which the data inputs to that model can be measured reliably because the data come from active markets.~~

~~96.-97. [deleted]The fair value of a financial asset or financial liability may be determined by one of several generally accepted methods. Valuation techniques should incorporate the assumptions that market participants would use in their estimates of fair values, including assumptions about prepayment rates, rates of estimated credit losses, and interest or discount rates. Paragraph 167(a) requires disclosure of the methods and significant assumptions applied in estimating fair values.~~

98. An entity takes its current circumstances into account in determining the fair values of its financial assets and liabilities. Fair value should be based on the best information available at the time and judgement is involved when arriving at the appropriate estimate. However, underlying the definition of fair value is a presumption that an enterprise entity is a going concern without any intention or need to liquidate, curtail materially the scale of its operations, or undertake a transaction on adverse terms. Fair value is not, therefore, the amount that an enterprise entity would receive or pay in a forced transaction, involuntary liquidation, or distress sale. However, an enterprise takes its current circumstances into account in determining the fair values of its financial assets and financial liabilities. For example, the fair value of a financial asset that an enterprise has decided to sell for cash in the immediate future is determined by the amount that it expects to receive from such a sale. The amount of cash to be realised from an immediate sale will be affected by factors such as the current liquidity and depth of the market for the asset.

Using Quoted Prices

99. The existence of published price quotations in an active market is normally~~normally~~ the best evidence of fair value. The appropriate quoted market price for an asset held or liability to be issued will often be the current bid price and, for an asset to be acquired or liability held, the current offer or asking price. When current bid and offer prices are unavailable, the price of the most recent transaction ~~may~~ provides evidence of the current fair value provided ~~that~~ there has not been a significant change in economic circumstances between the transaction date and the reporting date. The fair value of identical financial instruments with quoted prices is the product of the number of units of the financial instrument and its quoted price. When an ~~enterprise~~ entity has matching asset and liability positions, it may appropriately use mid market prices as a basis for establishing fair values. If a published price quotation in an active market does not exist for a financial instrument in its entirety, but active markets exist for its component parts, fair value is determined on the basis of the relevant market prices for the component parts.

Using a Valuation Technique ~~100. may be used to determine with sufficient reliability to satisfy the requirements of this Standard.~~ For many financial instruments a valuation technique may be the only or the most appropriate method to estimate fair value with sufficient reliability to satisfy the requirements of this Standard. The objective of using a valuation technique is to establish what the value would have been on the measurement date in an arm's length exchange motivated by normal business considerations. Therefore, a valuation technique (a) incorporates all factors that market participants would consider in setting a price and (b) is consistent with accepted economic methodologies for pricing financial instruments. An entity tests its valuation technique for validity using observable market data. In applying valuation techniques an ~~enterprise~~ entity may appropriately use mid-market prices less specific adjustments for net open risk positions or appropriate bid and offer levels as a basis for establishing fair values.

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Using a Recent Market Transaction

101. If the market for a quoted price or input data is less an ~~active market,~~ the best evidence of fair value may be is obtained by reference to recent market transactions between knowledgeable, willing parties in an arm's length transaction. If conditions have changed since the most recent market transaction the ~~corresponding change in the fair value of the financial instruemtn being valued is determined by reference to current prices or rates for similar financial instruments, as appropriate.~~ value of the financial instrument is determined by reference to changes in quoted prices or relevant input data for similar financial instruments as appropriate. ~~published price quotations may have to be adjusted to arrive at a reliable measure of fair value. If there is infrequent activity in a market, the market is not well established (for example, some 'over the counter' markets) or small volumes are traded relative to the number of trading units of a financial instrument to be valued, quoted market prices may not be indicative of the fair value of the instrument. In some cases where the volume traded is relatively small, a price quotation for a~~

larger block may be available from the market maker in that instrument. In other circumstances, as well as when a quoted market price is not available, estimation techniques

We believe the following paragraphs should be moved to Appendix C with the following changes included:

100B. ~~Techniques~~ Valuation techniques that are well established in financial markets include reference to the current market value of another instrument that is substantially the same, discounted cash flow analysis, and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity may use that technique.

100C. In applying valuation techniques, an entity uses estimates and assumptions that are consistent with available information about the estimates and assumptions market participants would use in setting a price for the financial instrument. In applying discounted cash flow analysis, an ~~enterprise~~entity uses the discount rate(s) equal to the prevailing rate of return for financial instruments having substantially the same terms and characteristics, including the creditworthiness of the debtor, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which payments are to be made. When the term of an instrument extends beyond the period for which market prices are available, the valuation technique uses market prices for the period they are available and reasonable extrapolations of those market prices for later periods on the basis of historical experience of price changes under normal market conditions and all other available information. In particular, any assumed change in market prices is supported by reasonable evidence consistent with any available market data, such as, forward prices.

100D. The initial acquisition or origination of a financial asset or incurrence of a financial liability is a market transaction that provides an indication for estimating the fair value of the financial instrument. In particular, if the financial instrument is a debt instrument (such as a debt security or loan asset), its fair value can be determined by reference to the market conditions that existed at its acquisition or origination date and current market conditions or interest rates currently charged by the entity or by others for similar debt instruments (ie similar remaining maturity, cash flow pattern, currency, credit risk, collateral, and interest basis). Alternatively, provided there is no change in the credit risk of the debtor after the origination of the debt instrument, an estimate of the current market interest rate may be derived by using a benchmark interest rate reflecting a better credit quality than the underlying debt instrument, holding the credit spread constant, and adjusting for the change in the benchmark interest rate from the origination date.