

IFRS Briefing Sheet

Draft Document *Measuring and disclosing the fair value of financial instruments in markets that are no longer active*

September 2008, **Issue 103**

This IFRS Briefing Sheet summarises the Draft Document *Measuring and disclosing the fair value of financial instruments in markets that are no longer active* (Draft Document), which was posted on the International Accounting Standards Board's (IASB or Board) Website on 16 September 2008. The Draft Document represents a summary of discussions of the IASB's Expert Advisory Panel (Panel).

Background

In April 2008 the Financial Stability Forum issued a report, *Enhancing Market and Institutional Resilience*, to the G7 ministers and Central Bank governors recommending that the IASB:

- strengthen its standards to achieve improved disclosures about valuations of financial instruments, including disclosures about the methodologies and uncertainty associated with such valuations
- enhance its guidance on valuing financial instruments when markets are no longer active and to this end set up an expert advisory panel in 2008.

In May 2008 the IASB formed the Panel with the objective of assisting the IASB in:

- reviewing best practices in the area of valuation techniques
- formulating any necessary additional guidance on valuation methods for financial instruments and related disclosures when markets are no longer active.

Summary of Draft Document

Purpose

The Draft Document summarises the discussions of the Panel and, when finalised, is intended to provide useful information and educational guidance for measuring and disclosing fair value and meeting the objectives and requirements of International Financial Reporting Standards (IFRSs). It does not establish new requirements for entities applying IFRSs or any other generally accepted accounting principles.

The Draft Document contains two parts, *Part 1: Measurement* and *Part 2: Disclosure*.

Part 1: Measurement

In regards to measuring the fair value of financial instruments, the Draft Document:

- reminds readers of the objective of fair value measurement and

KPMG's update on International Financial Reporting Standards (IFRSs)

summarises the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*

- describes key valuation issues identified by the Panel members
- describes some of the approaches used when measuring the fair value of financial instruments in markets that are no longer active
- includes a discussion of approaches that are inconsistent with the objective of fair value measurement.

Specific topics discussed include:

- understanding the instrument
- evaluating available market information, such as transaction prices, information from brokers and pricing services, and changes in own credit risk
- issues arising in the use of models, including discount rates and adjustments for liquidity and risk, calibration, changes in models and assumptions over time, measuring the underlying components of an instrument, and valuation adjustments.

Part 2: Disclosure

The Draft Document emphasises the importance of preparers helping users of financial statements to better understand the techniques used and the judgements made in measuring fair value. In particular, the Draft Document discusses:

- identifying financial instruments of particular interest to users and providing enhanced disclosure about those instruments
- aggregation and granularity of disclosure
- frequency of disclosure
- disclosure of the control environment
- disclosure of valuation techniques
- disclosure about instruments' positions within a fair value hierarchy
- disclosure of movements in the fair values of instruments measured using unobservable inputs
- disclosure of unobservable inputs, including disclosure of the effect of reasonably possible alternative assumptions
- disclosure of effects of changes in own credit risk.

Response to the IASB

The IASB has invited comments on the Draft Document by 3 October 2008.

Next Steps

The Panel will discuss the responses received on the Draft Document during October 2008. A final document is expected to be posted on the IASB's Website shortly thereafter.

If you would like further information on any of the matters discussed in this issue of *IFRS Briefing Sheet*, please speak with your usual local KPMG contact or call any of KPMG firms' offices.

KPMG International Financial Reporting Group is part of KPMG IFRG Limited.

KPMG International is a Swiss cooperative. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act upon such information without appropriate professional advice after a thorough examination of the particular situation.

© 2008 KPMG IFRG Limited, a UK company, limited by guarantee. All rights reserved.

KPMG and the KPMG logo are registered trademarks of KPMG International, a Swiss cooperative.

Publication name: *IFRS Briefing Sheet*

Publication number: Issue 103

Publication date: September 2008