

FASB AND IASB RELEASE FINAL STANDARD ON FAIR VALUE MEASUREMENT

On May 12, 2011, the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) issued a final accounting standard which addresses requirements for measuring fair value and for disclosure information about fair value measurements under US generally accepted accounting principles (ASU 2011-04) and International Financial Reporting Standards (IFRS 13).

The standard will result in significant change for entities reporting under International Financial Reporting Standards (IFRS) and some slight changes for those reporting under US GAAP. While the issuance of these standards represent a “converged” standard, there are still minor differences between the two Boards approaches. The more notable amendments and differences include:

Highest and best use and valuation premise

The final standard eliminates the terms “in-use” (valuation for an asset that provides maximum value to market participants principally through its use with other assets as a group) and “in-exchange” (valuation for an asset that provides maximum value to market participants on a standalone basis). The objective of the valuation would now be described such that an asset or a liability would be used either in conjunction with a group of assets, with a group of assets and liabilities or on a standalone basis.

The highest and best use valuation premise will only be relevant when measuring the fair value of nonfinancial assets and are not relevant when measuring the fair value of financial assets or of liabilities. The standard prohibits the grouping of financial instruments for purposes of determining their fair value and requires the measurement of their fair value be at the level of the unit of account as specified in other guidance.

Measuring the fair value of an instrument classified in shareholders' equity

The standard states that an entity may apply the guidance on measuring the fair value of liabilities when measuring the fair value of its own equity instruments. The objective of this measurement being to estimate the exit price from the perspective of a market participant who holds the corresponding asset at the measurement date, regardless of whether that asset is traded.

Measuring the fair value of financial instruments that are managed within a portfolio

An entity may measure the fair value of financial instruments that are managed on the basis of the entity's net exposure to a particular market or credit risk (of a particular counter party) on a net basis if there is evidence that the entity manages its financial instruments in this way. Evidence includes:

- Having a documented risk management/investment strategy.
- Providing information about the net risk exposure to management.

In addition, an entity is only allowed to measure the fair value of financial instruments in this way if those instruments are; 1) measured at fair value in the statement of financial position (not just for disclosure purposes), 2) the entity makes an accounting policy decision to manage as such, and, 3) the policy is applied consistently from period to period.

Application of blockage factors and other premiums and discounts in a fair value measurement

The use of a blockage factor when fair value is measured using a quoted price for an asset or liability is prohibited (Level 1).

When measuring the fair value of an asset or liability when a Level 1 input (observable input) is not available, an entity may apply discounts and premiums only if those discounts or premiums are consistent with the unit of account specified in another standard and if market participants would take into account such discounts or premiums when pricing the asset or liability. If there is no specification in another standard, the entity should apply discounts and premiums when the market participants would do so to maximize the value of the asset or liability on the basis of how they would enter into a transaction for that asset or liability.

Disclosure requirements

- When a nonfinancial assets is measured subsequently at fair value and the highest and best use differs from the current use, the entity must disclose that fact and the reasons why it differs. This disclosure is required whether the asset is recognized at fair value in the statement of financial position or the fair value is disclosed (no scope limitations).
- Transfers between Level 1 and Level 2 of the fair value hierarchy.
- For assets and liabilities not recognized at fair value but disclosure is required, disclose the level in which the fair value measurement would be categorized within the fair value hierarchy even if those assets or liabilities are not subsequently measured at fair value in the statement of financial position.
- Additional disclosure requirements about Level 3 fair value measurements:
 - Quantitative disclosure of the unobservable inputs and assumptions used in the measurement.
 - Description of the valuation control processes in place
 - Discussion of sensitivity of the fair value changes in unobservable inputs and any inter-relationships between those inputs that magnify or mitigate the effect on the measurement.

Transition and Effective Dates

US GAAP:

For public entities the amendments are effective during interim and annual periods beginning after December 15, 2011 and are to be applied prospectively. For nonpublic entities, the amendments are effective for annual periods beginning after December 15, 2011. Early application is not permitted for public entities. Non public entities may apply the amendments early but no earlier than December 15, 2011

IFRS:

Application is only mandatory from January 1, 2013, prospectively and may be applied earlier

Differences remaining

Disclosure requirements: IFRS requires a quantitative sensitivity analysis for financial instruments measured at fair value and categorized within Level 3 of the hierarchy. US GAAP does not require a quantitative sensitivity analysis disclosure.

Measuring fair value of alternative investments: FASB guidance provides a practical expedient to reporting entities, allowing them to measure the fair value of investments within the scope of earlier standards (ASU 2009-12) at Net Asset Value, under certain conditions. The current scope includes investments in entities that are substantially similar to investment companies. Under IFRS there currently is no definition of or guidance on investment companies.

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As of March 2010, Resources is now aligned with IASeminars, which allows us to provide CPAs and other financial professionals with a comprehensive range of training solutions around IFRS and other key finance and accounting initiatives.

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